

Before the
COPYRIGHT ROYALTY JUDGES
LIBRARY OF CONGRESS
Washington, D.C.

In the Matter of)
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Adjustment of Rates and Terms for)
Preexisting Subscription and Satellite)
Digital Audio Radio Services)
)
)

Docket No. 2006-1 CRB DSTR A

**WRITTEN REBUTTAL STATEMENT
OF SIRIUS SATELLITE RADIO INC.**

Introductory Memorandum, Rate Proposal, Testimony, Exhibits

VOLUME 1 OF 1

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**Introduction and
Summary**

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**INTRODUCTORY MEMORANDUM
TO THE WRITTEN REBUTTAL
STATEMENT OF SIRIUS SATELLITE RADIO INC.**

Sirius Satellite Radio Inc. (“Sirius”) submits this introductory memorandum of its written rebuttal statement for the convenience of the Copyright Royalty Judges. Pursuant to 37 C.F.R. § 351.4(b)(3), Sirius’ rebuttal statement includes, along with testimony and exhibits, an Amended Rate Proposal submitted jointly with XM Satellite Radio Inc. (“XM”).

Introductory Statement

As the rebuttal case of Sirius and XM (collectively “the Services”) will further demonstrate, SoundExchange’s case seeks to (i) read out of the law the governing section 801(b) statutory standard; (ii) expropriate the approximately \$10 billion dollar investment Sirius and XM have made in their services; (iii) use as benchmarks agreements that are not comparable to the sound recording performance right at issue in this case; and (iv) allocate to the record companies and artists the full value created by the Services’ music programming, treating the Services’ many contributions to that music programming as mere costs to be deducted before determination of the sound recording royalty, irrespective of their value. The Services’ rebuttal case will demonstrate that these propositions are bad law and bad economics and are based on

facts that simply do not exist. The more than ten-fold fee increase sought by SoundExchange violates the governing Section 801(b) factors and would eviscerate Sirius' and XM's still-nascent and still unprofitable businesses.

Notwithstanding the clear distinction established in governing law between the Section 801(b) factors, which govern this case, and the willing buyer/willing seller standard that SoundExchange prefers, SoundExchange has based its case on the proposition that the two standards are essentially the same. Moreover, as the Services' rebuttal case will demonstrate, SoundExchange relies on a fanciful view of the future of the Services—one that has already been belied by reality. SoundExchange also has based its various theories of the case on a fatally flawed survey that overstates the value of “music” and makes no effort to differentiate the sound recording performance right at issue here from non-compensable pre-1972 recordings, live performances, the entertainment and information provided by best-in-class hosts, and the other distinctive elements of the Services' music programming.

The Services, on the other hand, have based their case on the relevant section 801(b) standard and have used as a benchmark the very type of agreement that Congress contemplated could be used as a benchmark. The Services' case also focuses on the full value of the billions of dollars they have invested and the essential technological, capital and creative contributions made by the Services to create from scratch an entirely new platform for audio entertainment—one that pays for sound recording performances and offers the recording industry unparalleled new opportunities to expose its product to the buying public. In response to SoundExchange's direct case and to questions and requests from the Bench, the Services will provide additional facts and analysis that confirm the validity and fairness of Dr. Woodbury's analysis based on the Music Choice benchmark.

The Applicable Statutory Standard. SoundExchange's direct case in general, and the written direct testimony of Dr. Ordoover in particular, pay lip service to the Section 801(b) factors but effectively ignore these express statutory requirements and focus instead on the willing buyer/willing seller standard that SoundExchange prefers. On rebuttal, Sirius and XM will provide the testimony of a leading economist and noted legal scholar to demonstrate that SoundExchange is simply wrong in its view of Section 801(b), that the statutory factors were applied to the pre-existing SDARS to promote and protect their developing businesses, and that all of the statutory factors, not just the fourth factor (as already conceded by SoundExchange), require a rate substantially below that which might be set under the fundamentally different willing buyer/willing seller standard.

The Financial Condition of the SDARS. SoundExchange presented a former analyst and now single-project consultant, Sean Butson, to testify that he predicts a rosy future for Sirius and XM, that they will turn cash flow positive by 2009, EBITDA positive by 2009, will begin to earn net income by 2010 or 2011, and by 2012 will be generating very large surpluses. As Mr. Butson conceded on cross-examination, however, his subscriber projections already were materially over-optimistic by the time he testified, and his longer-term projections were unreliable. Because his subscriber projections were flawed, his resulting revenue and other financial projections were equally unreliable.

In their rebuttal case, while continuing to recognize the inherent limits of multi-year projections for new, technology-based companies that have yet to turn a profit, the Services present a more realistic assessment of their expected financial condition during the license term, based on internal modeling and the current consensus of professional analysts who cover the industry. The Services will show that, because of increased competition (evidenced by a

significant, prolonged and unanticipated slow-down in retail sales), analysts now predict far less robust overall subscriber growth than at the time the direct cases were filed. Similarly, as the testimony will demonstrate, both advertising revenue and average revenue per user (“ARPU”) are likely to be materially lower than previously estimated. For these reasons, among others, the evidence on rebuttal will show that: (1) even at the current approximately 25% royalty rate, the Services will continue to be unprofitable until significantly deeper into the new license term than previously anticipated, (2) the large surplus predicted by SoundExchange’s experts for 2012 is illusory, and (3) the ability to fund the massive rate increases proposed by SoundExchange is simply nonexistent based on what is currently known and/or reasonable to project. Indeed, as the testimony will show, any rate change that is more than nominal will cause significant disruption.

SoundExchange’s Reliance on a Flawed Survey To Over-Value the Sound

Recording Right. Each of SoundExchange’s theories presented by its economists relied centrally upon a survey conducted by Dr. Yoram Wind, which purported to value “music” programming on Sirius and XM. In their rebuttal cases, the Services will demonstrate that Dr. Wind’s survey systematically over-valued music programming and then failed to account for the fact that music programming includes many elements of value beyond copyrighted sound recordings subject to the rights at issue in this case.

The Services will present testimony from a respected marketing and survey expert, Dr. John Hauser of the Sloan School of Business at MIT, who will demonstrate that Dr. Wind has vastly overvalued the sound recording performance right. In addition to describing fundamental flaws in Dr. Wind’s survey, Dr. Hauser will present his own surveys. The first re-creates the key question in Dr. Wind’s survey, which was relied upon by SoundExchange’s economists, but corrects critical flaws. The Hauser survey demonstrates that Dr. Wind over-valued music

programming on the Services by a factor of more than 2. The survey also quantifies the value attributable to the technological aspects of the Services and the Services' varied content offerings. The second survey presented by Dr. Hauser uses a technique advocated and used by Dr. Wind (constant sum allocation) to examine specifically what consumers find valuable in the Services' music programming. That survey demonstrates that the ability to hear recordings from the 70s, 80s, 90s and today is only a small part (about 16%) of the overall value of the music programming. In other words, SoundExchange's effort to arrogate to itself essentially all of the value of the Services' music programming is fundamentally flawed.

Dr. Pelcovits' Flawed Surplus Analysis. One of three theories of the case presented by Dr. Pelcovits is based on Mr. Butson's projections of the Services' "surplus" in the year 2012. Dr. Pelcovits declares that 2012 is the right year to consider, because the services will be closer to maturity, and because it is the "final year of the [statutory license] period." July 7, 2007 Tr. 204 (Pelcovits). In other words, it is the year with the greatest theoretical "surplus" to allocate to SoundExchange. Dr. Pelcovits purports to allocate that "surplus" using a method of analysis from cooperative game theory, called the Shapley Value.

The Services demonstrate in their rebuttal case that this analysis is flawed for multiple reasons:

- The analysis relies upon Mr. Butson's projections, which, as discussed above, have been admitted to be unreliable;
- The analysis relies upon the Wind survey's assessment of the value of "music" programming, which as discussed above, similarly has been shown to be unreliable;
- The analysis fails to provide a reasonable risk-adjusted return on the billions of dollars the Services have invested in their businesses, as is required by Section 801(b), and as even SoundExchange's other economist, Dr. Ordoover, has testified is necessary and appropriate; and

- The Shapley value methodology is not appropriate to the task chosen by Dr. Pelcovits, and, in any event, has been applied in a way that is calculated to over-value the share of “surplus” paid to the sound recording interests.

The first two points have been discussed above.

The Services’ rebuttal case will demonstrate that Dr. Pelcovits’ “surplus” analysis failed properly to compensate the SDARS for the capital investment, cost and risks they have incurred in building their business. The Services have invested approximately \$10 billion in creating their infrastructure, building goodwill, acquiring subscribers, and covering years of start-up losses. As Professor Noll will testify, those investments were made in anticipation of later-year profits that would yield a reasonable risk adjusted over the entire period of the investment. Dr. Pelcovits’ acknowledges that his analysis, which provides a return on capital limited to an understated putative “rental rate” on physical property, plant and equipment, and which ignores entirely the investment in intangible assets and building the business, fails to provide that return. In the words of the economist, Dr. Pelcovits’ analysis seeks to expropriate to SoundExchange the enormous value that has been invested in the Services. Professor Noll will also testify that, even assuming a “forward looking investment” of the kind used by Dr. Pelcovits were appropriate, Dr. Pelcovits fundamentally misapplied that standard, by systematically underestimating the forward looking costs of the Services.

The Services’ rebuttal case further demonstrates that the Shapley Value is not an appropriate method for allocating whatever surplus may ultimately exist. Professor Noll will testify that the Shapley Value is a model of a cooperative game that does not reflect competitive prices or standard fairness criteria. He and Dr. Woodbury will also demonstrate that, as implemented by Dr. Pelcovits, the Shapley game significantly overstates the contribution of the record labels to SDARS revenues. Dr. Woodbury offers alternative Shapley runs using Dr. Pelcovits’ own model to demonstrate the game’s sensitivity to input assumptions.

Dr. Pelcovits' Flawed Non-Music Programming Cost Analysis, Properly Performed,

Supports the Services' Fee Proposal. In his Amended Written Direct Testimony, Dr. Pelcovits introduced a new analysis, based on the premise that music programming should cost at least as much as non-music programming, and that the sound recording copyright owners should capture essentially all of that cost, except to the extent the Services actually incur costs for musical work performance rights and other costs of producing their music channels. The Services' rebuttal case demonstrates numerous flaws in this analysis. Specifically:

- Dr. Pelcovits analyzes 2006, despite the well-known fact that programming costs (other than music royalties) do not scale in proportion to revenues, his knowledge that revenues are significantly increasing over the license term, and his declaration in the surplus analysis that 2012 is the correct year to analyze; in other words, Dr. Pelcovits artificially picked a year prior to the relevant license term in order to maximize the percentage of revenue represented by non-music programming costs;
- Dr. Pelcovits failed to account for the value provided to the Services by non-music programming that is not provided by the sound recording performance license, including (i) the ability to sell millions of dollars in advertising, (ii) the substantial promotional benefits to the Services, and (iii) the enormous value of brand enhancement from association with such well known brands as Howard Stern, the NFL, Major League Baseball, Oprah, and NASCAR;
- Dr. Pelcovits failed to account for the inter-Service competitive advantage provided by exclusive content, which is not provided by the sound recording performance right;
- Even considering 2006, Dr. Pelcovits erred by \$82.9 million dollars (or about 5% of total SDARS 2006 revenue) in his computation of non-music, non-Stern programming costs, because he counted a second stock grant to Howard Stern as a non-Stern programming cost; and
- The Hauser study demonstrates that, contrary to Dr. Pelcovits' grant of large payments for the sound recording performance right, much of the value of the Services' music programming is unrelated to that right.

The Services' rebuttal case demonstrates and quantifies the many benefits provided by non-music programming but not provided by music programming, which were ignored by Dr. Pelcovits. In particular, the Services demonstrate the expected value of advertising sales on the

non-music channels, the large promotional benefits provided by the non-music programming agreements and the talent appearing on the non-music programming channels, and the enormous brand enhancement value provided by those agreements. Any apples-to-apples comparison of content value must first net out those benefits. Moreover, Dr. Benston demonstrates that, taken on its own terms but properly performed, netting out only the off-setting ad sales on non-music channels and looking at years in the license term, Dr. Pelcovits' analysis would result in a fee of less than 3.5% of gross revenue over the period (before accounting for brand-enhancement and promotional benefits to the Services), not the 18% to 23% fee proposed by SoundExchange.

The Sirius Deal with Howard Stern Is Not a Proper Benchmark for the Sound

Recording Right. Dr. Pelcovits' final theory of the case was that music programming should receive the same percentage of the revenues it contributes to the Services as Howard Stern received from Sirius. The Services' rebuttal case will demonstrate the numerous fallacies of this benchmark, specifically:

- The Stern agreement fails Dr. Pelcovits' own criteria for a benchmark, in that it involves a different seller, selling different rights, of a different character (exclusive), with different relevant opportunity costs, and in that it is a single data point with unique characteristics as a result of Sirius' status at the time it entered into the agreement;
- Dr. Pelcovits failed to account for the important elements of value contributed to Sirius by the Stern agreement, including (i) massive promotional benefits from Mr. Stern's extensive discussion of the move to Sirius and his appearances on television talk shows, the front page of almost every newspaper, and a plethora of magazines, all of which will be quantified in the Services' rebuttal case; and (ii) the credibility the deal provided Sirius in the key OEM and retail channels, at a time when it was a second-class brand, with limited market acceptance and uncertain future;
- Dr. Pelcovits failed to account for the inter-Service competitive advantage provided by the Stern deal, which took Sirius from an after-thought to a category leader;
- Dr. Pelcovits misapplied basic economic theory for his predicate that the ratio of marginal product and marginal cost will be the same for all programming inputs,

ignoring differences in the sellers' opportunity costs; the fact that the theory is not properly used to determine factor costs, but to determine efficient production *given* factor costs, and the fact that he did not perform his analysis at the margin, among other things; and

- The Hauser study demonstrates that, contrary to Dr. Pelcovits' assumption that a large share of the value of music programming is attributable to the sound recording performance right, much of the value of the Services' music programming is unrelated to that right.

Dr. Ordover's Benchmarks Do Not Support SoundExchange's Proposed Fees. The

Services' rebuttal case also will demonstrate the fallacies in the benchmarks relied upon by Dr. Ordover. Specifically, with respect to Dr. Ordover's use of the DBS-TV benchmark, which Dr. Ordover himself described as providing only "limited insight," the rebuttal case will show:

- DBS television is not an appropriate benchmark for sound recordings on SDARS, given differences in buyers, sellers, rights, cost structures and other important differences, for which Dr. Ordover makes no effort to adjust;
- Dr. Ordover's use of "premium" channel payments and payments for all programming, greatly over-state the value of sound recordings on SDARS; and
- Even if DBS were a valid benchmark, the fees paid by cable systems for the right to retransmit broadcast television channels, which are non-exclusive, and which account for the lions-share of cable viewing, contradict the Ordover analysis.

The rebuttal case will build upon the cross examination of SoundExchange's witnesses during the direct phase of the case to show that Dr. Ordover's use of certain cherry-picked record company digital distribution deals is equally flawed, because:

- The analysis relies upon the Wind survey's assessment of the value of "music" programming, which as discussed above, has been shown to be unreliable;
- The marketplace in which those agreements were negotiated is in a state of flux, with unstable prices and services going out of business, such that the terms of these agreements cannot be deemed reliable points of comparison;
- The Services offered under the licenses relied upon as benchmarks are distinguishable in material respects to the service SDARS provide – most notably in the substantial amount of unique and compelling non-music content SDARS make available;

- Dr. Ordovery failed to account for different elasticities of demand, cost structures or levels of investment – including building the transmission system from the ground up – in selecting these agreements as benchmarks; and
- The Hauser study demonstrates that, contrary to Dr. Ordovery's assumption that a large share of the value of music programming is attributable to the sound recording performance right, much of the value of the Services' music programming is unrelated to that right.

The Woodbury Music Choice Analysis Is Valid Throughout the License Term. In

response to questions from Judge Wisniewski, and to rebut the SoundExchange proffered benchmarks, Dr. Woodbury uses projections provided by Sirius and XM to estimate the sensitivity of his functional adjustment over time. The analysis demonstrates that the percentage of revenue properly attributable to the upstream "hand-off provider" or program originator function remains relatively constant, with only minor adjustments required to account for changes during the license term. As a result of certain new information regarding XM's final 2006 costs, Dr. Woodbury adjusts his fee proposal to a proposal based on 1.2% of gross revenue.

Dr. Woodbury also uses the methodology employed by Dr. Pelcovits to propose a fee for Music Choice (time spent listening) and data disclosed in the direct phase of the case, to confirm the validity of his functionality adjustment.

The Services' Amended Rate Proposal.

The Services are proposing an amended rate for several reasons. First, as the Judges indicated during the hearing of the direct case (consistent with their opinion in the 2005-1 proceeding), a per-play metric is preferable to compensate copyright owners for performances of sound recordings as compared to a straight percentage of revenue. Second, Professor Noll testifies about the economic benefits of such a fee structure. Thus, in his written rebuttal testimony, Dr. Woodbury converts his recommended percentage of revenue rate into such a per-play rate.

As Sirius' CEO Mel Karmazin testifies, a per-broadcast rate will provide the SDARS with flexibility to adjust their use of sound recordings to a level at which they can make rational business decisions regarding resource use. The testimony of Prof. Noll and Dr. Woodbury bolsters this concept of allowing the user of the copyrighted sound recording only to pay for so much of the creative works as are actually used. Such a structure would also facilitate direct-licensing arrangements that would be alternatives to the statutory license.

For these reasons, and based on Dr. Woodbury's calculations, the Services are proposing for 2007 that the SDARS pay \$1.20 for each broadcast of a sound recording on their satellite radio service. This rate would be made based on each play, regardless of the number of listeners (as the rate accounts for the number of subscribers) and would not be paid for incidental and directly licensed plays, or plays of pre-1972 recordings. The Services propose that the rate change annually to account for subscriber growth, increasing or decreasing by the same percentage that the number of combined subscribers to Sirius and XM increases or decreases from the preceding year. Thus, if SDARS' subscribers increase by 25% from 2006 to 2007, the rate for 2008 would increase to \$1.50 for each song broadcast.

In support of the foregoing, Sirius' rebuttal witnesses will testify as follows:

**Witnesses Providing Rebuttal Information Regarding
Sirius' Business and Financial Condition and Other Company Data**

Mel Karmazin, Sirius' Chief Executive Officer, presents testimony on several issues.

First, SoundExchange has underestimated the value of Sirius' non-music content and, by comparing the two, has overvalued the right to perform sound recordings. Specifically, he demonstrates that:

- SoundExchange has failed to account for the fact that a large portion of the value of Sirius' non-music content deals is that they are exclusive, in contrast to the right to perform sound recordings, which is not exclusive;

- SoundExchange has neglected the substantial value Sirius obtains from being associated with powerful brands such as Howard Stern, the NFL, Martha Stewart, and NASCAR. Sirius' relationships with those brands provide significant media exposure, promotional opportunities, increased awareness with consumers, automakers, and retailers. The right to perform sound recordings has no comparable independent brand value;
- SoundExchange has ignored the advertising revenues that Sirius' non-music content generates; and
- SoundExchange has disregarded the fact that Sirius obtains actual programming as part of its deals for non-music content. The sound recording performance right only provides one element of the music programming that Sirius airs.

Mr. Karmazin also provides testimony to rebut the rosy financial picture SoundExchange paints for satellite radio. Particularly, SoundExchange has failed to consider Sirius' more recent financial results, the recent downturn in the retail market, and increasing competition from HD Radio and new electronic audio entertainment devices such as the Apple iPhone.

Finally, Mr. Karmazin will testify regarding the need for an alternative rate structure that is not tied to a percentage of revenues. Mr. Karmazin will explain why the use-based rate proposed by the Services is a more appropriate way to compensate owners of copyrighted sound recordings, based on Sirius' business and the value of the copyrighted works to Sirius' service.

David J. Frear, an Executive Vice President and the Chief Financial Officer of Sirius, will testify concerning Sirius' financial outlook and related matters. In response to the testimony of SoundExchange witnesses Sean Butson and Michael Pelcovits, Mr. Frear will show that:

- Mr. Butson has vastly overstated Sirius' projected subscribers as compared to the current consensus of analysts. Mr. Butson's projections for gross subscriber additions, which have already proven to be erroneous for 2006, exceed the analysts' consensus by over 6 million subscribers over the term of the license;
- As a consequence of the inflated subscriber estimates, as well as other errors, Mr. Butson has overestimated Sirius' projected revenue during the license term by more than \$2 billion;
- The vast overestimation of Sirius' revenue renders all of Mr. Burton's conclusions regarding funding and substantial profitability erroneous;

- A sound recording royalty rate higher than the current rate will have a disruptive impact on Sirius' business, contrary to the claims of Mr. Butson and his erroneous analysis; and
- Dr. Pelcovits has made numerous errors in his proposed non-music programming cost benchmark analysis, including (i) the citation of an irrelevant and misleading year for the analysis, (ii) failing to account for the significant value that non-music content arrangements provide for apart from the programming, and (iii) failing to offset expected advertising revenue that is not present for music channels.

Rebuttal Expert Witnesses

John Woodbury, Ph.D., a Vice President at CRA International, will expand his analysis in response to the Judges' questions from the direct phase of the proceeding by demonstrating that his ratio of upstream and downstream costs will stay relatively constant during the period between 2007 and 2012 (necessitating only a slight increase in his proposed rates) and by translating his proposed percentage-of-revenue fee in to a per-play metric that forms the basis of the services' Amended Rate Proposal.

Dr. Woodbury also responds to Dr. Ordovery's use of the DBS TV services as a rate benchmark by demonstrating that the DBS services involve different buyers, different sellers, different types of works, different rights, and very different cost structures. With respect to Dr. Ordovery's other music-industry benchmarks, Dr. Woodbury demonstrates the myriad differences between the benchmark licensee services and the SDARS, the instability of the benchmark prices, and the fact that Dr. Ordovery did nothing to account or adjust for different elasticities of demand, cost structures, or levels of investment in the benchmark and SDARS markets. Moreover, Dr. Woodbury highlights the sensitivity of Dr. Ordovery's analysis to the particular benchmark agreements selected – a point elucidated by Dr. Ordovery's rejection of the record companies' custom radio deals.

Finally, Dr. Woodbury turns to the testimony of Dr. Pelcovits, and points out the significant advertising, branding and other non-content benefits conferred on Sirius by its agreement with Howard Stern, all of which are ignored by Dr. Pelcovits' analysis. Dr. Woodbury also explains how Dr. Pelcovits misuses the Shapley Value cooperative game model in a way that biases the results in favor of the record companies and highlights the inappropriateness of the model for rate-setting.

Roger Noll, Ph.D., Professor of Economics *Emeritus* at Stanford University, will testify that SoundExchange's fee proposal -- including the "surplus" model premised on the analysis of Mr. Butson and adopted by Dr. Pelcovits -- seeks to expropriate the value and benefit of the massive investments that the SDARS have made to start and develop their businesses and to deny any return upon such investments. Such expropriation is inconsistent with public policy as embodied in the 801(b)(1) factors; it is also inconsistent with how a competitive market would function, despite SoundExchange's proffer of a rate that allegedly would emerge in a "workably" competitive market. What is more, SoundExchange's fee proposal, even under Mr. Butson's overly optimistic projections, would deny the SDARS the proper competitive return not only for their capital investments, but their forward-looking investments as well.

Professor Noll will explain that SoundExchange, and Dr. Ordover in particular, have misconstrued the section 801(b)(1) factors such that their proposed rates eliminate the incentive of the SDARS to maximize the availability of sound recordings; extract excess, unfair returns to copyright owners beyond what is necessary to induce the supply of sound recordings; ignore the massive technological contributions and risk of the SDARS; and compromise the ongoing viability of the SDARS. Professor Noll further testifies that SoundExchange has misused Professor Wind's survey data by, among other things, overstating the value of music to the

SDARS by measuring the "all or nothing" value -- the value that would be demanded by a monopoly seller -- rather than the incremental contribution of a single record company, which is the upper bound on the price that would emerge in a competitive market. He also explains that the Shapley Value model is an inappropriate method to set royalty rates, as it does not result in competitive or fair prices or produce the stable outcome of a market process. Professor Noll explains that in any event, the method has been misapplied by Dr. Pelcovits to ignore the contributions of certain key parties (electronics companies, auto manufacturers, consumers) and thus to systematically overstate the contribution of record labels to the SDARS' revenues.

Finally, Professor Noll testifies that the benchmarks relied upon by Dr. Ordover are not appropriate benchmarks because they fail, among other things, to account for (i) the different buyers, sellers, and rights sold, opportunity costs, and levels of substitution for CD sales in the benchmark markets; (ii) the fact that the SDARS, unlike any other service, spent billions of dollars to create their distribution system from scratch; and (iii) the availability and importance of non-music programming as a substitute for music programming on the SDARS. Professor Noll also describes the lack of reliability of payments to Howard Stern -- for exclusive, nonmusic content -- as a useful benchmark for sound recording rights, and the similar shortcomings of Professor Ordover's DBS benchmark.

George Benston, Ph.D., the John H. Harland Professor of Finance, Accounting and Economics at the College and Business School of Emory University, evaluates the non-music programming benchmark offered by Dr. Pelcovits in his Amended Written Direct Testimony. Dr. Benston first describes the conceptual and methodological flaws in Dr. Pelcovits' adoption of this benchmark. He then demonstrates that when the value of the advertising benefits provided by non-music programming are taken into account, and when the analysis is conducted over the

relevant term (2007-2012) rather than just 2006, Dr. Pelcovits' own methodology leads to the conclusion that the payments made for non-music programming content imply a fee for sound recordings in the range of 3-4% of revenue over the course of the license period – far below Dr. Pelcovits' estimate.

William (Terry) Fisher, Ph.D., J.D. Wilmer Hale Professor of Intellectual Property Law at Harvard Law School and Director of the Berkman Center for Internet and Society, will rebut the opinions of Dr. Ordover and Dr. Pelcovits that section 801(b)(1) of the copyright statute is best satisfied by rates that mirror those negotiated in voluntary market transactions. He will explain that this interpretation is contrary to the plain language and legislative history of the statute and will offer his perspectives on the history and significance of the section 801(b) standard. Professor Fisher's testimony specifically examines each of the factors under section 801(b) and concludes that application of the factors requires the Copyright Royalty Judges to be especially cognizant solicitous of the circumstances, contributions, and interests of Sirius and XM. In response to a request by the Judges, Professor Fisher additionally addresses certain prior distribution proceedings conducted under section 111 for their potential relevance here.

John Hauser, Ph.D., Professor of Marketing and the Sloan School of Business (MIT), provides an analysis of many of the critical flaws that infect the survey and analysis performed by Dr. Yoram Wind, which attempted to ascertain a value for "music programming" on the SDARS. Professor Hauser explains that the Wind survey was flawed in multiple respects, including a complete failure to distinguish the sound recording right at issue here from the many technological innovations and other types of "value" contributed to "music programming" by the SDARS – values that properly are not attributable to the sound recording right. Further, Professor Hauser explains that the results derived from Dr. Wind's "willingness-to-pay" question

– which formed a key input into the analyses performed by SoundExchange’s experts Dr. Pelcovits and Dr. Ordover – were flawed by biases that resulted in a vast inflation in the “value” of music programming. The various flaws in the Wind survey led SoundExchange’s other experts to incorrectly estimate that approximately 55% of all SDARS subscribers were “attributable” to music programming – a mistaken conclusion that greatly inflated their estimates of an appropriate royalty rate.

By conducting two different surveys, Professor Hauser demonstrates how the flaws in the Wind survey resulted in a drastic overestimation of the “value” of sound recordings. Professor Hauser addresses in his initial study many of the critical flaws in the Wind survey by conducting his own mall-intercept survey. By fixing, among other things, Dr. Wind’s omission of salient SDARS features and the bias inherent in his questionnaire, Professor Hauser’s mall-intercept survey provides data that subscribers’ (and “considering” subscribers’) “willingness to pay” for the sound recording right at issue here is only \$1.78, not \$6.80 as estimated by Dr. Wind. Professor Hauser also presents an Internet survey he conducted to more carefully parse out the value of the sound recording right at issue in this case from the value of “music programming” overall (which is the only thing that Professor Wind even purported to measure). According to this survey, when other key features added to music programming by the SDARS are factored in, subscribers attribute only 15.8% of the total value of “music programming” to the sound recording right properly at issue here.

Erich Joachimsthaler, Ph.D., founder and Chief Executive Officer of Vivaldi Partners, a strategic marketing and brand strategy consulting firm, will explain the importance of powerful brands and the value of associating with those brands. Dr. Joachimsthaler will demonstrate that each of the major entities and personalities with which Sirius and XM have entered into non-

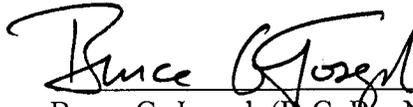
music deals, such as Martha Stewart, Opie & Anthony, and NASCAR, are powerful brands epitomized by high awareness, favorable and unique associations, perceived superior quality, and consumer loyalty. Dr. Joachimsthaler will further explain that, by associating with these renowned brands, Sirius and XM draw upon their attributes as a means of strengthening their own brands and differentiating themselves from terrestrial radio and from each other. Sirius and XM thus have reaped significant benefits above and beyond the content provided pursuant to the deals – benefits that the right to play sound recordings does not provide. Accordingly, Dr. Joachimsthaler rejects Dr. Pelcovits’ contention that the amounts paid by Sirius and XM for non-music programming are a valid benchmark for the value of the sound recording performances.

Bruce G. Silverman, principal of Bruce Silverman Consulting with forty years of experience in marketing and advertising, will discuss and quantify the significant marketing and promotional value of several of the major agreements that Sirius and XM have entered into with non-music content providers such as Howard Stern, Oprah Winfrey, the National Football League, and Major League Baseball. Mr. Silverman will explain why, contrary to one of Dr. Pelcovits’ theories, it is not appropriate to use the amounts paid for such exclusive non-music programming as a benchmark for the sound recording performance royalty rate without accounting for the additional benefits those agreements provide for Sirius and XM above and beyond the value of the non-music content itself. Mr. Silverman will focus on one such benefit, namely, the valuable publicity generated for Sirius and XM by each of the deals. He will demonstrate the magnitude of this benefit by quantifying the broadcast and print media “impressions” generated by each of these deals and by valuing those impressions based on standard commercial rates for commensurate advertisements and promotional appearances. Mr.

Silverman will also discuss the strategic value of the non-music deals in differentiating XM and Sirius from terrestrial radio and from each other.

Daryl Martin and Russell L. Parr, Consor Intellectual Asset Management, will use well-established methods of evaluating brand and trademark value to quantify numerous benefits provided to Sirius and XM through their association with well-known non-music brands ranging from Howard Stern to Major League Baseball. In analyzing the benefits of the non-music deals, the assessment will consider such factors as: trademark royalty rates and licensing fees typically paid for comparable agreements; endorsement fees garnered for comparable brands; and exclusivity premiums applicable to specific contracts. Each of these factors, it will be concluded, demonstrates that Sirius and XM attain significant value from their non-music deals above and beyond the value of the right to provide content.

Respectfully submitted,



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Counsel for Sirius Satellite Radio Inc.

July 24, 2007

**Amended Rate
Proposal**

Amended Rates and Terms

PART 3__-- RATES AND TERMS FOR SUBSCRIPTION TRANSMISSIONS AND THE REPRODUCTION OF EPHEMERAL RECORDINGS BY PREEXISTING SATELLITE DIGITAL AUDIO RADIO SERVICES

Sec.

3__.1 General.

3__.2 Definitions.

3__.3 Royalty fees for public performance of sound recordings and the making of ephemeral recordings.

3__.4 Administrative provisions.

3__.5 Confidential information and statements of account.

3__.6 Notice and Recordkeeping.

§ 3__.1 General.

(a) Scope. This part 3__ establishes rates and terms of royalty payments for the public performance of sound recordings and the reproduction of multiple ephemeral recordings by preexisting satellite digital audio radio services in accordance with the provisions of 17 U.S.C. §§ 112(e) and 114 for the period from January 1, 2007 through December 31, 2012.

(b) Relationship to voluntary agreements. Notwithstanding the royalty rates and terms established in this part, the rates and terms of any license agreements entered into by Copyright Owners and Licensees shall apply in lieu of the rates and terms of this part to transmissions within the scope of such agreements.

§ 3__.2 Definitions.

For purposes of this part, the following definitions shall apply:

(a) "Copyright Owner" is a sound recording copyright owner who is entitled to receive royalty payments under 17 U.S.C. § 112(e) or 114(g).

(b) A "Designated Agent" is any agent designated by the Librarian of Congress for the receipt and distribution of royalty payments made pursuant to this part.

(c) "Licensee" means an owner or operator of a preexisting satellite digital audio radio service (as defined in 17 U.S.C. § 114(j)(10)) and its parent, subsidiaries and divisions.

(d) "Play" is each instance in which any portion of a sound recording is transmitted by a preexisting satellite digital audio radio service, regardless of the number of listeners who tune in or listen to the transmission, but excluding the following:

(1) A transmission of a sound recording that does not require a license (e.g., a sound recording that is not copyrighted);

(2) A transmission of a sound recording for which the service has previously obtained a public performance license from the copyright owner of such recording; and

(3) An incidental performance that both:

(i) makes no more than incidental use of sound recordings including, but not limited to, brief musical transitions in and out of commercials or program segments, brief performances during news, talk and sports programming, brief background performances during disk jockey announcements, brief performances during commercials of sixty seconds or less in duration, or brief performances during sporting or public events; and

(ii) other than ambient music that is background at a public event, does not contain an entire sound recording and does not feature a particular sound recording of more than thirty seconds (as in the case of sound recording used as a theme song).

(e) "SDARS" means satellite digital audio radio service.

(f) "Term" means the period commencing January 1, 2007, and continuing through December 31, 2012.

§ 3__3 Royalty fees for public performances of sound recordings and the making of ephemeral recordings.

(a) Royalty. Commencing January 1, 2007 and continuing through December 31, 2007, the quarterly royalty fee to be paid by a Licensee for the public performance of sound recordings pursuant to 17 U.S.C. § 114(d)(2) and the making of any number of ephemeral phonorecords to facilitate such performances pursuant to 17 U.S.C. § 112(e) shall be \$1.20 per Play of a copyrighted sound recording during the quarter. The royalty rate to be paid for performances in 2008 and subsequent years of the license period shall be adjusted each year by a percentage equal to the percentage change in combined SDARS subscribers during the preceding year. (For example, if the number of combined SDARS subscribers at the end of 2007 has increased twenty percent from year-end 2006, the royalty fee for 2008 will increase by twenty percent, to \$1.44 per Play.)

(b) Payments. Payments made by a Licensee shall be due 60 days after the close of each calendar quarter for which the payment is being made.

(c) Late Fee. If a Licensee fails to make any payment under this part when due and following ten days after receipt of written notice from a Designated Agent, the Licensee shall pay a late fee on any overdue amount of 0.50% per month, or the highest lawful rate, whichever is lower, from the date of receipt of written notice until the date full payment is received by a Designated Agent.

(d) Weekends and Holidays. In the event the deadline for any payment due under this part falls on a day which is not a business day, payment shall be due on the next business day.

§ 3__4 Administrative provisions.

(a) Audit.

(i) A Designated Agent may audit compliance by the Licensee with the royalty payment provisions of these regulations. If there is more than one Designated Agent, all Designated Agents shall mutually retain a single auditor to perform a single audit on a Licensee.

(ii) An audit pursuant to this section may be conducted no more than once every three (3) years, and no more than once in any given year. An audit of any year in the Term may be conducted only once. Audits shall be conducted during regular business hours, at a mutually agreeable time; provided that an audit shall commence no later than 90 days following a written request for audit.

(iii) Audits shall be performed by an independent auditor according to generally accepted auditing standards.

(iv) If as a result of the audit the parties agree or, in the absence of such agreement there is a final determination, that a Licensee has underpaid royalties by 10 or more percent, within 60 days of such determination the Licensee shall pay the amount of the underpayment with interest at the rate provided in 28 U.S.C. § 1961, plus reasonable out-of-pocket costs incurred by the auditor.

(v) If as a result of the audit the auditor determines that a Licensee has overpaid royalties, the Licensee may credit against future royalty payments the amount of such overpayment plus interest accrued at the rate provided in 28 U.S.C. § 1961, and shall pay the Licensee's reasonable out-of-pocket costs incurred from the audit.

§ 3__5 Confidential information and statements of account.

(a) For purposes of this part, confidential information shall include statements of account and any information pertaining to the statements of account designated as confidential by the Licensee filing the statement. Confidential information shall also include any information so designated in a confidentiality agreement which has been duly executed between a Licensee and an interested party, or between one or more interested parties; *provided* that all such information shall be made available, for the verification proceedings provided for in §§3__4 of this part.

(b) Licensees shall submit quarterly statements of account on a form provided by the agent designated to collect such forms and the royalty payments.

(c) A statement of account shall include only such information as is necessary to compute the accompanying royalty payment. Additional information beyond that which is sufficient to verify the calculation of the royalty shall not be required or included on the statement of account.

(d) Access to the confidential information pertaining to the royalty payments shall be limited to:

(i) Those employees, agents, consultants and independent contractors of the Designated Agent, subject to an appropriate confidentiality agreement, who are engaged in the collection and distribution of royalty payments hereunder and activities directly related hereto, who are not also employees or officers of a sound recording copyright owner or performing artist, and who, for the purpose of performing such duties during the ordinary course of employment, require access to the records; and

(ii) An independent and qualified auditor who is not an employee or officer of a sound recording copyright owner or performing artist, but is authorized to act on behalf of the interested copyright owners with respect to the verification of the royalty payments.

(e) The Designated Agent or any person identified in paragraph (d) of this section shall implement procedures to safeguard all confidential financial and business information, including, but not limited to royalty payments, submitted as part of the statements of account, using a reasonable standard of care, but no less than the same degree of security used to protect confidential financial and business information or similarly sensitive information belonging to the Designated Agent or such person.

(f) Books and records relating to the payment of the license fees shall be kept in accordance with GAAP for a period of three years. These records shall include, but are not limited to, the statements of account, records documenting an interested party's share of the royalty fees, and the records pertaining to the administration of the collection process and the further distribution of the royalty fees to those interested parties entitled to receive such fees.

§ 3__6 Notice and Recordkeeping.

(a) General. This Exhibit prescribes rules under which Licensees shall serve copyright owners with notice of use of their sound recordings, what the content of that notice should be, and under which records of such use shall be kept and made available.

(b) Definition. A "*Report of Use of Sound Recordings Under Statutory License*" (sometimes referred to as a "*Report of Use*") is the sole report of use required to be provided by a Licensee under this Agreement.

(c) Service. Reports of Use shall be served upon SoundExchange. Licensees shall have no obligation to provide Reports of Use for any period prior to January 1, 2006. Licensees shall serve Reports of Use on SoundExchange by no later than the ninetieth

day after the close of each month. Reports of Use shall be served, by certified or registered mail, or by other means provided in SoundExchange's "File and Reports of Use Delivery Specifications" filed in the Copyright Office in Docket No. RM 2002-1B or agreed upon by a Licensee and SoundExchange.

(d) Content.

(1) A "Report of Use of Sound Recordings under Statutory License" shall be identified as such by prominent caption or heading, and shall include a Licensee's intended or actual playlist for each channel and each day of the reported month, except that no reporting requirement shall apply to channels reasonably classified as news, talk or sports. Subject to paragraph (d)(2) of this Exhibit, each intended or actual playlist shall include a consecutive listing of every recording scheduled to be or actually transmitted, as the case may be, and shall contain the following information in the following order:

- (A) The name of the service or entity;
- (B) The channel;
- (C) The sound recording title;
- (D) The featured recording artist, group, or orchestra;
- (E) The retail album title;
- (F) The marketing label of the commercially released and available album or other product on which the sound recording is found;
- (G) The catalog number for albums or other products commercially released;
- (H) The International Standard Recording Code (ISRC) embedded in the sound recording, where available and feasible, for albums or other products commercially released after 1998;
- (I) Where available, the copyright owner information provided in the copyright notice on the retail album or other product (e.g., following the symbol © (the letter P in a circle) or, in the case of compilation albums created for commercial purposes, in the copyright notice for the individual sound recording, for commercially released albums or other products;
- (J) The date of transmission;
- (K) The time of transmission; and

(L) The release year of the retail album or other product (as opposed to an the individual sound recording), as provided in the copyright notice on the retail album or other product (e.g., following the symbol © (the letter C in a circle), if present, or otherwise following the symbol ℙ (the letter P in a circle)), for commercially released albums or other products.

(2) Notwithstanding paragraph (d)(1) of this Exhibit –

(A) In the case of programming provided to a Licensee by a third party programmer –

(i) if such programming is provided to the Licensee under a contract entered into before the Execution Date and not thereafter amended or renewed, then the Licensee shall have no obligation to provide Reports of Use with respect to that programming; and

(ii) the Licensee shall use commercially reasonable efforts to include in any new contract for programming, or any amendment or renewal of such a contract, a requirement that the provider of programming provide the Licensee the information required by paragraph (d)(1) of this Exhibit, or in the case of programming consisting of simultaneous retransmission of an over-the-air terrestrial AM or FM radio broadcast by a broadcaster that also transmits such programming over the Internet, such information as may from time to time be required by Copyright Office regulations relating to the broadcaster's transmissions over the Internet, and the Licensee shall provide SoundExchange Reports of Use containing the information provided by the third party programmer.

In any case in which a Licensee does not provide Reports of Use for programming provided to a Licensee by a third party programmer, the Licensee shall report to SoundExchange the relevant channel and the reason it is unable to provide such Reports of Use.

(B) Licensees only shall be required to provide the information identified in paragraph (d)(1)(C) through (I) and (L) of this Exhibit to the extent that such information can be provided using commercially reasonable efforts.

(C) Licensees shall not be required to provide information with respect to an incidental performance that both: (i) makes no more than incidental use of sound recordings including, but not limited to, brief musical transitions in and out of commercials or program segments, brief performances during news, talk and sports programming, brief background performances during disk jockey announcements, brief performances during commercials of sixty seconds or less in duration, or brief

performances during sporting or other public events, and (ii) other than ambient music that is background at a public event, does not contain an entire sound recording and does not feature a particular sound recording of more than thirty seconds (as in the case of a sound recording used as a theme song).

(e) **Signature.** Reports of Use shall include a signed statement by the appropriate officer or representative of the Licensee attesting, under penalty of perjury, that the information contained in the Report is believed to be accurate and is maintained by the Service in its ordinary course of business. The signature shall be accompanied by the printed or typewritten name and title of the person signing the Report, and by the date of signature.

(f) **Other Media.** If a Licensee makes digital audio transmissions of sound recordings in any medium other than through its SDARS, reports containing the elements set forth in paragraph (d) of this Exhibit shall be deemed to satisfy the Licensee's obligations to identify the sound recordings used in such transmissions (in contrast to any obligations the Licensee may have under applicable regulations to provide information concerning matters other than the identity of such sound recordings).

(g) **Format.** Reports of Use shall be provided in accordance with SoundExchange's "File and Reports of Use Delivery Specifications" filed in the Copyright Office in Docket No. RM 2002-1B.

(h) **Confidentiality.**

1.1 (1) **Definition.** "Confidential Information" means information submitted by a Licensee to SoundExchange in a Report of Use that is uniquely specific to Licensee, including without limitation, the number of performances made by the Licensee and the identification of particular sound recordings as having been performed by the Licensee, but not any information that at the time of delivery to Sound Exchange is generally known to the public or subsequently becomes generally known to the public through no fault of SoundExchange, including without limitation, information identifying sound recordings themselves.

1.2 (2) **Use of Confidential Information.** SoundExchange shall not use any Confidential Information for any purpose other than royalty collection and distribution, determining and enforcing compliance with statutory license requirements and the requirements of this Agreement, and activities directly related to the foregoing; provided that SoundExchange may report Confidential Information to its members in a form in which information pertaining to both Licensees is aggregated with information pertaining to other statutory licensees such that Confidential Information pertaining to Licensees, either individually or collectively, cannot readily be identified.

1.3 (3) Disclosure of Confidential Information. Access to Confidential Information shall be limited to those employees, agents, attorneys, consultants and independent contractors of SoundExchange, subject to an appropriate confidentiality agreement, who are not also employees or officers of a Copyright Owner or Performer, and who, for the purpose of performing such duties during the ordinary course of their work, require access to Confidential Information. SoundExchange also may disclose Confidential Information to a successor or assignee permitted by this Agreement.

(i) Documentation. Licensees shall, for a period of at least three years from the date of service of the Report of Use, keep and retain a copy of the Report of Use.

(j) Regulation. If the Copyright Royalty Board, the Librarian of Congress, or other judicial body, or administrative or regulatory agency adopts regulations for Notice and Recordkeeping or Reports of Use, applicable to Licensees or other services under the § 114(d) statutory license, that are considered by a Licensee to be in the aggregate more favorable than those set forth in this section, Licensee shall inform SoundExchange within 90 days thereafter if Licensee determines to provide Reports of Use pursuant to such other regulations.

Exhibit List

Index of Exhibits for Sirius Satellite Radio, Inc.

Ex. No.	Sponsored By:	Description
SIR Ex. 43	Mel Karmazin	This exhibit contains restricted information pursuant to the December 20, 2006 protective order and therefore was omitted from this public version
SIR Ex. 44	Mel Karmazin	Sirius press release of April 6, 2004
SIR Ex. 45	Mel Karmazin	Sirius press release of May 3, 2004
SIR Ex. 46	Mel Karmazin	Bloomberg News article of February 28, 2006: CBS Radio Sues Howard Stern, Agent Over Sirius Move
SIR Ex. 47	Mel Karmazin David Frear	Sirius Satellite Radio Inc. 2006 10-K
SIR Ex. 48	Mel Karmazin	Sirius press release of October 18, 2004
SIR Ex. 49	Mel Karmazin	Sirius press release of January 4, 2005
SIR Ex. 50	Mel Karmazin	Sirius press release of June 6, 2005
SIR Ex. 51	Mel Karmazin	Sirius press release of August 1, 2005
SIR Ex. 52	Mel Karmazin	This exhibit contains restricted information pursuant to the December 20, 2006 protective order and therefore was omitted from this public version
SIR Ex. 53	Mel Karmazin	This exhibit contains restricted information pursuant to the December 20, 2006 protective order and therefore was omitted from this public version
SIR Ex. 54	Mel Karmazin	Screen shots of http://www.marthastewart.com illustrating how Martha Stewart features her Sirius channel, its programming, and how to subscribe to Sirius
SIR Ex. 55	Mel Karmazin	Excerpts of the August 2007 edition of Martha Stewart Living magazine and Summer 2007 edition of Martha Stewart Weddings magazine depicting Ms. Stewart's promotion of her programming on Sirius
SIR Ex. 56	Mel Karmazin	Chart illustrating Sirius subscriber growth in relation to major content deals

SIR Ex. 57	Mel Karmazin	Sirius Satellite Radio Inc. 2007 1Q 10-K
SIR Ex. 58	David Frear	This exhibit contains restricted information pursuant to the December 20, 2006 protective order and therefore was omitted from this public version
SIR Ex. 59	David Frear	This exhibit contains restricted information pursuant to the December 20, 2006 protective order and therefore was omitted from this public version
SIR Ex. 60	David Frear	This exhibit contains restricted information pursuant to the December 20, 2006 protective order and therefore was omitted from this public version

Karmazin

Before the
COPYRIGHT ROYALTY JUDGES
LIBRARY OF CONGRESS
Washington, D.C.

In the Matter of)
)
) Docket No. 2006-1 CRB DSTRA
Adjustment of Rates and Terms for)
Preexisting Subscription and Satellite)
Digital Audio Radio Services)
)
)

WRITTEN REBUTTAL TESTIMONY OF MEL KARMAZIN

1. My name is Mel Karmazin. I am the Chief Executive Officer of Sirius Satellite Radio Inc. (“Sirius”). I offered written and oral testimony in the direct phase of this proceeding on behalf of Sirius. SIR Ex. 1.1; June 6, 2007 Transcript (“Tr.”) 247:9 - 365:11; June 7, 2007 Tr. 5:3 - 36:2. My background, and the history and background of Sirius, and the satellite digital audio radio service (“SDARS”) that Sirius provides, are set forth in that testimony.

2. I offer this testimony to rebut several propositions proffered by SoundExchange during the direct phase of the proceeding, and to provide further information in response to questions posed by the Judges during the hearing on the parties’ direct cases. Specifically, I will discuss:

- the significant value that Sirius obtains from certain non-music programming, beyond what was described in my written direct testimony, that Sirius does not obtain from the right to perform sound recordings, including:
 - the value of non-music audio content that listeners cannot obtain anywhere else;
 - the many benefits Sirius has received from its association with brands like Howard Stern, the NFL, NASCAR, Martha Stewart and Fox News, among others; and
 - the opportunity to earn advertising revenue, which is foregone with Sirius’ music channels;

- the impact of Sirius' non-music content deals on some of its key business metrics;
- the current financial picture for Sirius;
- the impact that competitors and new products are having on the retail market for satellite radio, and new developments in the retail marketplace for audio entertainment consumer electronic products; and
- the desirability of a license fee that is based on our actual use of sound recordings so that Sirius has the ability to make rational business judgments about its use of copyrighted sound recordings in order to ensure the company's long-term viability.

The Value of Sirius' Non-Music Content

3. In the direct case, other Sirius officers and I described the importance of non-music programming to Sirius' satellite radio service. Certainly, the value of that programming goes beyond the fact that Sirius has such content as part of its service offering. Indeed, Sirius derives value from non-music content in a number of ways that it does not and cannot derive from the right to perform sound recordings.

Exclusivity

4. One of the most valuable aspects of Sirius' non-music content is programming exclusivity. In my forty years in the media industry, my experience has been that exclusive programming is more valuable than non-exclusive programming, such as music, which is ubiquitous and available to consumers for free. If a consumer can only obtain desired programming from one outlet, then the consumer is more likely to pay to receive that programming and other programming from that outlet. Further, advertisers trying to reach that consumer are likely to pay more to advertise on that platform during that programming. I discussed this aspect of the value of our non-music content both in my Written Direct Testimony (SIR Ex. 1.1 ¶¶ 42-47, 50) and in my oral testimony on June 6, 2007 (June 6, 2007 Tr. 297-304). As I also testified, the right to perform sound recordings is not exclusive. SIR Ex. 1.1 ¶ 41.

5. Although it is difficult to quantify the value of exclusivity, Sirius' agreement with the NFL provides some indication of the value of exclusive content. Under that agreement, [[

]]. SIR Ex. 43 at SIR00048957-59. [[

]]. Certainly, Sirius would pay far less for the non-exclusive rights to particular programming than it would for the exclusive rights to that programming (to the extent we would consider entering into a non-exclusive relationship at all).

6. With respect to the NFL agreement, Sirius' exclusive arrangement to offer home-and-away broadcasts of every game was important in expanding Sirius' relationship with automakers because it was the first concrete means of distinguishing Sirius' satellite radio service from the terrestrial radios that are standard in all cars and trucks. For example, several months after announcing the NFL deal, Chrysler agreed to a factory-installation program with Sirius. SIR Exs. 44 and 45.

Brand Association and Promotion

7. Another valuable aspect of Sirius' non-music programming is the many benefits Sirius obtains from the well-known brands that provide exclusive programming to us. These benefits, which include association with powerful brands, advertising and active promotion of Sirius, are critical to Sirius both in its efforts to attract subscribers as well as in its efforts to develop and maintain business relationships with automakers, retailers and other distributors. Although I detail some of the promotional benefits Sirius has obtained from these relationships

below, SIRIUS and XM's joint expert witnesses provide information about the value of those benefits.

8. The self-proclaimed "King of All Media," Howard Stern is one of the most popular personalities in America, in same class as talk show hosts such as David Letterman and Conan O'Brien. As I indicated in my oral testimony on June 6, 2007, the announcement that Mr. Stern would be moving to Sirius was front page news around the country. June 6, 2007 Tr. 301. Moreover, Mr. Stern promoted his move to Sirius continuously during the fifteen months prior to his first broadcast on Sirius. June 6, 2007 Tr. 302 (discussing promotion on his terrestrial radio show); June 12, 2007 Tr. (Testimony of David Frear) 16-17 (discussing appearances and promotion on The Late Show with David Letterman, 60 Minutes, Larry King Live, and in other media outlets). This publicity was not required by Mr. Stern's contract, and Sirius received the benefits of this publicity without paying any additional fees. Notably, when CBS sued Mr. Stern and Sirius, CBS claimed to be entitled to \$100 million as compensation for the free promotion of Sirius that Mr. Stern had provided during his radio broadcasts during 2005. And, as noted in my oral testimony, CBS estimates that it loses over \$100 million annually as a result of losing Mr. Stern's programming. June 6, 2007 Tr. 302-03; see also SIR Ex. 46.

9. In addition to this pre-broadcast promotion, Sirius' agreement with Mr. Stern authorizes Sirius to use Mr. Stern's name and likeness in promoting Sirius Satellite Radio. SX Trial Ex. 27. Sirius has the right to use Mr. Stern's name, likeness and brand in its point-of-sale materials at retail outlets and in car dealerships, as well as in print advertising and television commercials.

10. The impact of Sirius' relationship with the powerful Howard Stern brand has been substantial. Due at least in part to Mr. Stern's pre-2006 efforts, Sirius' subscribers increased

from approximately 675,000 subscribers one day before announcing the deal with Mr. Stern to 3.5 million subscribers by the time his show first aired on Sirius on January 9, 2006. Before Mr. Stern aired a single minute of content on Sirius, Sirius' subscriber base had increased by over 2.8 million subscribers, and the number of total subscribers at the end of 2005 exceeded consensus Wall Street analysts' pre-Stern estimates for 2005 year-end subscribers by over 1.2 million subscribers. Compare SX Trial Ex. 27 at SIR00010476 with SIR Ex. 47 at 31. Sirius' subscribers have continued to grow, and at the end of the 2006 totaled 6.025 million subscribers, exceeding consensus Wall Street analysts' pre-Stern estimates for 2006 year-end subscribers by almost 2.5 million subscribers. Compare SX Trial Ex. 27 at SIR00010476 with SIR Ex. 47 at 31.

11. Another indicator of the value of the relationship with Howard Stern is the impact on Sirius' market value. Under the terms of the agreement with Mr. Stern, Sirius was obligated to deliver to Mr. Stern and his agent 34,375,000 shares of stock []

]]. The value of the stock at the time the contract was entered into was \$110 million (including Mr. Stern's agent's share). []

]]. At the time that compensation was paid to Mr. Stern and his agent in January 2006, the total value of the Sirius stock awarded was \$224.8 million. The value of the Sirius stock granted to Mr. Stern and his agent therefore increased over \$114 million during the time in which Mr. Stern was promoting Sirius and before he ever aired a single minute of programming on Sirius. During this time, Sirius' stock price increased by 95%, adding over

\$4 billion in market capitalization. In addition, Sirius' market capitalization increased by approximately \$1 billion in the days immediately surrounding the Stern announcement.

12. Adding the Howard Stern brand also played an important role in advancing Sirius' relationships with automakers and retailers. Howard Stern was and is the number one radio personality in morning drive time, creating an incentive for automakers to include Sirius radios in their vehicles. Moreover, Howard Stern has enormous appeal with 18-49 year-old males, not only a large demographic for auto buyers and consumers of electronics, but also a defining characteristic of those in management positions at automobile manufacturers and dealerships and in large retail chains that sell consumer electronics who would be making the decision on whether to include Sirius radios in their cars and on their shelves.

13. Less than two weeks after Sirius announced its deal with Howard Stern (See SIR Ex. 6), Ford Motor Company announced that it would be expanding its availability of Sirius as a dealer-installed option and would be targeting up to 20 vehicle lines for factory installations beginning in 2005. SIR Ex. 48. In January 2005, Ford expanded the number of proposed factory installations to 21 models, six months later extended its exclusive relationship with Sirius, and two months later, in August 2005, began selling vehicles with Sirius radios installed. SIR Exs. 49, 50, and 51.

14. Sirius' relationship with the NFL also has significant promotional value. The NFL is one of the most recognized brands in entertainment. In return for its payments to the NFL, [[

]]. SIR Ex. 43 at SIR00048946-47; SIR Ex. 52. As a result, Sirius

has the right to use the NFL brand in all of its promotional materials and advertisements, including point-of-sales materials at retail and car dealerships for no additional fees. A significant part of the value Sirius pays under the NFL agreement is to secure those valuable rights. In addition to those rights, [[

]].

15. Like the deal with Howard Stern, Sirius' association with the NFL had a significant impact on Sirius' business – in the eight months between the announcement of the deal with the NFL and the launch of Sirius NFL programming as well as since that programming has been offered. Indeed, Sirius subscriber numbers, brand awareness and retail share all increased after that deal was announced. See ¶ 26 below.

16. Sirius receives similar value from its agreement with NASCAR. SX Trial Ex. 23. As the exclusive satellite radio partner for NASCAR, Sirius has the right to use the NASCAR brand, logo and drivers in its promotional materials. [[

]]. Moreover, Sirius' association with the NASCAR brand has been integral in strengthening Sirius' relationships with automobile manufacturers, and [[

]].

17. Sirius deal with Martha Stewart (“MSO”) provides another example of the brand association value Sirius obtains from its non-music content programming. SX Trial Ex. 32. [[

]] In addition, Ms. Stewart has promoted Sirius and her Sirius channel during personal appearances in other media outlets, such as by including a “Radio” button on the main page of her website, which provides programming schedules and links to the Sirius site so that fans can subscribe to Sirius. See SIR Ex. 54. Ms. Stewart also regularly promotes Sirius on her television program, which once featured a segment where she demonstrated how to install a Sirius radio. June 7, 2007 Tr. 215:1-10. Finally, Ms. Stewart regularly promotes Sirius in her print publications. SIR Ex. 55.

18. Even non-exclusive content brands provide value beyond the programming alone. For example, Fox News is a well-known brand, and one that is popular with a significant portion of Sirius’ audience. Under the terms of Sirius’ deal with Fox News, [[

]] SX Trial Ex. 22.

19. Sirius’ ability to associate with these brands contributed significantly to its credibility since, at the time Sirius began relationships with these brands, it was a new company. Having a relationship with these brands provided Sirius more value than these brands could provide to an established company like CBS or NBC.

20. One other aspect of the value Sirius obtains from content brands is the stable of advertisers already associated with those brands that now advertise on Sirius. Howard Stern brought a number of advertisers with him from terrestrial radio. The NFL, NASCAR and

Martha Stewart also provided Sirius with an entrée to those brands' core advertisers, including Home Depot, Geico, Sprint-Nextel, Proctor & Gamble, Shell, General Motors, 3M Scotch Brite, Advanced Auto Parts, Jack-in-the-Box, Paramount, Phillips-Norelco, and Vermont Teddy Bear/Pajamagram.

21. In contrast to the promotional benefits these and other Sirius non-music content deals provide, the sound recording performance right has no added promotional benefit. Sirius' right to play recordings by Waylon Jennings, Rihanna, Led Zeppelin, Linkin Park, Tony Bennett, Jay-Z or Madonna does not confer any ability for Sirius to use those artists names or likenesses to promote its music channels or service. Instead, Sirius must contract separately for such branding and promotion rights, and has done so both in offering specialty channels (such as Elvis Radio, Siriusly Sinatra, The Rolling Stones Channel, The Who Channel, Jimmy Buffet's Margaritaville Channel, Eminem's Shade 45, and, soon, the Grateful Dead Channel) and special programs (such as 50 Cent's program on Shade 45, Little Steven Van Zandt's Underground Garage, and Tony Hawk's and Lance Armstrong's programs on Faction).

Advertising Revenue

22. One attractive aspect of Sirius' business model is the dual revenue streams from subscriptions and from advertising. Our revenue from advertising has increased significantly over the past three years, as we have added more well-known brands to our programming line-up. In 2004, Sirius generated approximately \$906,000 of revenues from advertising net of agency fees. In 2005, the year after Sirius announced its deal with Howard Stern and after its first season with NFL programming, Sirius' revenues from advertising net of agency fees increased to \$6.131 million. In 2006, after adding Howard Stern, Martha Stewart and announcing that NASCAR programming would begin in 2007, Sirius' revenues from advertising

net of agency fees totaled \$31.044 million, a 406% increase over 2005 advertising revenues. SIR Ex. 47 at F-4.

Complete Programming

23. One final benefit of Sirius' non-music content deals is that they provide actual programming. Sirius' deals with the NFL and NASCAR include the rights to live game/race feeds, and pre- and post-game/race shows. Similarly, Sirius' deals with Howard Stern and Martha Stewart do not simply afford the right to put those celebrities on the air. Instead, those deals also require the creation of programming to be broadcast on those channels. The sound recording performance right, by contrast, is not programming. It is just one piece of what goes into each Sirius music channel, which features more than just recorded music, as Steven Blatter described in detail in his written and oral testimony in the direct phase of this proceeding. SIR Ex. 36 (Blatter WDT); June 11, 2007 Tr. 91:19-97:7 (Blatter testimony).

The Impact of Sirius' Major Content Deals

24. As discussed above, there are aspects of Sirius' non-music agreements that provide value for which there is no comparable benefit from the right to perform sound recordings. Sirius' growth over the past five years indicates that those agreements have had a substantial impact on Sirius' continued viability.

25. The following chart lists several key dates related to Sirius' non-music programming and corresponding business metrics as of those dates:

Date	Event	Total Subs Day Prior	NPD Retail Market Share (Month Before/Month of/ Month After)	Unaided Brand Awareness Month Before and After
12/16/03	NFL deal Announced	214,499	31%; 36%; 36%	10% of adults 11/03; 9% of adults 1/04
8/2/04	NFL Programming launch	530,083	39%; 43%; 40%	14% of adults 7/04; 16% of adults 9/04
10/6/04	Howard Stern deal announced	674,459	40%; 46%; 51%	16% of adults 9/04; 29% of adults 11/04
2/22/2005	NASCAR deal announced	1,325,154	39%; 37%; 39%	33% of adults 1/05; 39% of adults 3/05
4/18/05	Martha Stewart deal announced	1,498,579	39%; 37%; 46%	39% of adults 3/05; 42% of adults 5/05
1/9/06	Howard Stern first broadcast	3,491,779	59%; 65%; 54%	47% of adults 12/05; 54% of adults 2/06
12/31/06	End of FY 2006	6,024,555	59%; 66%; 55%	52% of adults 11/06; Research suspended 1/07
3/31/07	End 1Q 2007	6,581,045	56%; 53%; 55%	Research suspended 1/07

See also SIR Ex.56.

26. Although it is impossible to measure the incremental number of subscribers that any of this programming contributed, given Sirius' performance prior to these deals—when its programming was focused on commercial-free music—it is apparent that this non-music content, especially the NFL and Howard Stern, has had an enormous impact on Sirius' business. SoundExchange's rate proposal, among other things, asks to participate in the revenues generated by Sirius' substantial investment in non-music programming.

Sirius' Current Financial Condition

27. Since submitting my written direct testimony in October 2006, Sirius has reported its financial results for the year ended December 31, 2006, as well as its financial results for the quarter ended March 31, 2007. Copies of Sirius' Annual Report on Form 10-K for the year

ended December 31, 2006 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, which report those results. SIR Ex. 47 and SIR Ex. 57. Those results are discussed in more detail in the rebuttal testimony of Sirius' Executive Vice President and Chief Financial Officer, David Frear. Suffice it to say, that while Sirius is continuing to grow and obtain greater penetration, the company will lose a substantial sum of money in 2007—our 17th consecutive year without achieving free cash flow or turning a profit.

The Current Marketplace for Satellite Radio

28. Since the time I submitted my written direct testimony, the landscape of the marketplace in which Sirius sells its products and services has changed. The market for our service is fiercely competitive, and is only becoming more so as the radio industry expands its roll-out of HD radio. First, there has been a continuing decline in sales of satellite radios in the retail marketplace. In the first quarter of 2007, Sirius added 192,978 net subscribers through retail channels. In contrast, in the first quarter of 2006, Sirius added 534,958 subscribers through retail channels. Although that number was particularly high because of the launch of Howard Stern's channels in January 2006, the net subscriber additions for the first quarter of 2007 were also lower than the second and third quarters of 2006, despite the fact that, in the past, Sirius' first quarter retail subscriber net additions have always been higher than in the second and third quarters of the prior year. Certainly, the first quarter 2007 retail subscriber net additions were well below our expectations at the beginning of the year. These results suggest that the retail market for satellite radio is stagnating. The disappointing retail results also prove the difficulty of projecting Sirius' performance during the balance of 2007 and beyond, casting doubts on the company's long range plans.

29. Part of this decline in retail sales is likely due to new competition. As discussed in my written direct testimony, terrestrial broadcasters have made a substantial investment in marketing HD radio. There are now more than 1,350 terrestrial stations broadcasting digital radio. HD radio receivers are becoming increasingly available in retail outlets, and the price of receivers is dropping.

30. There are also new products entering the retail market. Apple's iPhone hit stores in June, providing users with telephone, Internet access and iPod downloadable music capabilities all in one portable device. This and other devices compete with Sirius in the retail market for consumer spending on consumer electronics devices.

Alternative Per-Transmitted Performance Rate Proposal

31. The exorbitant fee proposal put forward by SoundExchange heightened my sensitivity to the problems with a percentage of revenue based fee. While a percentage of revenue fee at the levels proposed by Sirius and XM was appealing initially because of its simplicity, a percentage-of-revenue-based fee limits our ability to make rational business decisions about the right mix of music and non-music programming, about the right mix of copyrighted sound recordings and other music (such as live performances), and about the right mix of major label and independent label sound recordings. If we decide that a certain amount of music is costing us too much for the value it provides, a percentage-of-revenue-based fee would not allow us to save money by cutting back on music use. If a record company really wants us to play its music for the promotional benefit we provide, we save nothing by obtaining the right to make the performance from that record company. While a use-based fee is particularly important for fees above the levels we have been paying, the same benefits of a use-based fee are provided at any fee level.

32. For this reason, Sirius and XM are proposing a fee based on a price per transmitted performance. Based on Dr. Woodbury's analysis, we are proposing a fee equal to \$1.20 for each time that Sirius broadcasts a copyrighted sound recording that is subject to the statutory license at issue in this proceeding.

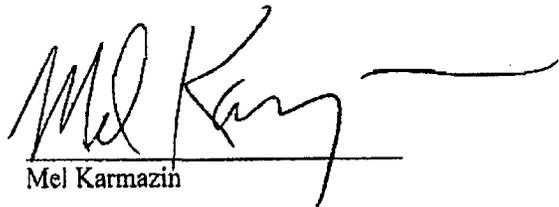
Before the
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LIBRARY OF CONGRESS
Washington, D.C.

In the Matter of)
)
)
)
Adjustment of Rates and Terms for)
Preexisting Subscription and Satellite)
Digital Audio Radio Services)

Docket No. 2006-1 CRB DSTRA

DECLARATION OF MEL KARMAZIN

I, Mel Karmazin, declare under penalty of perjury that the statements contained in my Written Rebuttal Testimony in the above-captioned matter are true and correct to the best of my knowledge, information and belief. Executed this 24th day of July 2007.



Mel Karmazin

Frear

Before the
COPYRIGHT ROYALTY JUDGES
LIBRARY OF CONGRESS
Washington, D.C.

_____)	
In the Matter of)	
)	Docket No. 2006-1 CRB DSTRA
Adjustment of Rates and Terms for)	
Preexisting Subscription and Satellite)	
Digital Audio Radio Services)	
_____)	

WRITTEN REBUTTAL TESTIMONY OF DAVID J. FREAR

Introduction and Witness Background

1. I am an Executive Vice President and the Chief Financial Officer of Sirius Satellite Radio Inc. (“Sirius”). I submit this statement in support of Sirius’ written rebuttal case, in order to respond to various testimony presented by SoundExchange.

Updated Capital Expenditure and Operating Cost Information

2. In my October 30, 2006 Written Direct Testimony (“WDT”), I presented certain information regarding Sirius’ capital expenditures and operating costs. See ¶¶ 8-25. Most of this information was current through the second quarter of 2006, which was the most current public information that was then available. These issues were also addressed in the written direct testimony of SoundExchange witness Sean Butson. See Butson WDT at 15-23.

3. In my testimony at trial on June 11 and June 12, 2007, I presented certain updated information. See June 11, 2007 Transcript (Tr.) at 357-62; June 12, 2007 Tr. at 8. This information was updated through the end of the first quarter 2007. Much of this information appears in Sirius’ March 1, 2007 Form 10-K (for the year ending December 31, 2006) (“the 2006 10-K”), and May 10, 2007 Form 10-Q (for quarter ending March 31, 2007) (“the 1Q 2007 10-

Q”). A copy of the 2006 10-K is attached as SIR Exhibit 47 to this Written Rebuttal Testimony and a copy of the 1Q 2007 10-Q is attached as SIR Exhibit 57 to this Written Rebuttal Testimony.

Subscriber Projections

4. I have reviewed the projections submitted by Sean Butson in connection with SoundExchange’s written direct case. Based on my knowledge of Sirius’ business and its financial planning, I find these projections to be vastly overoptimistic and unrealistic, particularly in light of more recent developments and trends.

5. In his October 30, 2006 Written Direct Testimony, Mr. Butson projected that Sirius would end 2006 with 6,326,307 subscribers. See Butson WDT, App. A, at 3 l. 5. In fact, Sirius ended 2006 with only 6,024,555 subscribers, a difference of over 300,000 in a period of about two months after the projection was rendered. As I discussed in my testimony at trial (see, e.g., June 11, 2006 Tr. at 380, June 12, 2007 Tr. at 107-08), it was during this time period that we observed a significant slowdown in the retail channel, and in December 2006, Sirius itself was required to lower its 2006 year-end subscriber guidance from 6.3 million to 6.0 million. This change in the guidance highlights the difficulty of projecting subscriber growth even over a relatively short period, let alone over a number of years.

6. Mr. Butson also projected that Sirius would end 2007 with 9,373,572 subscribers. See Butson WDT, App. A. at 3 l. 5. I understand that Mr. Butson conceded at trial that this projection was unrealistic; I concur with that assessment. In fact, Sirius’ current guidance for year-end subscribers for 2007 is “over 8 million.” Thus, even for the current year, the difference between Sirius’ guidance and Mr. Butson’s projection is on the order of 1,300,000 subscribers.

Needless to say, the absence of these projected subscribers will have a material negative effect on Sirius' revenue, cash flow, and EBITDA, among other metrics.¹

7. Sirius does not currently provide longer term guidance with respect to subscriber growth, primarily because such projections are inherently uncertain, particularly for companies like Sirius that are in the early stages of their commercial launch. In fact, earlier this year we suspended our previous long term revenue guidance. While we have some models (usually in the form of Excel spreadsheets) that go out for longer periods, senior management and I generally do not focus on these later years, which are inherently speculative and less relevant for our immediate business decisions, nor do we as a management team make judgments about what particular assumptions should be used (as we do, for example, with respect to our guidance for the current fiscal year). Rather, to the extent that subscriber estimates for later years are considered, we often consider the consensus view of the various analysts who cover the company. My group regularly follows the reports of these analysts.

8. As I testified during the trial of the direct phase of this case, we became aware during the last quarter of 2006 and the first two quarters of 2007 of a significant slowdown in the demand for satellite radio, particularly on the retail side. Among other effects, and as previously discussed, this caused us to lower our 2006 year-end subscriber guidance. In addition, reflecting both the lower starting point and what appears to be softening demand, our 2007 year-end

¹ For illustrative purposes, using the \$10.46 monthly total average revenue per user ("total ARPU") disclosed in the 2007 1Q 10-Q (at 25), the loss of one million subscribers over the course of a full year would result in a decrease in revenue in excess of \$125,000,000 ($\$10.46 \times 12 \times 1,000,000$). While this reduction would not fully occur in the first year (because, as Mr. Butson correctly notes, subscribers join over the course of the year, rather than all at once), it would be felt every subsequent year until the subscriber deficit was made up, if that ever occurred. As discussed below, this appears highly unlikely given the unrealistic subscriber projections by Mr. Butson for each year of the upcoming license term.

subscriber guidance initially provided in late February 2007 was significantly lower than it would have been otherwise. At this time, we are not providing any guidance as to revenue or subscriber growth beyond 2007. Further, since we initially provided our 2007 year-end subscriber guidance, we have not seen any sign of a reversal of softening demand on the retail side.

9. We do not have any operative internal projections for subscriber growth for later years at this time. In view of the retail slowdown discussed above, the models that were prepared in the ordinary course of business and produced to SoundExchange in connection with the discovery in this case are now too optimistic to be relied upon. Moreover, since last fall, analysts covering the industry have noted the slowdown in subscriber growth and have adjusted their subscriber growth estimates accordingly.

10. Using data supplied by our vendor, InSync Analytics, my staff has prepared, under my supervision, a statement showing the consensus of satellite radio analysts with respect to projected gross subscriber additions (“gross adds”).² For every year in the upcoming license term, there is an enormous discrepancy between the current analysts’ consensus and Mr. Butson’s projections of gross adds.³ These differences are reflected in the table below (all numbers in thousands):

² “Gross adds” are incoming subscribers, which may be reported by channel (OEM or retail) or cumulatively. “Net adds” reflect the deduction of subscribers who are lost or “churned” during the same time period.

³ Certain analysts do not project out as far as 2012; thus, the data points are more limited in the later years.

Projected Sirius Gross Adds

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Cumulative</u>
Butson	4,857	5,570	6,102	6,478	6,856	7,230	37,093
Consensus	<u>4,076</u>	<u>4,415</u>	<u>4,935</u>	<u>5,415</u>	<u>5,799</u>	<u>6,093</u>	<u>30,733</u>
Difference	781	1,155	1,167	1,063	1,057	1,137	6,360

Over the six-year license term, the analysts' consensus reflects more than 6 million fewer gross adds than projected by Mr. Butson.

11. While the projections of gross adds in the analysts' consensus are themselves uncertain, and may also prove to be overly optimistic, as projections concerning this industry often have been, we are not aware of, nor do we have internally, any subscriber gross adds projections that we believe to be more reliable than the foregoing analysts' consensus. The analysts' consensus is much more realistic than the Butson projections relied upon by both Dr. Pelcovits and Dr. Ordover and is the considered opinion of analysts who actively follow satellite radio and regularly publish their views.

12. In order to provide a fuller picture of Sirius' financial outlook, we have used the consensus gross adds projections referenced above to create the income statement attached as SIR Exhibit 58. This is based principally on our standard internal model, as previously produced to SoundExchange, extended out to 2012. Using the analysts' consensus for gross adds, and our internal model for loss of subscribers or "churn," the following differences are apparent for end-of-year subscribers (in thousands):

Projected Sirius End-of-Year Subscribers

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
Butson	9,374	12,204	14,675	16,724	18,467	19,954	
Model	[[
Difference]]

Mr. Butson's year-end subscriber projections exceed the more realistic figures in the model by an average of nearly [[]] million subscribers per year, every year during the license term.

13. The subscriber figures discussed above are used by the model to project subscriber and activation revenue for each year. With respect to revenue, SIR Exhibit 58 differs from the prior iterations of the model provided to SoundExchange in discovery in that it does not include the price increase that was planned for 2007, but ultimately rejected by management based on market conditions and the difficulty of competing against free radio. Thus, consistent with our current expectations, there is less revenue per subscriber than previously planned. In addition, we have adjusted the anticipated advertising revenue to be consistent with the analysts' consensus and more in line with the actual results that are being achieved.⁴ Finally, particularly in later years, we have been required to make various admittedly uncertain assumptions as to costs that might ensue (e.g., for contract renewals).

14. For all of these reasons, and particularly in the later years of the term, SIR Exhibit 58 must be considered somewhat speculative, as any long-term projection in this industry necessarily would be. However, it is significantly more realistic than Mr. Butson's projections,

⁴ Notwithstanding the predictions of continuing growth in Mr. Butson's report and elsewhere, Sirius' advertising revenue not only declined as a percentage of total revenue in the first quarter of 2007, as compared to the same period in 2006, it declined slightly in absolute dollar terms. See SIR Ex. 57 (2007 1Q 10-Q, at 1) (reporting first quarter 2007 advertising revenue of \$6.7 million, down from \$7.3 million in the same quarter in 2006).

Projected Sirius End-of-Year Subscribers

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
Butson	9,374	12,204	14,675	16,724	18,467	19,954	
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and includes multiple assumptions that lead to an enormously over-stated result, even if one were to assume that the market prices for non-music content were an appropriate benchmark for a section 801(b) fee. Most notably, Dr. Pelcovits: (i) analyzed a year that will bear no resemblance to the license period at issue in this case, (ii) failed to account for the significant value considered in the contract price of non-music content deals in excess of the value of a pure content license, such as the benefits of associating Sirius with valuable brands and additional promotional benefits, and (iii) failed to offset the expected advertising revenues associated with non-music channels that is not generated from music programming.

16. It is well known in the industry, and by those who purport to follow the industry, that programming costs will not increase in proportion to revenue. For example, Mr. Butson does not show programming costs increasing directly with revenues. Dr. Pelcovits himself recognizes that the non-royalty music programming costs incurred by Sirius and XM will not scale with revenue, AWDT at 3 n.7, but ignores that principle in connection with our non-music programming costs.

17. I start by observing that Dr. Pelcovits' analysis of Sirius' non-music, non-Stern programming costs in 2006 had an obvious omission that caused him to overstate our non-music, non-Stern programming expenditures by \$82.9 million. Although, in adjusting out the cost of our Howard Stern channels, Dr. Pelcovits subtracted the \$224.8 million stock grant that was expensed in January 2006, he failed to subtract the \$82.9 million expense that we also recognized in 2006 for the Stern incentive stock grant. The inclusion of this grant in our 2006 programming expense is discussed on pages 34 and F-30 of the 2006 10-K. If all Stern costs were removed from our 2006 non-music programming costs, the total non-music programming

cost would be [[]]. This would be [[]] of Sirius' revenues from 2006, rather than the [[]] stated by Dr. Pelcovits.

18. Because Sirius' revenues will be lower in 2006 than in any of the years during the license period (as reflected in the projections in SIR Exhibit 58), our non-music programming costs as a percentage of revenue will be higher in 2006 than at any time during the license term. Thus, for example, we project our non-Stern, non-music programming costs to be [[]] of revenue in 2007 and [[]] of revenue in 2010.

19. Further, Dr. Pelcovits' analysis fails to recognize that Sirius obtains substantial value from its non-music programming contracts that it does not receive from the sound recording performance right, such as brand affiliation and promotional benefits. Sirius also enters into its non-music programming deals with the expectation that it will earn advertising revenues that help defray the cost of those deals. Similar advertising revenue is not available from our music programming, which must remain commercial free in order to help us differentiate it from terrestrial radio.

20. It is possible to recreate Dr. Pelcovits' non-music programming cost benchmark analysis to correct for his improper use of 2006 figures to represent the 2007-2012 license term, and his failure to recognize the fact that the cost of our non-music contracts is offset by our advertising sales revenues. I also use our projections of the musical works royalty and our non-royalty music programming costs during the license term, instead of Dr. Pelcovits' estimates. Otherwise, I follow Dr. Pelcovits' method, using our non-Stern, non-music programming expenses. Dr. Pelcovits was correct to exclude the Stern deal, which, as I discuss below, was one of a kind and was made at a critical time in the company's development. The corrected analysis, based on numbers from the updated projections described above, and our split of Stern,

non-Stern costs, is set out in the attached Exhibit 60. As shown in the chart, the weighted average sound recording license fee that results over the entire license term is [[]] of revenue. This analysis does not take into account the many other benefits we receive from our branded non-music content agreements discussed above, which means that the results of this re-analysis still will overvalue the sound recording performance right.

21. While the considerations discussed above are pertinent to all of our branded content deals, there were also unique considerations that affected our decision in October 2004 to enter an into agreement with Howard Stern. At the time, Sirius was lagging far behind XM in subscriber growth, revenue, brand awareness, and most other relevant metrics. We were also lagging substantially behind XM in terms of our critical relationships with auto manufacturers and retailers. After Howard Stern announced his intention to leave terrestrial radio, we were aware that his representatives were having conversations with XM. Given the relatively tenuous state of Sirius' business at that time, and our weakness as compared to XM, we were concerned that the loss of Howard Stern to XM could prove fatal to Sirius' future business prospects. As proven by subsequent events, including the media attention, the effect on our relationships with OEMs and retailers, and the effect on our subscriber base, the signing of Howard Stern was a unique event in the history of our company; nothing before or since has had the same impact.

Disruption

22. Mr. Butson's testimony also suggests that the rate increase proposed by SoundExchange would not be disruptive to our business. See Butson WDT at 3-4. That testimony is wrong, for multiple reasons.

23. First, Mr. Butson based his position in large part on the contention that Sirius was "fully funded," which he apparently defined to mean a non-zero cash balance based on

realization of the assumptions in his model. See Butson WDT at 23 (suggesting that Sirius was fully funded because it had \$792 million in available cash to cover \$783 million in anticipated free cash flow losses). Mr. Butson's analysis fails because, as demonstrated below, he has overestimated Sirius' likely revenues by hundreds of millions of dollars per year. More fundamentally, as the CFO of a public company the size of Sirius, I would not approve a budget that contemplated going down to \$9 million in cash. In my view, such a plan would be irresponsible; I believe that most CFOs would concur. Because the consequences of running out of cash would be so severe, my standard is to maintain an available cash reserve of at least \$100 million, as I believe this to be the functional equivalent of zero in light of the size and complexity of Sirius' business and the uncertainties confronting it. Thus, for multiple reasons, Sirius would not be "fully funded" (or even close to it) if the rate increases proposed by SoundExchange were adopted.

24. A more subtle question is the point at which a rate increase from the present approximately 2.5% rate would be disruptive to our business. At the 0.88% sound recording royalty rate proposed in our direct case, our cash position would reach a low of approximately [[] million, providing a prudent cushion for running a still-developing business. As set out in Exhibit 59, we have calculated that, using the same assumptions and forecast model discussed above, a sound recording rate rising as high as [[] would eliminate this safety net, dropping us to the functional zero point in cash reserves discussed above, and would require us to attempt to access the capital markets to fund the rate increase, even assuming no other adverse events or further unanticipated slowdowns.⁶ If we were unable to raise significant additional capital,

⁶ By discussing disruption, I do not mean to suggest in any way that Sirius would consider a rate of [[] or higher to be reasonable or otherwise compliant with the Section 801(b) factors. The testimony that we have submitted demonstrates why rates at those levels

and/or if the cost of doing so were too great, we would be forced to attempt to compensate for the higher rates by cutting back on other necessary expenses or eliminating capital expenditures that contribute to the growth of the business. Any of these courses would be disruptive to our business. For the reasons discussed above, we have determined that the other theoretical option — a price increase -- simply is not viable in the face of competing with free radio. Lastly, from a competitive perspective, terrestrial radio is a free service that accounts for 97% of radio listening today and does not pay a sound recording royalty. As a fledgling service trying to win customers from free radio, any fee disrupts our ability to effectively compete, adversely affecting us and our ability to generate payments to Sound Exchange.

(Continued . . .)

would not be reasonable.

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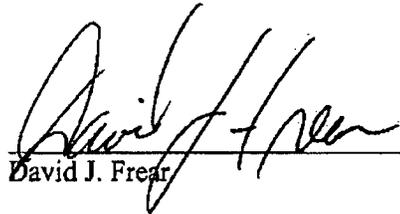
In the Matter of)
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Adjustment of Rates and Terms for)
Preexisting Subscription and Satellite)
Digital Audio Radio Services)
_____)

Docket No. 2006-1 CRB DSTRA

DECLARATION OF DAVID J. FREAR

I, David J. Frear, declare under penalty of perjury that the statements contained in my Written Rebuttal Testimony in the above-captioned matter are true and correct to the best of my knowledge, information and belief. Executed this ^{24th} day of July 2007 at New York, New York.



David J. Frear

SIR EX. 43

**THIS EXHIBIT CONTAINS
RESTRICTED INFORMATION
PURSUANT TO THE DECEMBER 20,
2006 PROTECTIVE ORDER AND
THEREFORE WAS OMITTED FROM
THIS PUBLIC VERSION**

SIR EX. 44



Chrysler Group And SIRIUS Satellite Radio Announce Extensive Factory-Installation Program

- **Over 500,000 Subscribers Expected in First Two Years**
- **One Year of SIRIUS Service to be Included in All Factory Offerings**
- **Factory Availability Across 11 Vehicle Lines**

NEW YORK and AUBURN HILLS, MI – April 6, 2004 – SIRIUS Satellite Radio (NASDAQ: SIRI), known for delivering the very best in commercial-free music and premium sports programming to cars, homes and boats across the country, and the Chrysler Group today announced broad availability of SIRIUS across the 2005 model year lineup of Chrysler, Jeep[®] and Dodge vehicles. In the second half of 2004, factory installations of SIRIUS will expand across 11 vehicle lines for the 2005 model year, including the following popular vehicles:

- Chrysler 300 Series
- Chrysler PT Cruiser
- Chrysler Town and Country
- Chrysler Pacifica
- Dodge Magnum
- Dodge Caravan
- Dodge Ram Pickup
- Dodge Durango
- Dodge Dakota Pickup
- Jeep Grand Cherokee
- Jeep Liberty

"This extensive product rollout is very exciting for SIRIUS, and reaffirms DaimlerChrysler Corporation's commitment as an exclusive partner of SIRIUS," said Joseph P. Clayton, President and CEO, SIRIUS. "We are very pleased to be part of the current product offensive from Chrysler Group."

"The Chrysler Group is proud to offer SIRIUS throughout its vehicle lineup," said Jack Withrow, Director of Vehicle Entertainment and Communications for the Chrysler Group. "We believe the agreement with SIRIUS will set the standard in the automotive industry and provide a compelling entertainment proposition that our customers will appreciate."

Further information regarding SIRIUS' relationship with DaimlerChrysler Corporation is contained in a Current Report on Form 8-K filed by SIRIUS Satellite Radio Inc. with the United States Securities and Exchange Commission.

About SIRIUS

SIRIUS provides listeners with over 110 channels of the best commercial-free music, sports, information and entertainment, with digital quality sound coast-to-coast, broadcast daily from New York City, Los Angeles, Nashville, New Orleans, Houston and Daytona. SIRIUS offers over 60, 100% commercial-free, music channels featuring multiple categories of Pop, Rock, Country, Hip-Hop, R&B, Dance, Jazz, Classical and Latin music, along with more than 50 channels of world-class sports, news, talk entertainment, traffic and weather for a monthly subscription fee of only \$12.95, with greater savings for upfront payments of multiple months or a year or more. SIRIUS also broadcasts live play-by-play games of the NHL, NBA and NFL, and is the official satellite radio partner of the NFL.

SIRIUS Satellite Radio products for the car, truck, home, RV and boat are manufactured by Alpine, Audiovox, Blaupunkt, Clarion, Eclipse, Jensen, JVC, Kenwood and Panasonic, and can be purchased at major retailers including Best Buy, Car Toys, Circuit City, Crutchfield, Good Guys, Sears, Tweeter and Ultimate Electronics, along with RadioShack and DISH Network outlets in mid-2004.

SIRIUS' exclusive automotive partners DaimlerChrysler, Ford and BMW represent over 40% of

SIR Ex. 44

new cars and light trucks sold annually in the United States. Automotive brands currently offering SIRIUS radios in select new car models include BMW, MINI, Chrysler, Dodge, Jeep, Nissan, Infiniti, Mazda, Audi, Ford, Lincoln-Mercury, Mercedes-Benz and Volkswagen. Automotive brands that have announced plans to offer SIRIUS radios in select models include Jaguar, Volvo, Land Rover and Aston Martin. In 2004, SIRIUS radios are expected to be available in nearly 80 different car models, with over 50 of them factory programs. Also, Hertz currently offers SIRIUS in 29 vehicle models at 53 major locations around the country. In addition, Penske Companies – Penske Auto Group, United Auto Group and Penske Trucking – are offering SIRIUS radios as a factory installed option, where available, in their cars and trucks through their dealerships.

Genmar Holdings, the world's largest manufacturer of recreational boats, Formula Boats and Winnebago, the leading supplier of recreational vehicles and motor homes, also offer SIRIUS.

Click on sirius.com to listen to SIRIUS live, or to find a SIRIUS retailer or car dealer in your area.

Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance with respect to SIRIUS Satellite Radio Inc. are not historical facts and may be forward-looking and, accordingly, such statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in any forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission. Among the key factors that have a direct bearing on our results of operations are: our dependence upon third parties to manufacture, distribute, market and sell SIRIUS radios and components for those radios; the unproven market for our service; our competitive position and any events which affect the useful life of our satellites.

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SIRIUS Satellite Radio Now Available As Factory Installed Option On All-New 2005 Chrysler 300 And Dodge Magnum Vehicles

New lower MSRP of \$195 Includes One-Year Subscription

NEW YORK – May 3, 2004 - SIRIUS Satellite Radio (NASDAQ: SIRI), known for delivering the very best in commercial-free music and premium broadcast entertainment to cars and homes across the country, today announced that the Chrysler Group's all-new 2005 Chrysler 300 and Dodge Magnum, will feature SIRIUS Satellite Radio as a factory-installed option, with an included one-year subscription, for \$195 Manufacturer's Suggested Retail Price (MSRP).

"This is very exciting for SIRIUS, and marks the first of our 2005 model year factory launches with Chrysler Group," said Doug Wilsterman, Senior Vice President of OEM Automotive for SIRIUS. "We are extremely pleased to participate in Chrysler Group's 2005 model year product offensive, and we believe that customers will recognize Chrysler's \$195 pricing of the SIRIUS option as an industry standard and compelling value proposition."

The Chrysler 300's striking new proportions combine classic American design and power with proven DaimlerChrysler technology. Marking the brand's return to a rear-wheel-drive, V-8 powered automobile for the first time in more than a decade, the Chrysler 300 pays homage, albeit in a very contemporary way, to the first "letter series" Chrysler 300s, which combined performance and prestige like no other vehicle at the time. The Dodge Magnum is the new shape of American muscle, celebrating what American muscle cars were in the past, but with a design and packaging configuration that charges into the future. This category of vehicle offers the right formula of proportions, packaging, performance and appearance that set them far apart from the competition.

"The Chrysler Group is pleased to offer such a competitively priced entertainment package that will enhance our customers driving experience," said Jack Withrow, Director of Vehicle Entertainment and Communications for the Chrysler Group.

All Chrysler 300 and Dodge Magnum customers will be able to order SIRIUS as a factory-installed option for \$195, including a one-year subscription with access to SIRIUS' over 60 commercial-free music channels and more than 50 news, sports, entertainment, traffic and weather channels. As an additional benefit offered exclusively to Chrysler customers, there is no activation fee to initiate the service after vehicle delivery. Customers also may stream SIRIUS music programming over a high-speed internet connection at their homes or offices at no additional charge.

Consumers selecting the SIRIUS Satellite Radio option in their Chrysler 300 or Dodge Magnum will receive a small, mouse-like antenna mounted to the roof of the vehicle. Station selection with the radio is easy, using the same familiar method as selecting an AM or FM station. Consumers will be able to scan channels or select pre-set buttons for their favorite channels. Consumers will also be able to search both by music category and channel, which will be displayed on the radio screen.

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SIRIUS provides listeners with over 110 channels of the best commercial-free music, sports, information and entertainment, with digital quality sound coast-to-coast, broadcast daily from New York City, Los Angeles, Nashville, New Orleans, Houston and Daytona. SIRIUS offers over 60, 100% commercial-free, music channels featuring multiple categories of Pop, Rock, Country, Hip-Hop, R&B, Dance, Jazz, Classical and Latin music, along with more than 50 channels of world-class sports, news, talk entertainment, traffic and weather for a monthly subscription fee of only \$12.95, with greater savings for upfront payments of multiple months or a year or more. SIRIUS also broadcasts live play-by-play games of the NHL, NBA and NFL, and is the official satellite radio partner of the NFL.

SIRIUS Satellite Radio products for the car, truck, home, RV and boat are manufactured by Alpine, Audiovox, Blaupunkt, Clarion, Eclipse, Jensen, JVC, Kenwood, Panasonic and U.S.

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Electronics, and can be purchased at major retailers including Best Buy, Car Toys, Circuit City, Crutchfield, Good Guys, Sears, Tweeter and Ultimate Electronics, along with Wal-Mart, RadioShack and DISH Network outlets in mid-2004.

SIRIUS' exclusive automotive partners DaimlerChrysler, Ford and BMW represent over 40% of new cars and light trucks sold annually in the United States. Automotive brands currently offering SIRIUS radios in select new car models include BMW, MINI, Chrysler, Dodge, Jeep, Nissan, Infiniti, Mazda, Audi, Ford, Lincoln-Mercury, Mercedes-Benz and Volkswagen. Automotive brands that have announced plans to offer SIRIUS radios in select models include Jaguar, Volvo, Land Rover and Aston Martin. In 2004, SIRIUS radios are expected to be available in nearly 80 different car models, with over 50 of them factory programs. Also, Hertz currently offers SIRIUS in 29 vehicle models at 53 major locations around the country. In addition, Penske Companies - Penske Auto Group, United Auto Group and Penske Trucking - are offering SIRIUS radios as a factory installed option, where available, in their cars and trucks through their dealerships.

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Click on sirius.com to listen to SIRIUS live, or to find a SIRIUS retailer or car dealer in your area.

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CBS Radio Sues Howard Stern, Agent Over Sirius Move (Update4)

By Patricia Hurtado and Greg Bensinger

Feb. 28 (Bloomberg) -- CBS Radio sued Howard Stern for breach of contract and fraud, accusing the talk-show host of enriching himself by using CBS airtime to promote his pending move to Sirius Satellite Radio Inc.

The suit, filed in the New York Supreme Court, seeks at least \$218 million in restitution and unspecified punitive damages from Stern and his agent, New York-based CBS said today. Sirius, the No. 2 U.S. pay-radio company, was also named in the 43-page complaint.

The suit pits CBS Corp. Chairman Sumner Redstone against his former lieutenant Mel Karmazin, who is now chief executive officer at Sirius. Sirius lured Stern from CBS with a package worth more than \$500 million over five years, helping make Sirius a household name and bolstering its subscribers. Stern, who became a national celebrity in his two decades at CBS, discussed his move during his daily talk show.

"Stern misappropriated millions of dollars worth of CBS Radio airtime for his own financial benefit and the financial benefit of Don Buchwald, his agent, and Sirius in contravention of repeated directives by CBS Radio," the suit said.

CBS Radio said Stern "repeatedly and willfully" breached his contract during his final months at the No. 2 broadcast radio network. The suit says Stern misled CBS and indicated he would be staying on at the network.

Stern earlier today preempted the suit, which was reported earlier by the New York Post, and said CBS CEO Leslie Moonves was well aware of his plans. Stern said the suit was part of a "personal vendetta" against him.

Moonves, speaking at a Bear Stearns Cos. conference in Palm Beach, Florida, wouldn't comment on the suit.

'Melodrama'

Stern and CBS sparred publicly even before he left the radio network. In November, Stern was suspended for a day. Stern said it was for talking too much about his pending move to Sirius.

"This was a melodrama that was played out every day for four hours on public radio," Michael J. Kump, an entertainment attorney in Los Angeles at Greenberg Glusker Fields Claman Machtinger & Kinsella LLP. He isn't involved in the case. "Stern will argue that CBS waived any of these claims by allowing him to remain on the air while publicly promoting his new venture."

CBS Radio, which changed its name from Infinity Broadcasting, is part of the new CBS that split from Viacom Inc. in January. CBS Radio estimated it will lose \$100 million in annual advertising sales from Stern's departure. CBS shares dropped 37 cents to \$24.46 today in New York Stock Exchange composite trading and are up 1.7 percent this year.

Revenue at the radio unit, which ranks second to Clear Channel Communications Inc., slipped 1 percent to \$543.5 million in the fourth quarter.

Stock Payments

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Shares of Sirius, which ranks second to XM Satellite Radio Holdings Inc., fell 12 cents, or 2.3 percent, to \$5.11 in Nasdaq Stock Market composite trading. The stock fell 8.7 percent on Feb. 17 after the company posted a record fourth-quarter loss, widened by ramped-up spending on celebrity hosts such as Stern.

Sirius paid Stern and his agent partially in stock. In January they gained the right to sell as much as \$225 million of shares. CBS alleges that Stern ``fraudulently concealed his interest" in the shares while promoting Sirius.

``CBS may be shooting itself in the foot because now more people will tune into the Howard Stern shows to hear the other side," said Michael Plonsker, an entertainment partner with the law firm of Alschuler Grossman Stein & Kahan LLP in Los Angeles. He isn't involved in the suit.

CBS said in the suit that Stern flourished during his years with the broadcast network. His show went from one station in 1985 to more than 60 at its peak, the company said. His salary catapulted to \$15 million in 2005 from \$705,000 in 1985, and he made an added \$8.4 million in syndication license fees last year from CBS affiliates.

Indecency

Stern left CBS in part because he was being restricted by federal rules curbing indecency. CBS said it paid more than \$2 million in fines arising from Stern's comments.

CBS said it spent more than \$8 million to restructure the format of several stations after Buchwald indicated Stern would renew his contract. Stern also was added to stations in nine markets, where revenue has since tumbled, CBS said.

``CBS would never have assumed the extraordinary risks" of introducing Stern's program into these markets, ``if it had known that Stern was actively engaged in negotiating a satellite radio deal," the suit says.

Karmazin

By adding Sirius to the suit, CBS is challenging its former leader, Karmazin. Karmazin left Viacom in June 2004 after four years of tension with Redstone over who made day-to-day decisions at the media company, then the third-largest in the U.S. Karmazin, who began his career in radio advertising sales in 1967, led Infinity before the radio broadcaster was bought by Westinghouse Electric Corp., which later took the CBS name. Viacom acquired CBS for \$43.4 billion.

Karmazin announced in November 2004 that he was joining Sirius, a month after the pay-radio station enticed Stern to join. Stern stayed until his contract expired, starting at Sirius on Jan. 9.

``There were no secret negotiations, I spoke about it on the radio," Stern said during a press conference held at his lawyer's office in Manhattan. ``There was public disclosure about the whole thing."

' Good Luck'

Both Moonves and CBS Radio CEO Joel Hollander knew of his pending departure, Stern said.

``They said I misled them, but I've been talking about going on satellite radio for years," he said.

``They gave me permission to go on the air," Stern said. Hollander had advised him not to mention Sirius by name while broadcasting on CBS Radio, Stern said.

Stern said his former employers had seven delete buttons on his tape-delayed program yet never used them to prevent him from speaking about Sirius, which he said he referred to as the ``Eh Eh Radio" while on CBS Radio.

``Les Moonves told me, `I subscribe to Sirius Radio. I am going to be out there listening to you every day. Good luck, Howard.'" Stern said.

To contact the reporter on this story: Patricia Hurtado in New York at pathurtado@bloomberg.net ;

Greg Bensinger in New York at gbensinger1@bloomberg.net .

Last Updated: February 28, 2006 21:13 EST



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SIRIUS SATELLITE RADIO INC

FORM 10-K
(Annual Report)

Filed 3/1/2007 For Period Ending 12/31/2006

Address	1221 AVENUE OF THE AMERICAS 36TH FLOOR NEW YORK, New York 10020
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Industry	Broadcasting & Cable TV
Sector	Services
Fiscal Year	12/31

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR FISCAL YEAR ENDED DECEMBER 31, 2006
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 0-24710

SIRIUS SATELLITE RADIO INC.

(Exact name of registrant in its charter)

Delaware
(State or other jurisdiction of
incorporation of organization)

52-1700207
(I.R.S. Employer Identification Number)

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

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class:</u>	<u>Name of each exchange on which registered:</u>
Common Stock, par value \$0.001 per share	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).
Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2006 was \$6,152,448,426. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

The number of shares of the registrant's common stock outstanding as of February 27, 2007 was 1,459,922,870.

Documents Incorporated by Reference

Information included in our definitive proxy statement for our 2007 annual meeting of stockholders to be held on Thursday, May 24, 2007 is incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

**SIRIUS SATELLITE RADIO INC.
2006 FORM 10-K ANNUAL REPORT
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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 Annual Report on Form 10-K 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 Annual Report on Form 10-K and in other reports and documents published by us from time to time, particularly the risk factors described under “Business—Risk Factors” in Item 1A of this Annual Report on Form 10-K.

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

- our pending merger with XM Satellite Radio Holdings Inc. (“XM Radio”), including related uncertainties and risks and the impact on our business if the merger is not completed;
- the useful life of our satellites, which have experienced circuit failures on their solar arrays and other component failures and are not insured;
- our dependence upon third parties, including manufacturers of SIRIUS radios, retailers, automakers and programming providers; and
- our competitive position versus other forms of audio and video entertainment including terrestrial radio, internet radio, cell phones, XM Radio and emerging next generation networks and technologies.

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. 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.

PART I

Item 1. Business

On February 19, 2007, we and XM Radio entered into an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which we and XM Radio will combine our businesses through a merger of XM Radio and a newly formed, wholly owned subsidiary of us (the “Merger”). Our Board of Directors and the Board of Directors of XM Radio have approved the Merger and the Merger Agreement.

The completion of the Merger is subject to various closing conditions, including obtaining the approval of our stockholders and XM Radio’s stockholders and receiving certain regulatory and antitrust approvals (including from the Federal Communications Commission and under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended). See “Pending Merger with XM Radio” for a further description of the Merger. The information presented in this Annual Report on Form 10-K does not give effect to the Merger.

We are a satellite radio provider in the United States. We offer over 130 channels to our subscribers—69 channels of 100% commercial-free music and 65 channels of sports, news, talk, entertainment, traffic, weather and

data content. The core of our enterprise is programming; we are committed to creating the best programming in all of radio.

Our primary source of revenue is subscription fees, with most of our customers subscribing to SIRIUS on an annual or a monthly basis. As of December 31, 2006, we had 6,024,555 subscribers. In addition, we derive revenue from activation fees, the sale of advertising on some of our non-music channels, and the direct sale of SIRIUS radios and accessories.

Most of our subscribers receive our service through SIRIUS radios, which are sold primarily by automakers, consumer electronics retailers and mobile audio dealers and through our website. Various brands of SIRIUS radios are available in more than 25,000 retail locations, including Best Buy, Circuit City, Crutchfield, Costco, Target, Wal-Mart and through RadioShack on an exclusive basis.

As of December 31, 2006, SIRIUS radios were available as a factory and dealer-installed option in 132 vehicle models and as a dealer only-installed option in 17 vehicle models. We have agreements with DaimlerChrysler, Ford, Mitsubishi, BMW, Volkswagen, Kia, Bentley and Rolls-Royce to offer SIRIUS radios as factory or dealer-installed equipment in their vehicles, including Chrysler, Dodge, Jeep, Mercedes, Ford, Lincoln, Mercury, Volvo, Mazda, Jaguar, Volkswagen, Audi, Kia, Land Rover, Mitsubishi, BMW, MINI, Bentley and Rolls-Royce vehicles and Freightliner and Sterling heavy trucks. We also have relationships with Nissan, Infiniti, Toyota, Lexus, Scion and Subaru to offer SIRIUS radios as factory or dealer-installed equipment. In 2006, we signed new agreements with Volkswagen/Audi, Kia, Bentley and Rolls-Royce. SIRIUS radios are also offered to renters of Hertz vehicles at airport locations nationwide.

We offer our programming over multiple platforms in addition to our satellite and terrestrial repeater network. In 2006, we launched SIRIUS Internet Radio, which we refer to as SIR. SIR is an internet service offering a CD-quality, Internet-only version of our service. SIR delivers a simulcast of more than 75 channels of our talk, entertainment, sports and music programming. Our music channels are also available to certain DISH satellite television subscribers, and a select number of our music channels are available to certain subscribers to the Nationwide Sprint PCS Network.

We also offer, or are developing, ancillary services. In 2006, we introduced a service that provides graphic information as to road closings, traffic flow and incident data to consumers with in-vehicle navigation systems and a marine weather service that provides a range of information, including sea surface temperatures, wave heights and extended forecasts, to recreational boaters. In 2007, we plan to introduce a video service that will offer premium video content designed primarily for children in the backseat of vehicles.

In 2005, SIRIUS Canada Inc., a Canadian corporation owned by us, Canadian Broadcasting Corporation, and Standard Radio Inc., launched service in Canada. SIRIUS Canada currently offers 110 channels of commercial-free music and news, sports, talk and entertainment programming, including 11 channels of Canadian content. As of February 13, 2007, SIRIUS Canada had over 300,000 subscribers.

Pending Merger with XM Radio

On February 19, 2007, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with newly XM Satellite Radio Holdings Inc. Pursuant to the Merger Agreement we and XM Radio will combine our businesses through a merger of XM Radio and a newly formed, wholly owned subsidiary of ours (the "Merger").

Each of SIRIUS and XM has made customary representations and warranties and covenants in the Merger Agreement. The completion of the Merger is subject to various closing conditions, including obtaining the approval of our and XM Radio's stockholders and receiving certain regulatory and antitrust approvals (including from the Federal Communications Commission and under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended). The Merger is intended to qualify as a reorganization for federal income tax purposes.

At the effective time of the Merger (the "Effective Time"), by virtue of the Merger and without any action on the part of any stockholder, each share of common stock of XM Radio (the "XM Common Stock") issued and outstanding immediately prior to the Effective Time will generally be converted into the right to receive 4.6 shares

of our common stock. Each share of Series A Convertible Preferred Stock of XM Radio issued and outstanding immediately prior to the Effective Time will be similarly converted at the Effective Time into the right to receive 4.6 shares of a newly-designated series of our preferred stock having substantially the same powers, designations, preferences, rights and qualifications, limitations and restrictions as the stock so converted.

Mel Karmazin, currently our chief executive officer, will become chief executive officer of the combined company and Gary M. Parsons, currently chairman of the board of directors of XM Radio, will become chairman of the board of directors of the combined company. The combined company's board of directors will consist of 12 directors, including Messrs. Karmazin and Parsons, four independent members designated by each of SIRIUS and XM Radio, as well as one representative of each of General Motors and American Honda.

The Merger Agreement contains certain termination rights for both us and XM Radio. If the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement, we or XM Radio, as the case may be, will be required to pay the other a termination fee of \$175,000,000.

Our Board of Directors and the Board of Directors of XM Radio has approved the Merger and the Merger Agreement.

This description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, which is filed as Exhibit 2.1 to the Current Report on Form 8-K dated February 21, 2007, and is incorporated herein by reference.

The Merger Agreement contains representations and warranties that SIRIUS and XM Radio made to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the Merger Agreement between SIRIUS and XM Radio and may be subject to important qualifications and limitations agreed to by SIRIUS and XM Radio in connection with negotiating its terms. Moreover, the representations and warranties may be subject to a contractual standard of materiality that may be different from what may be viewed as material to stockholders, or may have been used for the purpose of allocating risk between SIRIUS and XM Radio rather than establishing matters as facts. For the foregoing reasons, no person should rely on the representations and warranties as statements of factual information at the time they were made or otherwise.

Programming

We offer a dynamic programming lineup of 69 channels of 100% commercial-free music; 54 channels of sports, news, talk, and entertainment; 11 channels of traffic and weather; and informational data services. Our programming lineup changes from time to time as we strive to attract new subscribers, to create content that appeals to a broad range of audiences and to satisfy our existing subscribers.

Music Programming

Our music channels offer an extensive selection of music genres—from rock, pop and hip-hop to country, dance, jazz, Latin and classical. Within each genre we offer a range of formats, styles and recordings, many of which are not available on terrestrial radio.

All of our music channels are broadcast commercial-free. Our channels are produced, programmed and hosted by a team of experts in their fields, including musical performers such as Eminem, Jimmy Buffett, Little Steven Van Zandt, and other unique personalities such as Cousin Brucie, Tony Hawk, and the original MTV veejays. Each channel is operated as an individual radio station, with a distinct format and branding.

In 2006,

- we launched Metropolitan Opera Radio, consisting of live and archived operas from the famed Metropolitan Opera in New York City;
- we broadcasted concerts from Jimmy Buffett's Party at The End of the World tour exclusively on our Radio Margaritaville channel;
- we broadcasted the final performance at New York's legendary CBGBs Club; and

- we broadcasted numerous live performances originating from our broadcast facility in Rockefeller Center.

In addition to our regular channels, we offer channels focused on the works of specific artists. During 2006, such special feature channels were dedicated to the music of Elvis Presley, Bruce Springsteen, Pink Floyd, The Rolling Stones, The Who and George Strait. Some of these feature channels are available only for a limited time.

In January 2007, we announced a partnership with Frank Sinatra Enterprises to create a new radio channel dedicated to the music, time and spirit of Frank Sinatra.

Sports Programming

Live play-by-play sports is an important part of our programming strategy. We are the Official Satellite Radio Partner of the National Football League, with exclusive satellite radio rights to use the NFL logo and collective NFL team trademarks. We carry all NFL regular season, pre-season and post-season games. In most cases, we carry both the home and visiting team game broadcasts, as well as Spanish language broadcasts of select games. We also carry the Super Bowl, which we broadcasted in 2007 in seven languages. We also produce and broadcast "SIRIUS NFL Radio," an around-the-clock exclusive channel of NFL content for our subscribers. Our agreement with the NFL expires at the end of the 2010-2011 NFL season.

Starting in 2007, we broadcast live all NASCAR Nextel Cup Series, NASCAR Busch Series and NASCAR Craftsman Truck Series races over a five-year period. We have created "SIRIUS NASCAR Radio," a new around-the-clock channel of exclusive NASCAR-related programming, including Tony Stewart Live and race coverage. In addition to the live race broadcasts, we take fans into the cars and pits by devoting additional "Driver2Crew Chatter" channels that carry the driver-to-crew communications of up to 10 different race teams during NASCAR Nextel Cup Series races. We are the Official Satellite Radio Partner of NASCAR with exclusive trademark and marketing rights and the right to sell advertising time on the NASCAR channel and during races.

We are the exclusive Official Satellite Radio Partner of the NBA and carry NBA Radio, a talk channel devoted to the NBA. We transmit live play-by-play broadcasts of more than 1,000 NBA games during each season, including the NBA playoffs and the NBA finals.

We also broadcast live play-by-play broadcasts of up to 1,000 NHL games each season, as well as the Stanley Cup playoffs and finals through the 2006-2007 season. We are the Official Satellite Radio Partner of the NHL through the 2006-2007 season.

We expanded our international soccer offerings in 2006. As the official satellite radio broadcaster of Barclays English Premier League soccer, we have the right to air matches of the top 20 clubs in the United Kingdom, including Manchester United. We are also the exclusive satellite radio provider of the League's Chelsea football club. Every Chelsea match features an exclusive pre-game show co-hosted by soccer giant Giorgio Chinaglia. Our soccer coverage also includes live matches from the UEFA Champions League.

We carry extensive live play-by-play coverage of college football and basketball games. Our broadcasts include football, basketball and other sports from schools in 20 NCAA Division I conferences. We also have the right to broadcast all games of the NCAA Division I men's basketball tournament through 2009.

Our sports channels include ESPN Radio, ESPN News and ESPN's Spanish language programming, ESPN Deportes.

Talk and Entertainment Programming

We offer 30 talk and entertainment channels for a variety of audiences.

In January 2006, Howard Stern moved his radio show to SIRIUS from terrestrial radio as part of two channels being programmed by Howard Stern and us. Our agreement with Stern expires on December 31, 2010. Our

talk radio offerings also feature dozens of popular talk personalities, most creating radio shows that air exclusively on SIRIUS, including Senator Bill Bradley, Deepak Chopra, Richard Simmons, Martha Stewart and Barbara Walters. Our diverse spectrum of talk programming is a significant differentiator from terrestrial radio.

Our comedy channels present a range of humor on the channels Laugh Break, Blue Collar Comedy and Raw Dog Comedy and our other entertainment channels include Cosmo Radio, MAXIM Radio, Road Dog Trucking Radio, Playboy Radio and Radio Disney – all exclusively broadcast on SIRIUS. In January 2007, we announced plans to launch “The Foxxhole”, an exclusive urban comedy, entertainment and lifestyle channel with Jamie Foxx.

We also broadcast the Catholic Channel which is programmed with the assistance of the Archdiocese of New York.

News and Information Programming

We offer 25 news and information channels. These channels present a range of national, international and financial news, including news from BBC World News, Bloomberg Radio, CNBC, CNN, FOX News, NPR and the World Radio Network.

We offer continuous, local traffic reports for 20 metropolitan markets throughout the United States. We broadcast these reports, together with local weather reports from The Weather Channel, on 11 of our channels.

We broadcast national weather reports produced by The Weather Channel on our weather and emergency channel, which also alerts listeners to key information during civil and natural emergencies. In addition, we insert appropriate emergency announcements and broadcasts into some or all of our channels and participate in the national Emergency Alert System.

Distribution of SIRIUS Radios

Retail

SIRIUS radios are marketed and distributed through major national and regional retailers, including Best Buy, Circuit City, Crutchfield, Costco, Target and Wal-Mart. SIRIUS radios are also distributed on an exclusive basis by RadioShack. We develop in-store merchandising materials and provide sales force training for several retailers. SIRIUS radios are also available nationwide at various truck stops. We also sell SIRIUS radios directly to consumers through our website.

Automakers

Various automakers factory-install and dealer-install SIRIUS radios in their vehicles. As of December 31, 2006, SIRIUS radios were available as a factory or dealer-installed option in 132 vehicle models and as a dealer only-installed option in 17 vehicle models. Many automakers include a subscription to our radio service in the sale or lease price of their vehicles. In many cases, we receive subscription payments from automakers in advance of the activation of our service. We share with various automakers a portion of the revenues we derive from subscribers using vehicles equipped to receive our service. We also reimburse various automakers for certain costs associated with the SIRIUS radios installed in their vehicles, including hardware costs, tooling expenses and promotional and advertising expenses.

Automakers have begun to incorporate SIRIUS into their national and regional advertising. In 2006, DaimlerChrysler and Ford each implemented a national advertising campaign with prominent references to SIRIUS. We expect advertising by automakers to increase as SIRIUS radios become available in a wider array of vehicle models.

DaimlerChrysler. We have an agreement with DaimlerChrysler Corporation, Mercedes-Benz USA, Inc. and Freightliner LLC, which continues until September 2012. This agreement covers the distribution of our service on an exclusive basis in all cars and light trucks manufactured by DaimlerChrysler and Mercedes-Benz as well as Freightliner and Sterling heavy trucks. We expect DaimlerChrysler to include SIRIUS radios as a factory-installed feature in approximately 40% of its vehicles during the 2007 model year. In addition, Mercedes-Benz has agreed to

include SIRIUS radios as standard equipment in all 2007 model year Mercedes SL Class, CL Class, AMG branded and V12 engine vehicles.

Ford. Our agreement with Ford Motor Company and certain of its affiliates provides for an exclusive relationship until September 2011 or, at Ford's option, until September 2013. Beginning in January 2009, Ford may elect to become nonexclusive under the agreement, in which case Ford would forfeit its significant future economic benefits. This agreement covers all Ford brands, including Ford, Lincoln, Mercury, Jaguar, Volvo, Land Rover, Aston Martin and Mazda. At the end of 2006, SIRIUS radios were available as a factory-installed option in 19 Ford, Lincoln and Mercury vehicle lines.

BMW. We have an agreement with BMW of North America which provides for an exclusive relationship until August 2008. This agreement covers all BMW and MINI vehicles.

Volkswagen and Audi. In March 2006, we entered into a new exclusive agreement with Volkswagen of America, Inc. through July 2012 or, at Volkswagen's option, through July 2015. This agreement covers all Volkswagen and Audi vehicles.

Other Automakers. In April 2006, we entered into an exclusive agreement with Kia Motors America, Inc. Kia has agreed to include SIRIUS radios as standard, factory-installed equipment in all of its vehicles commencing in the 2009 model year. Our agreement with Kia extends through 2014 or, at Kia's option, through 2017.

We have an agreement with Mitsubishi Motors North America which provides for an exclusive relationship through February 2010.

In October 2006, we entered into an agreement with Bentley Motors Inc. Bentley will begin including SIRIUS radios as standard, factory-installed equipment in its vehicles commencing in the 2008 model year and continuing through 2012. Each Bentley vehicle equipped with a SIRIUS radio will be sold with a lifetime subscription included in the price of the car.

We also have an agreement with Rolls-Royce Motor Cars. Rolls-Royce has agreed to include SIRIUS radios as standard, factory-installed equipment in all of its vehicles through 2008. Each Rolls-Royce vehicle will be sold with a lifetime subscription included in the price of the car.

SIRIUS radios are also available as a factory or dealer-installed option in various vehicle models offered by Nissan, Infiniti, Toyota, Lexus, Scion and Subaru.

Special Markets

Trucks. SIRIUS radios are available nationwide at various truck stops, including Travel Centers of America, Flying J, Petro, Pilot Travel Centers and Interstate Connections locations. Freightliner, Sterling, Peterbilt, Kenworth, Volvo and International offer SIRIUS radios as a factory-installed option on the trucks they manufacture.

Boats. Various recreational boat builders, including Sea Ray, Four Winns, Chaparral, Larson, Glastron, Ranger and Formula, offer SIRIUS radios and a prepaid subscription to our service as a standard or optional feature on their boats.

Recreational Vehicles. Several leading manufacturers of recreational vehicles, including Fleetwood, Monaco, Winnebago, National, Tiffin and Alfa Leisure, offer SIRIUS radios as a factory-installed option.

Hertz

We have an agreement with Hertz Corporation to make SIRIUS radios available as an option to its rental car customers. In some cases, our service is included as part of the rental price of Hertz vehicles. In other cases, our service is offered as a premium feature to Hertz customers for a daily fee. As of December 31, 2006, approximately 24,000 vehicles with SIRIUS radios were available to renters of 55 of Hertz's vehicle models. Hertz offers SIRIUS radios at airport locations nationwide.

The SIRIUS System

Our satellite radio system is designed to provide clear reception in most areas despite variations in terrain, buildings and other obstructions. Subscribers can receive our transmissions in all outdoor locations where the

satellite radio receiver has an unobstructed line-of-sight with one of our satellites or is within range of one of our terrestrial repeaters.

The FCC has allocated the portion of the S-band located between 2320 MHz and 2345 MHz exclusively for satellite radio. We use 12.5 MHz of bandwidth in the 2320.0-2332.5 MHz frequency to transmit our signals from our satellites to our subscribers. Uplink transmissions (from the ground to our satellites) use 12.5 MHz of bandwidth in the 7060-7072.5 MHz band.

Our satellite radio system consists of three principal components:

- satellites, terrestrial repeaters and other satellite facilities;
- our studios; and
- SIRIUS radios.

We continually monitor our infrastructure and regularly evaluate improvements in technology. For example, a technology known as hierarchical modulation will allow us to offer additional audio channels, as well as advanced services such as data and video, without noticeably affecting our broadcasts. We expect to begin offering services using this technology in 2007. This increase in network capacity will be available through select new SIRIUS radios and will not be available to SIRIUS radios sold prior to the implementation of this technology.

Satellites, Terrestrial Repeaters and Other Satellite Facilities

Satellites. Space Systems/Loral, the manufacturer of our satellites, delivered our three operating satellites to us in 2000, following the completion of in-orbit testing of each satellite. Our fourth, spare satellite was delivered to ground storage in April 2002.

Our existing satellites are of the Loral FS-1300 model series. This family of satellites has a history of reliability with a total of more than 350 years of in-orbit operation time.

Each operating satellite travels in a figure eight pattern extending above and below the equator, and spends approximately 16 hours per day north of the equator. At any time, two of our three satellites operate north of the equator while the third satellite does not transmit as it traverses the portion of the orbit south of the equator. This orbital configuration yields high signal elevation angles, reducing service interruptions from signal blockage.

In June 2006, we entered into an agreement with Space Systems/Loral to design and construct a new satellite. The new satellite is expected to be completed in the fourth quarter of 2008, and launched shortly thereafter. This new satellite will complement our existing in-orbit satellites and will be launched into a geostationary orbit. The redundancy of the resulting constellation configuration is expected to provide enhanced coverage and performance.

We expect to further augment or replace our satellite constellation by 2012. We may elect to augment our operating satellites with our spare satellite or with new satellites that we may purchase to meet our business needs. Decisions regarding our satellite constellation may affect the estimated useful life of our existing satellites, and we may modify the depreciable life accordingly. The cost of replacing our satellites will be substantial.

Our existing satellites have experienced circuit failures on their solar arrays. The circuit failures our satellites have experienced to date do not limit the power of our broadcast signal or affect our current operations. Additional circuit failures could reduce the estimated useful life of our existing in-orbit satellites.

We do not maintain in-orbit insurance policies covering our satellites. We discontinued our in-orbit insurance policies covering our satellites following a review of the health of our satellite constellation, the exclusions from coverage contained in the available insurance, the costs of the available insurance, and the practices of other satellite companies as to in-orbit insurance.

If we are required to launch our spare satellite due to the in-orbit failure of one of our orbiting satellites, our operations would be impaired until such time as we successfully launch and commission our spare satellite, which could take six months or more. If two or more of our satellites fail in orbit in close proximity in time, our operations

could be suspended for at least 24 months. In such event, our business would be materially impacted and we could default on our commitments.

Terrestrial Repeaters . In some areas with high concentrations of tall buildings, such as urban centers, and in tunnels, signals from our satellites may be blocked and reception of our satellite signal can be adversely affected. In many of these areas, we have deployed terrestrial repeaters to supplement our satellite coverage. To date, we have deployed 127 terrestrial repeaters in 95 urban areas. We plan to deploy a significant number of additional terrestrial repeaters in the future.

Other Satellite Facilities . We control and communicate with our satellites from our uplink facility in New Jersey. These activities include routine satellite orbital maneuvers and monitoring of the satellites. We also maintain earth stations in Panama and Ecuador to control and communicate with our satellites.

Studios

Our programming originates from our national broadcast studio in New York City and smaller studios in Houston, Texas; Memphis, Tennessee; Nashville, Tennessee; Cleveland, Ohio; Los Angeles, California; and other locations. The national broadcast studio houses our corporate headquarters, facilities for programming origination, programming personnel and facilities to transmit programming to our orbiting satellites.

Our studios and transmission facilities are 100% digital, resulting in no cumulative distortion to degrade the sound of our music and entertainment programming. Our studios contain state-of-the-art production facilities.

SIRIUS Radios

We do not manufacture, import or distribute SIRIUS radios. We do design, establish specifications for, source parts and components for, and manage various aspects of the logistics and production of SIRIUS radios. We have authorized select manufacturers to produce SIRIUS radios. These radios are distributed under various consumer brands, including the SIRIUS brand. Over time we expect to introduce SIRIUS radios with new features, functionality and form factors.

To facilitate the sale of SIRIUS radios, we subsidize chip sets and a portion of radio manufacturing costs to effectively reduce the price of SIRIUS radios to our subscribers. We expect these subsidies to decrease over time.

In-dash Radios. In-dash radios are integrated into vehicles and allow the user to listen to AM, FM or SIRIUS with the push of a button. The SIRIUS receiver can be built into the radio or connected as a hidden external unit.

In the auto sound aftermarket, in-dash radios are available at retailers nationally. In-dash radios are also available to automakers for factory or dealer installation. When factory-installed, the cost of the SIRIUS radio is generally included in the sticker price of the vehicle and may include a prepaid SIRIUS subscription.

Plug & Play Radios . Plug & Play radios enable subscribers to transport a radio easily to and from their cars, trucks, homes, offices, boats or other locations with available adapter kits. Plug & Play radios adapt to existing audio systems through FM modulation or direct connection and can be easily installed by a retailer or the purchaser. In addition, satellite radio Plug & Play systems designed for commercial truckers are available through participating truck manufacturers, truck dealers and truck stops.

A boom box, which enables our subscribers to use their SIRIUS radios virtually anywhere, is available for various models of Plug & Play radios.

Portable Units . In 2006, we introduced the Stiletto 100, our first satellite radio to provide live reception in portable mode and the first portable satellite radio with WiFi capabilities. The Stiletto 100 allows users to capture, store and replay up to 100 hours of live SIRIUS content or a mix of SIRIUS content and MP3/WMA files. The Stiletto 100 also allows the user to record favorite SIRIUS music content and bookmark and purchase songs through compatible music download and subscription services, providing easy access to SIRIUS music and other content.

FM Modulated Radios . FM modulated radios enable our service to be received in all vehicles with FM radios.

Home and Commercial Units. SIRIUS home units that connect to most home stereo systems are available nationally. In addition, various multi-tuner and multi-zone units are available through commercial dealers and custom installation dealers. These units allow the user to listen to the SIRIUS service from multiple locations within a home or business.

We have also specially-designed SIRIUS home units to interface with multiple audio and video components. In 2006, we introduced the SIRIUS Conductor home system with a wireless controller that displays SIRIUS programming information and controls 12 components in addition to the included receiver from up to 150 feet away. Similarly, the SiriusConnect Home tuner provides a one-cable connection to easily add our service to SIRIUS-ready home systems manufactured by companies such as Eton, Thomson and Rotel.

Many SIRIUS radios include a "replay" feature, allowing listeners to pause, rewind and fast forward music, sports or talk programs. A number of SIRIUS radios also include SIRIUS-Seek, which alerts listeners when selected artists or songs are playing; Game Alert, which prompts listeners when their favorite teams begin a game or when scores change; Game Zone, which lists a listener's favorite team scores on one screen; and one-touch access to traffic and weather reports for select cities.

We signed an agreement with XM Radio to develop a unified standard for satellite radios to enable consumers to purchase one radio capable of receiving both SIRIUS' and XM Radio's services. The technology relating to this unified standard is being developed, funded and will be owned jointly by the two companies. This unified standard is also intended to meet FCC rules that require interoperability of both licensed satellite radio systems.

International

Canada. In December 2005, SIRIUS Canada launched its service in Canada and currently offers 110 channels of commercial-free music and news, sports, talk and entertainment programming, including 11 channels of Canadian content and the Howard Stern 100 channel, for Cdn. \$14.99 per month. As of February 13, 2007, SIRIUS Canada had over 300,000 subscribers. Subscribers to the SIRIUS Canada service are not included in our subscriber counts.

SIRIUS Canada is a Canadian corporation owned by us, Canadian Broadcasting Corporation and Standard Radio Inc. Canadian Broadcasting Corporation is Canada's national public broadcaster and one of its largest cultural institutions, and Standard Radio Inc. is the largest privately held owner of radio stations in Canada. SIRIUS Canada's license to operate a satellite radio service in Canada is subject to a number of conditions, including the requirement that SIRIUS Canada offer a number of qualifying Canadian music and talk channels.

Other regions . We are in discussions with various parties regarding joint ventures in other countries.

Other Opportunities

Traffic and Weather. In 2006, we introduced a service that provides graphic information as to road closings, traffic flow and incident data to consumers with in-vehicle navigation systems. The service reports information for 45 cities that we source from a provider of mapping and traffic data. Additional markets are expected to be introduced as they become available.

In 2006, we launched a marine weather service, featuring on-demand access to detailed information ranging from weather and wave heights to sea surface temperatures, for recreational boaters. The service integrates data information directly into certain marine electronics products. This marine weather service covers the 48 contiguous states and waters extending hundreds of miles into the Atlantic and Pacific Oceans, Gulf of Mexico and Caribbean.

SIRIUS Via Mobile Phones. In September 2005, Sprint began offering a SIRIUS music service to its subscribers through a built-in media player on Sprint PCS VisionSM Multimedia Phones for \$6.95 per month, a portion of which we receive. This service includes access to 20 commercial-free SIRIUS music channels, plus a channel devoted to artist interviews and performances. Subscribers to the Sprint service are not included in our subscriber counts.

Internet Radio. We offer SIRIUS subscribers the ability to listen to our music channels and select non-music channels over the Internet as part of our base subscription price. In 2006, we launched SIRIUS Internet Radio, which we refer to as SIR. SIR is a subscription-based internet service offering a CD-quality, Internet-only version of our service. SIR delivers a simulcast of more than 75 channels of our talk, entertainment, sports and music programming. We plan to add additional content to our internet offerings in the future. Subscribers to SIR are included in our subscriber counts.

DISH Network . We offer our music channels to subscribers as part of certain programming packages of the DISH Network satellite television service.

Video. In 2007, we plan to introduce a video service that will offer premium video content designed primarily for children in the backseat of vehicles. Introduction of the service will be dependent upon several factors, including the development and implementation of new technology and the timing of new product introductions by distributors. We cannot predict with certainty when this service will be introduced.

Competition

We face competition for listeners, consumer electronics and audio spending, and advertising dollars. In addition to pre-recorded entertainment purchased or playing in cars, homes and using portable players, we compete most directly with the following services:

Traditional AM/FM Radio . Unlike SIRIUS radio, traditional AM/FM radio has had a well established market for its services for many years and offers free broadcast reception paid for by commercial advertising rather than by a subscription fee. Also, many radio stations offer information programming of a local nature, such as local news and sports, which we do not offer as effectively as local radio. The AM/FM radio broadcasting industry is highly competitive with respect to listeners and advertising revenues. Some radio stations also have begun reducing the number of commercials per hour, expanding the range of music played on the air and experimenting with new formats in order to compete with us. Several major radio companies have launched advertising campaigns designed to assert the benefits of traditional local AM/FM radio. Radio comes as a standard feature in every vehicle manufactured without an additional cost to the consumer.

Digital, or HD, Radio. While most traditional AM/FM radio stations broadcast by means of analog signals, the radio industry has made significant strides in rolling out advanced digital transmission technology. Digital broadcasting offers higher sound quality than traditional analog signals and the multicast of as many as five stations per frequency, significantly increasing the quality and quantity of content available to consumers. Digital radio broadcast services have been expanding, and an increasing number of radio stations in the U.S. have begun digital broadcasting or are in the process of converting to digital broadcasting. Over 1,150 radio stations in the United States currently broadcast digitally. Like with traditional radio, digital radio is generally offered to subscribers without a service charge. BMW recently became the first automaker to offer factory-installed HD digital radio receivers as an option across all of its 2007 model year vehicles, and retail HD digital radios are available nationwide at many large retailers.

A number of leading radio broadcasters have joined together to form the HD Digital Radio Alliance to accelerate the successful rollout of digital radio. The HD Digital Radio Alliance has announced a \$250 million on-air advertising campaign to spur the adoption of digital radio.

XM Radio . XM Radio is the other FCC licensee for satellite radio service in the United States. XM Radio has announced that it had 7,628,552 subscribers as of December 31, 2006. XM Radio broadcasts certain programming that we do not offer and is offered on various car model brands which do not also offer SIRIUS radios.

Digital Music Services and Other Consumer Electronic Devices. We face vigorous competition from various services offering digital music products and services, including subscription music services, free peer-to-peer music services and free streaming of digital content via the Internet.

Internet radio broadcasts have no geographic limitations and can provide listeners with radio programming from around the country and the world. We expect that improvements from higher bandwidths, faster modems and wider programming selections may make Internet radio an even more significant competitor for listening in the home and office. Technologies like WiMax will also make internet radio more pervasive. In addition to the many free Internet streams offered by radio companies like Clear Channel, CBS Radio or other smaller companies, subscription Internet music services, such as Yahoo Music and Napster, offer unlimited and fully-customizable play lists for a small fixed fee per month. These services may be used for listening at PCs or home media centers.

The Apple iPod®, a portable digital music player, allows users to convert music on compact discs to digital files and to download and purchase music and video through Apple's iTunes® Music Store, which features over 2 million songs. Apple sold 46.4 million iPods® during the last four quarters. iPods® are compatible with many car stereos and home speaker systems. Apple has reached agreement with automobile manufacturers to preinstall equipment in vehicles which will allow users to play music from their iPod through the automobile sound system.

Wireless Phone Providers. Several of the largest wireless providers currently offer music to cellular phones. Additionally, many phones now contain FM radio receivers. Sprint Nextel currently offers streaming music from a variety of providers plus a music store for purchase. Verizon Wireless offers the V Cast music service that can be played directly on a phone. AT&T offers a variety of streaming content and has also partnered with Apple to offer the upcoming iPhone.

Next Generation Wireless. Next generation wireless protocols will offer unprecedented broadband coverage with enhanced data rates, reliability, and broadcast capabilities. Sprint Nextel announced in August 2006 its plans to develop the first fourth generation nationwide mobile broadband network, which will use the WiMAX standard, and deploy it in some markets during 2007. The company has targeted a national rollout for 2008 and will use Sprint's extensive holdings, which cover 85 percent of the households in the top 100 U.S. markets. When these or other services achieve ubiquitous mobile broadband capability, the relative competitiveness of our product offering may suffer.

Direct Broadcast Satellite and Cable Audio . A number of companies provide specialized audio services through either direct broadcast satellite or cable audio systems. These services are targeted to fixed locations, mostly in-home. The radio service offered by direct broadcast satellite and cable audio is often included as part of a package of digital services with video service, and video customers therefore generally do not pay an additional monthly charge for the audio service.

Other Advanced Digital Media Services . We may face competition from businesses that have announced plans to deliver entertainment and media content through cell phones and other wireless devices.

- In December 2005, Verizon Wireless announced an agreement with MediaFLO USA, a subsidiary of QUALCOMM, to offer interactive wireless multimedia services over MediaFLO's nationwide 700 MHz network. Verizon intends to launch commercial service through MediaFLO during 2007 under the VCast Mobile TV brand.
- Modeo LLC, a subsidiary of Crown Castle International Corp., owns nationwide spectrum in the 1670-1675 MHz band and has developed a mobile device-based multimedia service, which it plans to launch commercially.
- HiWire, an affiliate of Aloha Partners, announced in March 2006 that it intends to develop a nationwide mobile device-based multimedia service over Aloha's footprint of 700 MHz spectrum.
- In 2005, Sprint Nextel, Comcast, Time Warner Cable, Cox Communications and Advance/Newhouse Communications announced their formation of a joint venture to provide

customers throughout the United States access to advanced integrated entertainment products and services, including streaming television programming, music, video clips, games and pre-recorded DVR programs, communications and wireless products. During 2006, the joint venture acquired wireless telecommunications spectrum through the United States government's Advanced Wireless Services auction, through which it intends to offer wireless communications services.

Government Regulation

As an operator of a privately owned satellite system, we are regulated by the FCC under the Communications Act of 1934. The FCC is the government agency with primary authority in the United States over satellite radio communications. We currently must comply with regulation by the FCC principally with respect to:

- the licensing of our satellite system;
- preventing interference with or to other users of radio frequencies; and
- compliance with FCC rules established specifically for U.S. satellites and satellite radio services.

Any assignment or transfer of control of our FCC license must be approved by the FCC. Similarly, our merger with XM Radio is conditioned upon approval of the transaction by the FCC.

In 1997, we were one of two winning bidders for an FCC license to operate a satellite digital audio radio service and provide other ancillary services. Our FCC license expires in 2010. Prior to the expiration, we will be required to apply for a renewal of our FCC license. We anticipate that, absent significant misconduct on our part, the FCC will renew our license to permit operation of our satellites for their useful lives, and grant a license for any replacement satellites.

In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception can be adversely affected. In many of these areas, we have installed terrestrial repeaters to supplement our satellite signal coverage. The FCC has not yet established rules governing terrestrial repeaters. A rulemaking on the subject was initiated by the FCC in March 1997 and is still pending. Many comments have been filed as part of this rulemaking, including comments from the National Association of Broadcasters, major cellular telephone system operators and other holders of spectrum adjoining ours. The comments cover many topics relating to the operation of our terrestrial repeaters, but principally seek to protect adjoining wireless services from interference. We cannot predict the outcome or timing of these FCC proceedings and the final rules adopted by the FCC may limit our ability to deploy additional terrestrial repeaters, require us to reduce the power of our existing terrestrial repeaters or fail to protect us from interference by adjoining spectrum holders. In the interim, the FCC has granted us special temporary authority to operate over 200 terrestrial repeaters and offer our service on a non-harmful interference basis to other wireless services.

We design, establish specifications for, source parts and components for, and manage various aspects of the logistic and production of SIRIUS radios, including SIRIUS radios that include FM modulators. Part 15 of the FCC's rules establish a number of requirements relating to FM modulators, including emissions and frequency rules. The FCC is reviewing whether the FM transmitters in certain SIRIUS radios comply with the Commission's emissions and frequency rules. We are cooperating with the FCC in its on-going inquiry, and have discovered that certain SIRIUS personnel requested manufacturers to produce SIRIUS radios that were not consistent with these rules. We are taking significant steps to ensure that this situation does not happen again, including the adoption of a comprehensive compliance plan, approved by our board of directors, to ensure that our products comply with all applicable FCC rules. We have directed manufacturers of SIRIUS radios with FM transmitters to make the necessary changes in production to bring the radios into compliance. We believe our radios that are currently in production comply with applicable FCC rules. The FCC's inquiry may result in fines, additional license conditions or other FCC actions that are detrimental to our business.

In 2006, we entered into an agreement with Space Systems/Loral to design and construct a new satellite. In September 2006, we filed an application with the FCC to amend our license to add this satellite to our existing satellite constellation. No one has filed comments on our application with the FCC. We cannot predict when the FCC will act on our application, and we cannot be sure that the modification we have requested will be granted.

Our FCC license is conditioned on us certifying that our system includes a receiver design that will permit end users to access XM Radio's system. We have signed an agreement with XM Radio to develop jointly a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and XM Radio's services. We believe that this agreement, and our efforts with XM Radio to develop this unified standard for satellite radios, satisfies the interoperability condition contained in our FCC license.

The Communications Act prohibits the issuance of a license to a foreign government or a representative of a foreign government, and contains limitations on the ownership of common carrier, broadcast and some other radio licenses by non-U.S. citizens. We are regulated as a subscription-based, non-common carrier by the FCC and are not a broadcast service. As such, we are not bound by the foreign ownership provisions of the Communications Act. As a private carrier, we are free to set our own prices and serve customers according to our own business judgment without economic regulation.

Changes in law or regulations relating to communications policy or to matters affecting our service could adversely affect our ability to retain our FCC license or the manner in which we operate.

The SIRIUS Trademark

We have several registrations and approved applications in the U.S. Patent and Trademark Office for the "SIRIUS" trademark and the "Dog Design" logo used in connection with our products and service. We intend to maintain our trademarks and the applications and registrations therefor. We are not aware of any material claims of infringement or other challenges to our right to use the "SIRIUS" trademark or the "Dog Design" logo in the United States in connection with our products or service.

Copyrights in Programming

In connection with our music programming, we must negotiate and enter into royalty arrangements with two sets of rights holders: holders of copyrights in musical works, or songs, and holders of copyrights in sound recordings—records, cassettes, compact discs and audio files.

Musical works rights holders, generally songwriters and music publishers, are represented by performing rights organizations such as the American Society of Composers, Authors and Publishers, or ASCAP, Broadcast Music, Inc., or BMI, and SESAC, Inc. These organizations negotiate fees with copyright users, collect royalties and distribute them to the rights holders. Our public performance license agreements with ASCAP and SESAC expired at the end of 2006. We have entered into an interim license agreement with ASCAP and BMI to pay royalties for our public performances of musical works by our satellite radio service, and are in discussions regarding final licenses. If we are unable to reach final agreements with ASCAP, BMI and SESAC, a royalty rate may ultimately be established through litigation.

Sound recording rights holders, typically large record companies, are primarily represented by SoundExchange, an organization which negotiates licenses and collects and distributes royalties on behalf of record companies and performing artists. Our agreement with SoundExchange to pay royalties for our public performances of sound recordings by our satellite radio service expired at the end of 2006. A proceeding has commenced before the Copyright Royalty Board of the Library of Congress to establish the royalty rate and terms for the sound recordings we use on our satellite radio service for 2007 through 2012. In October 2006, we and XM Radio filed our direct case in this proceeding with the Copyright Royalty Board and proposed a royalty rate for our satellite radio subscription revenue. SoundExchange also submitted its direct case in this proceeding and proposed a substantially higher royalty rate than we proposed. The submission of direct cases is the beginning of a twelve to eighteen month process which, absent an agreement among the parties, will result in a determination by the Copyright Royalty Board of an applicable royalty rate.

We cannot assure that our royalty fees will remain at current levels or that additional litigation will not arise in connection with royalty arrangements, and we cannot predict what the costs to us of a proceeding or a settlement of such a dispute or disputes might be.

Personnel

As of December 31, 2006, we had 772 employees. In addition, we rely upon a number of consultants, other advisors and outsourced relationships. None of our employees is represented by a labor union, and we believe that our relationship with our employees is good.

Corporate Information

Sirius Satellite Radio Inc. was incorporated in the State of Delaware as Satellite CD Radio, Inc. on May 17, 1990. On December 7, 1992, we changed our name to CD Radio Inc., and we formed a wholly owned subsidiary, Satellite CD Radio, Inc., that is the holder of our FCC license. On November 18, 1999, we changed our name to Sirius Satellite Radio Inc. Our executive offices are located at 1221 Avenue of the Americas, 36th floor, New York, New York 10020 and our telephone number is (212) 584-5100. Our internet address is SIRIUS.com. Our annual, quarterly and current reports, and amendments to those reports, filed or furnished pursuant to Section 14(a) or 15(d) of the Securities Exchange Act of 1934 may be accessed free of charge through our website after we have electronically filed such material with, or furnished it to, the SEC. SIRIUS.com is an inactive textual reference only, meaning that the information contained on the website is not part of this Annual Report on Form 10-K and is not incorporated in this report by reference.

Executive Officers of the Registrant

Certain information regarding our executive officers is provided below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mel Karmazin	63	Chief Executive Officer
Scott A. Greenstein	47	President, Entertainment and Sports
James E. Meyer	52	President, Sales and Operations
Patrick L. Donnelly	45	Executive Vice President, General Counsel and Secretary
David J. Frear	50	Executive Vice President and Chief Financial Officer

Mel Karmazin has served as our Chief Executive Officer and a member of our board of directors since November 2004. Prior to joining us, Mr. Karmazin was President and Chief Operating Officer and a member of the board of directors of Viacom Inc. from May 2000 until June 2004. Prior to joining Viacom, Mr. Karmazin was President and Chief Executive Officer of CBS Corporation from January 1999 and a director of CBS Corporation from 1997 until its merger with Viacom in May 2000. He was President and Chief Operating Officer of CBS Corporation from April 1998 through December 1998. Mr. Karmazin joined CBS Corporation in December 1996 as Chairman and Chief Executive Officer of CBS Radio and served as Chairman and Chief Executive Officer of the CBS Station Group (Radio and Television) from May 1997 to April 1998. Prior to joining CBS Corporation, Mr. Karmazin served as President and Chief Executive Officer of Infinity Broadcasting Corporation from 1981 until its acquisition by CBS Corporation in December 1996. Mr. Karmazin served as Chairman, President and Chief Executive Officer of Infinity from December 1998 until the merger of Infinity Broadcasting Corporation with Viacom in February 2001.

Scott A. Greenstein has served as our President, Entertainment and Sports, since May 2004. Prior to May 2004, Mr. Greenstein was Chief Executive Officer of The Greenstein Group, a media and entertainment consulting firm. From 1999 until 2002, he was Chairman of USA Films, a motion picture production, marketing and distribution company. From 1997 until 1999, Mr. Greenstein was Co-President of October Films, a motion picture production, marketing and distribution company. Prior to joining October Films, Mr. Greenstein was Senior Vice President of Motion Pictures, Music, New Media and Publishing at Miramax Films, and held senior positions at Viacom Inc., a diversified media and entertainment company.

James E. Meyer has served as our President, Sales and Operations, since May 2004. Prior to May 2004, Mr. Meyer was President of Aegis Ventures Incorporated, a consulting firm that provides general management services. From December 2001 until 2002, Mr. Meyer served as special advisor to the Chairman of Thomson S.A., a leading consumer electronics company. From January 1997 until December 2001, Mr. Meyer served as the Senior Executive Vice President for Thomson as well as the Chief Operating Officer for Thomson Consumer Electronics.

From 1992 until 1996, Mr. Meyer served as Thomson's Senior Vice President of Product Management. Mr. Meyer is a director of Gemstar-TV Guide International, Inc.

Patrick L. Donnelly has served as our Executive Vice President, General Counsel and Secretary since May 1998. From June 1997 to May 1998, he was Vice President and deputy general counsel of ITT Corporation, a hotel, gaming and entertainment company that was acquired by Starwood Hotels & Resorts Worldwide, Inc. in February 1998. From October 1995 to June 1997, he was assistant general counsel of ITT Corporation. Prior to October 1995, Mr. Donnelly was an associate at the law firm of Simpson Thacher & Bartlett LLP.

David J. Frear has served as our Executive Vice President and Chief Financial Officer since June 2003. From July 1999 through February 2003, Mr. Frear was Executive Vice President and Chief Financial Officer of Savvis Communications Corporation, a global managed service provider, delivering internet protocol applications for business customers. From October 1999 through February 2003, Mr. Frear also served as a director of Savvis. Mr. Frear was an independent consultant in the telecommunications industry from August 1998 until June 1999. From October 1993 to July 1998, Mr. Frear was Senior Vice President and Chief Financial Officer of Orion Network Systems Inc., an international satellite communications company that was acquired by Loral Space & Communications Ltd. in March 1998. From 1990 to 1993, Mr. Frear was Chief Financial Officer of Millicom Incorporated, a cellular paging and cable television company. Prior to joining Millicom, he was an investment banker at Bear, Stearns & Co., Inc. and Credit Suisse.

Employment Agreements

We have entered into an employment agreement with each of our executive officers, and these agreements are described below.

Mel Karmazin. In November 2004, we entered into a five-year agreement with Mel Karmazin to serve as our Chief Executive Officer. We pay Mr. Karmazin a base salary of \$1,250,000 per year, and annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.

Pursuant to our agreement with Mr. Karmazin, his stock options and shares of restricted stock will vest upon his termination of employment for good reason, upon his death or disability and in the event of a change in control. In the event Mr. Karmazin's employment is terminated by us without cause, his unvested stock options and shares of restricted stock will vest and become exercisable, and he will receive his current base salary for the remainder of the term and any earned but unpaid annual bonus.

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

Scott A. Greenstein. Mr. Greenstein has agreed to serve as our President, Entertainment and Sports, through July 2009, and we pay Mr. Greenstein an annual salary of \$800,000.

If Mr. Greenstein's employment is terminated without cause or he terminates his employment for good reason, he is entitled to receive a lump sum payment equal to (1) his base salary in effect from the termination date through July 2009 and (2) any annual bonuses, at a level equal to 60% of his base salary, that would have been customarily paid during the period from the termination date through July 2009. In the event Mr. Greenstein's employment is terminated without cause or he terminates his employment for good reason, we are also obligated to continue his medical, disability and life insurance benefits for eighteen months following his termination.

If, following the occurrence of a change in control, Mr. Greenstein is terminated without cause or he terminates his employment for good reason, we are obligated to pay Mr. Greenstein the lesser of (1) four times his base salary and (2) 80% of the multiple of base salary, if any, that our chief executive officer would be entitled to receive under his or her employment agreement if he or she was terminated without cause or terminated for good reason following such change in control. We are also obligated to continue Mr. Greenstein's medical, disability and life insurance benefits, or pay him an amount sufficient to replace these benefits, until the third anniversary of his termination date.

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

James E. Meyer. Mr. Meyer has agreed to serve as our President, Sales and Operations, until April 2007 and we pay Mr. Meyer an annual salary of \$900,000.

If, following the occurrence of a change in control, Mr. Meyer is terminated without cause or he terminates his employment for good reason, we are obligated to pay Mr. Meyer the lesser of (1) four times his base salary, and (2) 80% of the multiple of base salary, if any, that our chief executive officer would be entitled to receive under his or her employment agreement if he or she was terminated without cause or terminated for good reason following such change of control. We are also obligated to continue Mr. Meyer's medical, disability and life insurance benefits, or pay him an amount sufficient to replace these benefits, until the third anniversary of his termination date.

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

Upon the expiration of Mr. Meyer's employment agreement in April 2007, we have agreed to offer Mr. Meyer a one-year consulting agreement. We expect to reimburse Mr. Meyer for all of his reasonable out-of-pocket expenses associated with the performance of his obligations under this consulting agreement, but do not expect to pay him any cash compensation. Mr. Meyer's stock options will continue to vest and will be exercisable during the term of this consulting agreement.

Patrick L. Donnelly. Mr. Donnelly has agreed to serve as our Executive Vice President, General Counsel and Secretary, through April 2007, and we pay Mr. Donnelly an annual base salary of \$450,000.

If Mr. Donnelly's employment is terminated without cause or he terminates his employment for good reason, we are obligated to pay Mr. Donnelly his annual salary and the annual bonus last paid to him and to continue his medical, disability and life insurance benefits for one year.

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

David J. Frear. Mr. Frear has agreed to serve as our Executive Vice President and Chief Financial Officer through July 2008, and we pay Mr. Frear an annual salary of \$525,000.

If Mr. Frear's employment is terminated without cause or he terminates his employment for good reason, we are obligated to pay Mr. Frear his annual salary and the annual bonus last paid to him.

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

Additional information regarding the compensation for Messrs. Karmazin, Greenstein, Meyer, Donnelly and Frear will be included in our definitive proxy statement for our 2007 annual meeting of stockholders to be held on Thursday, May 24, 2007.

Item 1A. Risk Factors

In addition to the other information in this Annual Report on Form 10-K, including the information under the caption "Competition," the following risk factors should be considered carefully in evaluating us and our business. This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. Actual results and the timing of events could differ materially from those projected in forward-

looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report on Form 10-K. See "Special Note Regarding Forward-Looking Statements."

Failure of our satellites would significantly damage our business.

Our three satellites were launched in 2000. We do not maintain in-orbit insurance policies covering our satellites. We estimate that two of our in-orbit satellites will have a 13 year useful life and our third in-orbit satellite will have a 15 year useful life from the time of launch. In 2006, we adjusted the useful lives of two of our in-orbit satellites from 15 years to 13 years to reflect the way we intend to operate the constellation. Our operating results would be materially adversely affected if the useful life of our satellites is significantly shorter than we expect, whether as a result of a satellite failure or technical obsolescence, and we fail to launch replacement satellites in a timely manner.

The useful lives of our satellites will vary and depend on a number of factors, including:

- degradation and durability of solar panels;
- quality of construction;
- random failure of satellite components, which could result in significant damage to or loss of a satellite;
- amount of fuel our satellites consume; and
- damage or destruction by electrostatic storms or collisions with other objects in space, which occur only in rare cases.

Our satellites have experienced circuit failures on their solar arrays. The circuit failures our satellites have experienced do not affect our current operations. Additional circuit failures could reduce the estimated useful life of our existing in-orbit satellites.

In the ordinary course of operation, satellites experience failures of component parts and operational and performance anomalies. Components on our in-orbit satellites have failed, and from time to time we have experienced anomalies in the operation and performance of our satellites. These failures and anomalies are expected to continue in the ordinary course, and it is impossible to predict if any of these future events will have a material adverse effect on our operations or the useful life of our existing in-orbit satellites.

If one of our three satellites fails in orbit, our service would be impaired until such time as we successfully launch and commission our spare satellite, which would take six months or more. If two or more of our satellites fail in orbit in close proximity in time, our service could be suspended for at least 24 months. In such event, our business would be materially impacted and we could default on our commitments.

In June 2006, we entered into an agreement with Space Systems/Loral to design and construct a new satellite. The new satellite is expected to be completed in the fourth quarter of 2008, and launched shortly thereafter. Satellite launches have significant risks, including launch failure, damage or destruction of the satellite during launch and failure to achieve a proper orbit or operate as planned. Our agreement with Space Systems/Loral does not protect us against the risks inherent in a satellite launch or in-orbit operations.

Failure to comply with FCC requirements could damage our business.

As the holder of an FCC license to operate a satellite radio service in the United States, we are subject to FCC rules and regulations. The terms of our license require us to meet certain conditions, including designing a receiver that will permit end users to access XM Radio's system; coordination of our satellite radio service with radio systems operating in the same range of frequencies in neighboring countries; and coordination of our communications links to our satellites with other systems that operate in the same frequency band. Non-compliance by us with these conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions.

The FCC is reviewing whether the FM transmitters in certain SIRIUS radios comply with the Commission's emissions and frequency rules. We are cooperating with the FCC in its on-going inquiry, and have discovered that certain SIRIUS personnel requested manufacturers to produce SIRIUS radios that were not consistent with these rules. We are taking significant steps to ensure that this situation does not happen again, including the adoption of a comprehensive compliance plan, approved by our board of directors, to ensure that in the future our products comply with all applicable FCC rules. We have directed manufacturers of SIRIUS radios with FM transmitters to make the necessary changes in production to bring the radios into compliance. We believe our radios that are currently in production comply with applicable FCC rules. SIRIUS radios that include compliant FM transmitters may be subject to some transmission noise, which may result in us encouraging professional installation in some cases. We continue to study methods to improve the customer experience for our subscribers using SIRIUS radios that rely on FM transmissions. The FCC's inquiry may result in fines, additional license conditions or other FCC actions that are detrimental to our business.

The FCC has not yet issued final rules permitting us to operate and deploy terrestrial repeaters to fill gaps in our satellite coverage. We are operating our terrestrial repeaters on a "non-interference" basis pursuant to a grant of special temporary authority from the FCC. The FCC's final terrestrial repeater rules may require us to reduce the power of our terrestrial repeaters and limit our ability to deploy additional repeaters. If the FCC requires us to reduce significantly the power of our terrestrial repeaters, this would have an adverse effect on the quality of our service in certain markets and/or cause us to alter our terrestrial repeater infrastructure at a substantial cost. If the FCC limits our ability to deploy additional terrestrial repeaters, our ability to improve any deficiencies in our service quality that may be identified in the future would be adversely affected.

In October 2006, we ceased operating 11 of our terrestrial repeaters which we discovered had been operating at variance to the specifications and applied to the FCC for new authority to resume operating these repeaters. Our failure to comply with the initial special temporary authority could result in disciplinary action by the FCC, although we do not believe such action would have a material adverse effect on our business or operations.

We may from time to time modify our business plan, and these changes could adversely affect us and our financial condition.

We regularly evaluate our plans and strategy. These evaluations often result in changes to our plans and strategy, some of which may be material and significantly change our cash requirements or cause us to achieve cash flow breakeven at a later date. These changes in our plans or strategy may include: the acquisition of unique or compelling programming; the introduction of new features or services; significant new or enhanced distribution arrangements; investments in infrastructure, such as satellites, equipment or radio spectrum; and acquisitions of third parties that own programming, distribution, infrastructure, assets, or any combination of the foregoing.

To fund incremental cash requirements, or as market opportunities arise, we may choose to raise additional funds through the sale of additional debt securities, equity securities or a combination of debt and equity securities. The incurrence of indebtedness would result in increased fiscal obligations and could contain additional restrictive covenants. The sale of additional equity or convertible debt securities would result in dilution to our stockholders. These additional sources of funds may not be available or, if available, may not be available on terms favorable to us.

Our business might never become profitable.

As of December 31, 2006, we had an accumulated deficit of approximately \$3.8 billion. We expect our cumulative net losses to grow as we make payments under various contracts, incur marketing and subscriber acquisition costs and make interest payments on our debt. If we are unable ultimately to generate sufficient revenues to become profitable, we could default on our commitments and may have to discontinue operations or seek a purchaser for our business or assets.

Programming is an important part of our service, and the costs to renew our programming arrangements may be more than anticipated.

Third-party content is an important part of our service, and we compete with many parties for content. We have entered into a number of important content arrangements, including agreements with the NFL, Howard Stern and NASCAR, which require us to pay substantial sums. Our agreement with the NFL expires at the end of the

2010-2011 NFL season; our agreement with Howard Stern expires in December 2010; and our agreement with NASCAR expires in 2011. As these agreements expire, we may not be able to negotiate renewals of one or more of these agreements, or renew such agreements at costs we believe are attractive.

In addition, we may not be able to obtain additional third-party content within the costs contemplated by our business plan. We must negotiate and enter into music programming royalty arrangements with BMI, ASCAP, SESAC and SoundExchange. We are currently party to a proceeding before the Copyright Royalty Board of the Library of Congress to establish the royalty rate and terms for the sound recordings we use on our satellite radio service for the period for 2007 through 2012. Such royalty arrangements may be more costly than anticipated. We cannot assure that our royalty fees will remain at current levels or that additional arbitration or litigation will not arise in connection with royalty arrangements, and we cannot predict what the costs to us of a proceeding or a settlement of such a dispute or disputes might be.

Higher than expected costs of attracting new subscribers and retaining current subscribers could adversely affect our financial performance and operating results.

We are spending substantial funds on advertising and marketing and in transactions with automakers, radio manufacturers, retailers and others to obtain and attract subscribers. If the costs of attracting and retaining subscribers are greater than expected, our financial performance and operating results could be adversely affected.

Higher subscriber turnover could adversely affect our financial performance and operating results.

We are experiencing, and expect to continue to experience in the future, subscriber turnover, or churn. High subscriber turnover, or our inability to attract customers to our service, would adversely affect our financial performance and operating results.

Weaker than expected market and advertiser acceptance of our service could adversely affect our advertising revenue and results of operations.

Our ability to generate advertising revenues is directly affected by the number of subscribers to our service and the amount of time subscribers spend listening to our talk and entertainment channels or our traffic and weather service. Our ability to generate advertising revenues also depends on several factors, including the level and type of market penetration of our service, competition for advertising dollars from other media, and changes in the advertising industry and economy generally. We directly compete for audiences and advertising revenues with traditional AM/FM radio stations, some of which maintain longstanding relationships with advertisers and possess greater resources than we do.

We attract a substantial number of our new subscribers during the fourth quarter and our inability to deliver competitive products during the fourth quarter could have a material adverse affect on our operations.

We attract a disproportionate share of our new subscribers each year during the fourth quarter because of the holiday season. For example, in 2006 we attracted approximately 33% of our new subscribers during the fourth quarter. As a result, our failure to properly manage radio inventory, respond to changing technology and competitive pressures or deliver a competitive product during the fourth quarter could significantly reduce our number of new subscribers and have an adverse affect on our operations. We also depend on third parties to manufacture, distribute, market and sell SIRIUS radios, and their failure to perform during the fourth quarter could have an adverse affect on our operations.

Failure of third parties to perform could adversely affect our business.

Our business depends in part on the efforts of third parties, especially the efforts of:

- automakers that manufacture, market and sell vehicles capable of receiving our service, but in many cases have no obligations to do so;
- consumer electronics manufacturers that manufacture and distribute SIRIUS radios;
- companies that manufacture and sell integrated circuits for SIRIUS radios;
- programming providers and on-air talent, including Howard Stern;
- retailers that market and sell SIRIUS radios and promote subscriptions to our service; and
- third party vendors that have designed, built, support or operate important elements of our system, such

as our customer service facilities.

If one or more of these third parties does not perform in a sufficient or timely manner, our business will be adversely affected and we could be placed at a long-term disadvantage.

The sale of vehicles with SIRIUS radios is an important source of subscribers for us. To the extent sales of vehicles by automakers slow, our subscriber growth could be adversely impacted. In addition, we do not manufacture satellite radios or accessories, and we depend on manufacturers and others for the production of SIRIUS radios and their component parts. If one or more manufacturers does not produce radios in a sufficient quantity to meet demand, or if such radios were not to perform as advertised or were to be defective, sales of our service and our reputation could be adversely affected.

We may be exposed to liabilities associated with the design, manufacture and distribution of SIRIUS radios.

We do not manufacture, import, or distribute SIRIUS radios. We do design, establish specifications for, source parts and components for, and manage various aspects of the logistics and production of SIRIUS radios. As a result of these activities, we may be exposed to liabilities associated with the design, manufacture and distribution of SIRIUS radios that the providers of an entertainment service would not customarily be subject to, such as liabilities for design defects, patent infringement and compliance with applicable laws.

Rapid technological and industry changes could make our service obsolete.

The satellite industry and the audio entertainment industry are both characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations, and evolving industry standards. If we are unable to keep pace with these changes, our business may be unsuccessful. Products using new technologies, or emerging industry standards, could make our technologies obsolete or less competitive in the marketplace.

Our substantial indebtedness could adversely affect our financial health.

As of December 31, 2006, we had approximately \$1.1 billion of indebtedness. We may incur more debt if we believe we can raise money on favorable terms. A significant portion of our indebtedness contains restrictive covenants. Our indebtedness could:

- limit our flexibility in planning for, or reacting to, changes in our business and industry;
- limit our ability to borrow additional funds;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, possibly reducing the availability of our cash flow to fund working capital, capital expenditures, and other general corporate purposes; and
- place us at a competitive disadvantage compared to competitors that have less debt.

Failure to comply with the covenants contained in the indentures governing our debt could result in an event of default, which, if not cured or waived, could cause us to discontinue operations or seek a purchaser for our business or assets.

Our national broadcast studio, terrestrial repeater network, satellite uplink facility or other ground facilities could be damaged by natural catastrophes or terrorist activities.

An earthquake, tornado, flood, terrorist attack or other catastrophic event could damage our national broadcast studio, terrestrial repeater network or satellite uplink facility, interrupt our service and harm our business. We do not have replacement or redundant facilities that can be used to assume the functions of our terrestrial repeater network, national broadcast studio or satellite uplink facility in the event of a catastrophic event.

Any damage to the satellite that transmits to our terrestrial repeater network would likely result in degradation of our service for some subscribers and could result in complete loss of service in certain areas. Damage to our national broadcast studio would restrict our programming production and require us to obtain programming from third parties to continue our service. Damage to our satellite uplink facility could result in a complete loss of service until we could identify a suitable replacement facility and transfer our operations to that site.

Consumers could pirate our service.

Individuals who engage in piracy may be able to obtain or rebroadcast our satellite radio service without paying the subscription fee. Although we use encryption technology to mitigate the risk of signal theft, such technology may not be adequate to prevent theft of our signal. If signal theft becomes widespread, it could harm our business.

Risks Relating to the Pending Merger with XM Radio

Uncertainty about the merger and diversion of management could harm us or the combined company, whether or not the merger is completed.

In response to the announcement of the merger, existing or prospective subscribers, retailers, radio manufacturers, automakers and programming providers of ours may delay or defer their purchasing or other decisions concerning us or they may seek to change their existing business relationships with us. In addition, as a result of the merger, current and prospective employees could experience uncertainty about their future with us or the combined company. These uncertainties may impair our ability to retain, recruit or motivate key personnel. Completion of the merger will also require a significant amount of time and attention from our management. The diversion of management attention away from ongoing operations could adversely affect our business relationships. If the merger is not completed by the end of 2007 as currently anticipated, the adverse effects of these uncertainties and the diversion of management could be exacerbated by the delay.

Failure to complete the merger for regulatory or other reasons could adversely affect our stock price and our future business and financial results.

Completion of the merger is conditioned upon, among other things, the receipt of certain regulatory and antitrust approvals, including from the FCC and under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and approval of our and XM Radio's stockholders. There is no assurance that we will receive the necessary approvals or satisfy the other conditions necessary for completion of the merger. Failure to complete the pending merger would prevent us from realizing the anticipated benefits of the merger. We will also remain liable for significant transaction costs, including legal and accounting fees, whether or not the merger is completed. In addition, the current market price of our common stock may reflect a market assumption that the merger will occur, and a failure to complete the merger could result in a negative perception by the market of us generally and a resulting decline in the market price of our common stock.

The anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

The merger involves the integration of two companies that have previously operated independently. Due to legal restrictions, we have not conducted any integration planning for the two companies. The combined company will be required to devote significant management attention and resources to integrating the two companies. Delays in this process could adversely affect the combined company's business, financial results, financial condition and stock price. Even if we are able to integrate our business operations successfully, there can be no assurance that this integration will result in the realization of the full benefits of synergies, cost savings, innovation and operational efficiencies that we currently expect from this integration or that these benefits will be achieved within the anticipated time frame.

Additionally, as a condition to their approval of the merger, regulatory agencies may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of the combined company's business. If we agree to these requirements, limitations, costs, divestitures or restrictions, our ability to realize the anticipated benefits of the merger may be impaired.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease space in office buildings in New York, New York, to house our headquarters and national broadcast studios. We also lease office or studio space in Lawrenceville, New Jersey; Farmington Hills, Michigan; Nashville, Tennessee; Memphis, Tennessee; Los Angeles, California; and Houston, Texas. The aggregate annual rent for these properties was approximately \$7,191,000 for the year ended December 31, 2006.

We own property that we use for technical and engineering facilities in Vernon, New Jersey. We also lease properties in Panama and Ecuador that we use as earth stations to command and control our satellites.

Item 3. Legal Proceedings

FCC Matters. In April 2006, we learned that two manufacturers of SIRIUS radios and XM Radio had received inquiries from the Federal Communications Commission as to whether the FM transmitters in their products complied with the FCC's emissions and frequency rules. We promptly began an internal review of the compliance of the FM transmitters in a number of our radios. In June 2006, we learned that a third manufacturer of SIRIUS radios had received an inquiry from the Federal Communications Commission as to whether the FM transmitters in its products complied with the FCC's emissions and frequency rules. In June 2006, we received a letter from the FCC making similar inquiries. In July 2006, we responded to the letter from the FCC in respect of the preliminary results of our review. In August 2006, we received a follow-up letter of inquiry from the FCC and responded to the FCC's further inquiry. We continue to cooperate with the FCC's inquiry.

During our internal review, we determined that certain of our radios with FM transmitters were not compliant with FCC rules. We have taken a series of actions to correct the problem.

In connection with our internal review, we discovered that certain SIRIUS personnel requested manufacturers to produce SIRIUS radios that were not consistent with the FCC's rules. As a result of this review, we are taking significant steps to ensure that this situation does not happen again, including the adoption of a comprehensive compliance plan, approved by our board of directors, to ensure that in the future our products comply with all applicable FCC rules.

The FCC is continuing its review of our products. The FCC's laboratory has tested a number of our products and found them to be compliant with the FCC's rules. We believe our radios that are currently in production comply with applicable FCC's rules. No health or safety issues are involved with these SIRIUS radios and radios which are factory-installed in new vehicles are not affected.

We have retained the services of an engineering compliance officer to report to our Vice President of Internal Audit, who then reports to our Audit Committee.

In October 2006, we ceased operating 11 of our terrestrial repeaters which we discovered had been operating at variance to the specifications and applied to the FCC for new authority to resume operating these repeaters.

Copyright Royalty Board Proceeding. We are a party to a proceeding before the Copyright Royalty Board of the Library of Congress to establish the royalty rate and terms for the sound recordings we use on our satellite radio service for the period for 2007 through 2012. In October 2006, we and XM filed our direct case in this proceeding with the Copyright Royalty Board and proposed a royalty rate for our satellite radio subscription revenue.

The Copyright Royalty Board must set a rate that is calculated to achieve four statutory objectives:

- to maximize the availability of creative works to the public;
- to afford the copyright owner a fair return for his creative work and the copyright user a fair income under existing economic conditions;
- to reflect the relative roles of the copyright owner and the copyright user in the product made available to the public with respect to relative creative contribution, technological contribution, capital investment, cost, risk and contribution to the opening of new markets for creative expression and media for their

communication; and

- to minimize any disruptive impact on the structure of the industries involved and on generally prevailing industry practices.

We believe that the fee we proposed achieves these objectives and is consistent in principle with the fee established under the same standard for digital cable audio.

SoundExchange, the organization that collects and distributes royalties from various digital music services on behalf of artists and music labels, simultaneously submitted its direct case in this proceeding and proposed a substantially higher royalty rate than we proposed. This submission of direct cases is the beginning of a twelve to eighteen month process which, absent an agreement among the parties, will result in a determination by the Copyright Royalty Board of an applicable royalty rate.

U.S. Electronics Arbitration. U.S. Electronics Inc., a licensed manufacturer and distributor of SIRIUS radios, has commenced an arbitration proceeding against us. U.S. Electronics alleges that we breached our contract, failed to pay monies owed under the contract, interfered with U.S. Electronics' relationships with retailers and manufacturers, and withheld information relating to the FCC's inquiring into SIRIUS radios that include FM modulators. U.S. Electronics is seeking \$48 million in damages. We believe that approximately \$41 million of these damages are barred by the limitation of liability provisions contained in the contract between us and U.S. Electronics. We are vigorously defending this action.

Other Matters. In the ordinary course of business, we are a defendant in various lawsuits and arbitration proceedings, including actions filed by former employees, parties to contracts or leases and owners of patents, trademarks, copyrights or other intellectual property. None of these actions are, in our opinion, likely to have a material adverse effect on our business or financial results.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Global Select Market under the symbol "SIRI." The following table sets forth the high and low closing bid price for our common stock, as reported by Nasdaq, for the periods indicated below:

	High	Low
Year ended December 31, 2005		
First Quarter	\$ 7.64	\$ 5.15
Second Quarter	6.58	4.67
Third Quarter	7.39	6.39
Fourth Quarter	7.87	5.86
Year ended December 31, 2006		
First Quarter	\$ 6.57	\$ 4.45
Second Quarter	5.41	3.68
Third Quarter	4.61	3.65
Fourth Quarter	4.29	3.54

On February 26, 2007, the closing bid price of our common stock on the Nasdaq Global Select Market was \$3.74 per share. On February 26, 2007, there were approximately 950,000 beneficial holders of our common stock. We have never paid cash dividends on our common stock. We currently intend to retain earnings, if any, for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

Item 6. Selected Financial Data

Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2006, 2005 and 2004, and with respect to the consolidated balance sheets at December 31, 2006 and 2005, are derived from our consolidated financial statements audited by Ernst & Young LLP, independent registered public accounting firm, included in Item 8 of this Annual Report on Form 10-K. Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2003 and 2002, and with respect to the consolidated balance sheets at December 31, 2004, 2003 and 2002 are derived from our consolidated financial statements audited by Ernst & Young LLP, which are not included in this Annual Report. This selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in Item 8 of this Annual Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

For the Years Ended December 31,

	2006	2005	2004	2003	2002
(In thousands, except per share amounts)					
Statements of Operations Data:					
Total revenue	\$ 637,235	\$ 242,245	\$ 66,854	\$ 12,872	\$ 805
Loss from operations	(1,067,724)	(829,140)	(678,304)	(437,530)	(313,127)
Net loss ⁽¹⁾	(1,104,867)	(862,997)	(712,162)	(226,215)	(422,481)
Net loss applicable to common stockholders ⁽¹⁾	(1,104,867)	(862,997)	(712,162)	(314,423)	(468,466)
Net loss per share applicable to common stockholders (basic and diluted)	\$ (0.79)	\$ (0.65)	\$ (0.57)	\$ (0.38)	\$ (6.13)
Weighted average common shares outstanding (basic and diluted)	1,402,619	1,325,739	1,238,585	827,186	76,394
Balance Sheet Data:					
Cash and cash equivalents	\$ 393,421	\$ 762,007	\$ 753,891	\$ 520,979	\$ 18,375
Marketable securities	15,500	117,250	5,277	28,904	155,327
Restricted investments	77,850	107,615	97,321	8,747	7,200
Total assets	1,658,528	2,085,362	1,957,613	1,617,317	1,340,940
Long-term debt, net of current portion	1,068,249	1,084,437	656,274	194,803	670,357
Accrued interest, net of current portion	—	—	—	—	46,914
Preferred stock	—	—	—	—	531,153
Accumulated deficit	(3,833,720)	(2,728,853)	(1,865,856)	(1,153,694)	(927,479)
Stockholders' (deficit) equity ⁽²⁾	(389,071)	324,968	1,000,633	1,325,194	36,846

(1) Net loss and net loss applicable to common stockholders for the year ended December 31, 2003 included other income of \$256,538 related to our debt restructuring.

(2) No cash dividends were declared or paid in any of the periods presented.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those described under "Item 1A—Risk Factors" and elsewhere in this Annual Report. See "Special Note Regarding Forward-Looking Statements."

(All dollar amounts referenced in this Item 7 are in thousands, unless otherwise stated)

Executive Summary

Overview:

We are a satellite radio provider in the United States. We currently broadcast over 130 channels of programming to listeners across the country. We offer 69 channels of 100% commercial-free music and 65 channels of sports, news, talk, entertainment, traffic and weather for a monthly subscription fee of \$12.95.

We broadcast through our proprietary satellite radio system, which currently consists of three orbiting satellites, 127 terrestrial repeaters that receive and retransmit our signal, a satellite uplink facility and our studios. Subscribers receive our service through SIRIUS radios, which are sold by automakers, consumer electronics retailers, mobile audio dealers and through our website. Subscribers can also receive our music channels and certain other channels over the Internet.

Our music channels are available to DISH satellite television subscribers and certain of our music channels are offered to Sprint subscribers over multi-media handsets. We also offer traffic and weather data services for a separate fee. Subscribers to DISH satellite television, Sprint and our traffic and weather data services are not included in our subscriber count.

In 2005, SIRIUS Canada Inc., a Canadian corporation owned by us, Canadian Broadcasting Corporation and Standard Radio Inc., received a license from the Canadian Radio-television and Telecommunications Commission to offer a satellite radio service in Canada. SIRIUS Canada offers 110 channels of commercial-free

music and news, sports, talk and entertainment programming, including 11 channels of Canadian content. Subscribers to the SIRIUS Canada service are not included in our subscriber count.

SIRIUS radios are primarily distributed through retailers; automakers, or OEMs; and through our website. SIRIUS radios can be purchased at major retailers, including Best Buy; Circuit City; Crutchfield; Costco; Target; Wal-Mart; and on an exclusive basis through RadioShack. On December 31, 2006, SIRIUS radios were available at more than 25,000 retail locations. We have exclusive agreements with DaimlerChrysler, Ford, Kia, Mitsubishi, BMW, Rolls-Royce, Volkswagen and Bentley to offer SIRIUS radios as factory or dealer-installed equipment. We also have relationships with Nissan, Infiniti, Toyota, Lexus, Scion and Subaru to offer SIRIUS radios as factory or dealer-installed equipment. As of December 31, 2006, SIRIUS radios were available as a factory-installed option in 132 vehicle models and as a dealer-installed option in 17 vehicle models. SIRIUS radios are also offered to renters of Hertz vehicles at airport locations nationwide.

As of December 31, 2006, we had 6,024,555 subscribers compared with 3,316,560 subscribers as of December 31, 2005. Our subscriber totals include subscribers under our regular pricing plans; subscribers that have prepaid, including payments received from automakers for prepaid subscriptions included in the sale or lease price of a new vehicle; active SIRIUS radios under our agreement with Hertz; and subscribers to SIRIUS Internet Radio, our Internet service.

We believe our ability to attract and retain subscribers depends in large part on creating and sustaining distribution channels for SIRIUS radios, the strength of the SIRIUS brand, and on the quality and entertainment value of our programming. We expect to concentrate our future efforts on enhancing and refining our programming, whether through additional agreements with third parties or our own creative efforts; introducing SIRIUS radios with new features and functions; and expanding the distribution of SIRIUS radios through arrangements with automakers and through additional retail points-of-sale.

Our primary source of revenue is subscription fees, with most of our customers subscribing to SIRIUS on either an annual or a monthly basis. We offer discounts for pre-paid and long-term subscriptions as well as discounts for multiple subscriptions. Currently we receive an average of approximately eight months of prepaid revenue per subscriber upon activation. We also derive revenue from activation fees, the sale of advertising on some of our non-music channels and the direct sale of SIRIUS radios and accessories.

In certain cases, automakers include a subscription to our radio service in the sale or lease price of vehicles. The length of these prepaid subscriptions vary, but is typically six months to one year. In many cases, we receive subscription payments from automakers in advance of the activation of our service. We also reimburse various automakers for certain costs associated with SIRIUS radios installed in their vehicles.

Costs associated with acquiring subscribers are generally incurred and expensed in advance of acquiring a subscriber and are recognized as subscriber acquisition costs. A disproportionate percentage of our annual gross subscriber additions are acquired in the fourth quarter in connection with holiday sales. As a result, our SAC, as adjusted, per gross subscriber addition, a key operating metric for our business, is generally higher in the first three quarters of our fiscal year and declines in the fourth quarter as we experience higher activation rates.

During 2006, we achieved significant financial and operational milestones, including:

- capturing 67% share of total satellite radio net additions in the fourth quarter and 62% for the year, and more than doubled our OEM subscribers;
- entered into new agreements with Volkswagen, Audi, Kia, Rolls-Royce and Bentley;
- introduced the Stiletto 100, the first portable satellite radio with WiFi capabilities;
- achieved positive free cash flow in the fourth quarter 2006 - four years after adding our first subscriber; and
- added new programming, including Howard Stern, Playboy Radio, Cosmo Radio, Blue Collar Radio, FOX News Channels, the Catholic Channel, Jerry Rice, Tony Stewart, Chelsea Football Club, Metropolitan Opera Radio and Jane Pratt.

In June 2006, we entered into an agreement with Space Systems/Loral to design and construct a new satellite that will be one of the most advanced and powerful communications satellites ever built. Construction of the

satellite is expected to be completed in the fourth quarter of 2008. The satellite will be launched on a Proton rocket acquired by us under a previously announced launch contract. The aggregate cost of designing, building and launching the satellite and insuring its launch will be approximately \$260,000.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. We have disclosed all significant accounting policies in Note 2 to the consolidated financial statements included in this report. We have identified the following policies, which were discussed with the audit committee of our board of directors, as critical to our business and understanding our results of operations.

Revenue Recognition. Revenue from subscribers consists of subscription fees; revenue derived from our agreement with Hertz; non-refundable activation fees; and the effects of mail-in rebates.

We recognize subscription fees as our service is provided to a subscriber. We record deferred revenue for prepaid subscription fees and amortize these prepayments to revenue ratably over the term of the respective subscription plan.

At the time of sale, vehicle owners purchasing or leasing a vehicle with a subscription to our service typically receive between a six month and one year prepaid subscription. We receive payment from automakers for these subscriptions in advance of our service being activated. Such prepayments are recorded to deferred revenue and amortized ratably over the service period upon activation and sale to a customer. We also reimburse automakers for certain costs associated with the SIRIUS radio installed in the applicable vehicle at the time the vehicle is manufactured. The associated payments to the automakers are included in subscriber acquisition costs. Although we receive payments from the automakers, they do not resell our service; rather, automakers facilitate the sale of our service to our customers, acting similar to an agent. We believe this is the appropriate characterization of our relationship since we are responsible for providing service to our customers including being obligated to the customer if there was interruption of service.

Activation fees are recognized ratably over the estimated term of a subscriber relationship, currently estimated to be 3.5 years. The estimated term of a subscriber relationship is based on market research and management's judgment and, if necessary, will be refined in the future as historical data becomes available.

As required by Emerging Issues Task Force ("EITF") No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," an estimate of mail-in rebates that are paid by us directly to subscribers is recorded as a reduction to revenue in the period the subscriber activates our service. For certain mail-in rebate promotions, a subscriber must remain active for a specified period of time to be considered eligible. In those instances, such estimate is recorded as a reduction to revenue over the required activation period. We estimate the effects of mail-in rebates based on actual take-rates for rebate incentives offered in prior periods, adjusted as deemed necessary based on current take-rate data available at the time. In subsequent periods, estimates are adjusted when necessary.

We recognize revenues from the sale of advertising on some of our non-music channels as the advertising is broadcast. Agency fees are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory and are reported as a reduction of advertising revenue. We pay certain third parties a percentage of advertising revenue. Advertising revenue is recorded gross of such revenue share payments in accordance with EITF No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," as we are the primary obligor in the transaction. Advertising revenue share payments are recorded to programming and content expense during the period in which the advertising is broadcast.

Equipment revenue from the direct sale of SIRIUS radios and accessories is recognized upon shipment. Shipping and handling costs billed to customers are recorded as revenue. Shipping and handling costs associated with shipping goods to customers are recorded to cost of equipment.

EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," provides guidance on how and when to recognize revenues for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables are required to be

divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. Arrangement consideration must be allocated among the separate units of accounting based on their relative fair values.

We determined that the sale of our service through our direct to consumer channel with accompanying equipment constitutes a revenue arrangement with multiple deliverables. In these types of arrangements, amounts received for equipment are recognized as equipment revenue; amounts received for service are recognized as subscription revenue; and amounts received for the non-refundable, up-front activation fee that are not contingent on the delivery of the service are allocated to equipment revenue. Activation fees are recorded to equipment revenue only to the extent that the aggregate equipment and activation fee proceeds do not exceed the fair value of the equipment. Any activation fees not allocated to the equipment are deferred upon activation and recognized as subscriber revenue on a straight-line basis over the estimated term of a subscriber relationship.

Stock-Based Compensation. Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standard (“SFAS”) No. 123 (revised 2004), “Share-Based Payment,” using the modified prospective transition method. Prior periods are not restated under this transition method. The stock-based compensation cost recognized beginning January 1, 2006 includes compensation cost for all stock-based awards granted to employees and members of our board of directors (i) prior to, but not vested as of, January 1, 2006 based on the grant date fair value originally estimated in accordance with the provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” and (ii) subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Compensation cost under SFAS No. 123R is recognized ratably using the straight-line attribution method over the expected vesting period. SFAS No. 123R requires forfeitures to be estimated on the grant date and revised in subsequent periods if actual forfeitures differ from those estimates.

Effective January 1, 2006, we account for such awards at fair value in accordance with SFAS No. 123R and SEC guidance contained in Staff Accounting Bulletin (“SAB”) No. 107. The fair value of equity instruments granted to non-employees is measured in accordance with EITF No. 96-18, “Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.” The final measurement date of equity instruments with performance criteria is the date that each performance commitment for such equity instrument is satisfied or there is a significant disincentive for non-performance.

Upon adoption of SFAS No. 123R, we continued to estimate the fair value of stock-based awards using the Black-Scholes option valuation model (“Black-Scholes”). Black-Scholes was developed to estimate the fair market value of traded options, which have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions. Because our stock-based awards have characteristics significantly different from those of traded options and because changes in the subjective assumptions can materially affect the fair market value estimate, the existing option valuation models do not necessarily provide a reliable single measure of the fair value of our stock-based awards.

Fair value determined using Black-Scholes varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. For the years ended December 31, 2005 and 2004, we used historical volatility of our stock over a period equal to the expected life of stock-based awards to estimate fair value. We estimated the fair value of awards granted during the year ended December 31, 2006 using the implied volatility of actively traded options on our stock. We believe that implied volatility is more representative of future stock price trends than historical volatility. The expected life assumption represents the weighted-average period stock-based awards are expected to remain outstanding. These expected life assumptions are established through a review of historical exercise behavior of stock-based award grants with similar vesting periods. Where historical patterns do not exist, contractual terms are used. The risk-free interest rate represents the daily treasury yield curve rate at the reporting date based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term. Our assumptions may change in future periods.

Subscriber Acquisition Costs. Subscriber acquisition costs include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a SIRIUS radio and a prepaid subscription to our service in the sale or lease price of a new vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; commissions paid to retailers and automakers as incentives to purchase, install and activate SIRIUS radios; product warranty obligations; and compensation costs associated with stock-based awards granted in connection with certain distribution agreements. The majority of subscriber acquisition costs are incurred and expensed in advance of acquiring a subscriber. Subscriber acquisition costs do not

include advertising, loyalty payments to distributors and dealers of SIRIUS radios and revenue share payments to automakers and retailers of SIRIUS radios, which are included in sales and marketing expense. Subscriber acquisition costs also do not include amounts capitalized in connection with our agreement with Hertz, as we retain ownership of certain SIRIUS radios used by Hertz.

Subsidies paid to radio manufacturers and automakers are expensed upon shipment or installation. Commissions paid to retailers and automakers are expensed either upon activation or sale of the SIRIUS radio. Chip sets that are shipped to radio manufacturers and held on consignment are recorded as inventory and expensed as subscriber acquisition costs when placed into production by radio manufacturers. Costs for chip sets not held on consignment are expensed as subscriber acquisition costs when the chip sets are shipped to radio manufacturers.

We record product warranty obligations in accordance with Financial Accounting Standards Board Interpretation (“FIN”) No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34.” FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. We warrant that certain products sold through our retail and direct to consumer distribution channels will perform in all material respects in accordance with standard published specifications in effect at the time of the purchase of the products by the customer. We provide a 12-month warranty on our products from purchase date for repair or replacement of components and/or products that contain defects of material or workmanship. Customers may exchange products directly to the retailer within 30 days of purchase. We record a liability for an estimate of costs that we expect to incur under our warranty guarantee when the product is shipped from the manufacturer. Factors affecting our warranty liability include the number of units sold and historical and anticipated rates of claims and costs per claim. We periodically assess the adequacy of our warranty liability based on changes in these factors.

Long-Lived Assets. We carry our long-lived assets at cost less accumulated depreciation. In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” we review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is not recoverable. At the time an impairment in value of a long-lived asset is identified, the impairment is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. To determine fair value, we employ an expected present value technique, which utilizes multiple cash flow scenarios that reflect the range of possible outcomes and an appropriate discount rate.

In connection with our new satellite agreement, in June 2006 we wrote-off \$10,917 for the net book value of certain satellite long-lead time parts purchased in 1999 that we will no longer need.

Useful Life of Satellite System. Our satellite system includes the costs of our satellite construction, launch vehicles, launch insurance, capitalized interest, spare satellite, terrestrial repeater network and satellite uplink facility. In accordance with SFAS No. 144, we monitor our satellites for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset is not recoverable. The expected useful lives of our three in-orbit satellites were originally 15 years from the date they were placed into orbit. In June 2006, we entered into an agreement with Space Systems/Loral to design and construct a new satellite. In connection with this agreement, we adjusted the useful lives of two of our in-orbit satellites to 13 years to reflect the way we intend to operate the constellation. We continue to expect our spare satellite to operate effectively for 15 years from the date of launch.

Our satellites have experienced circuit failures on their solar arrays. We continue to monitor the operating condition of our satellites. If events or circumstances indicate that the useful lives of our satellites have changed, we will modify the depreciable life accordingly.

FCC License. In 1997, the FCC granted us a license to operate a commercial satellite radio service in the United States. While the FCC license has a renewable eight-year term, we expect to renew our license as there are no legal, regulatory, contractual, competitive, economic or other factors that limit its useful life. As a result, we treat the FCC license as an indefinite-lived intangible asset under the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets.” We re-evaluate the useful life determination for our FCC license each reporting period to determine whether events and circumstances continue to support an indefinite useful life. To date, we have not recorded any amortization expense related to our FCC license.

We test our FCC license for impairment at least annually or more frequently if indicators of impairment exist. We use a direct approach in performing our annual impairment test for this asset, which requires estimates of future cash flows and other factors. If these estimates or projections change in the future, we may be required to record an impairment charge related to this asset. We began using the direct approach in 2005. Use of the direct approach is in accordance with a September 29, 2004 Staff Announcement from the staff of the Securities and Exchange Commission, "Use of the Residual Method to Value Acquired Assets Other Than Goodwill." Under the direct method, if the fair value of our license is less than the aggregate carrying amount of the license, an impairment loss is recognized.

Income Taxes. We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Our operating losses have generated significant state and federal tax net operating losses, or NOL carryforwards. We are required to record a valuation allowance against the deferred tax asset associated with these NOL carryforwards if it is "more likely than not" that we will not be able to utilize it to offset future taxes. Due to our history of unprofitable operations and our expected future losses, we have recorded a valuation allowance equal to 100% of these deferred tax assets. We could be profitable in the future at levels which would cause management to conclude that it is more likely than not that we will realize all or a portion of these NOL carryforwards. Upon reaching such a conclusion, we would record the estimated net realizable value of the deferred tax asset at that time and would then provide for income taxes at a rate equal to our combined federal and state effective tax rates. Subsequent revisions to the estimated net realizable value of the deferred tax asset could cause our provision for income taxes to vary significantly from period to period, although our cash tax payments would remain unaffected until the benefit of these NOL carryforwards is utilized.

Results of Operation

Our discussion of our results of operations, along with the selected financial information in the tables that follow, includes the following non-GAAP financial measures: average monthly churn; SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; average monthly revenue per subscriber, or ARPU; free cash flow; and adjusted loss from operations. We believe these non-GAAP financial measures provide meaningful supplemental information regarding our operating performance and are used for internal management purposes, when publicly providing the business outlook, and as a means to evaluate period-to-period comparisons. Refer to the footnotes following our discussion of results of operations for the definitions and usefulness of such non-GAAP financial measures.

Subscribers and Key Operating Metrics:

The following table contains a breakdown of our subscribers for the past three years:

	As of December 31,		
	2006	2005	2004
Beginning subscribers	3,316,560	1,143,258	261,061
Net additions	2,707,995	2,173,302	882,197
Ending subscribers	6,024,555	3,316,560	1,143,258
Retail	4,041,826	2,465,363	911,255
OEM	1,959,009	823,693	203,469
Hertz	23,720	27,504	28,534
Ending subscribers	6,024,555	3,316,560	1,143,258
Retail	1,576,463	1,554,108	696,028
OEM	1,135,316	620,224	181,646
Hertz	(3,784)	(1,030)	4,523
Net additions	2,707,995	2,173,302	882,197

Subscribers. We ended 2006 with 6,024,555 subscribers, an increase of 82% from the 3,316,560 subscribers as of December 31, 2005. Since December 31, 2005, we added 1,576,463 net subscribers from our retail

channel and 1,135,316 net subscribers from our OEM channel, resulting in a 64% and 138% increase in our retail and OEM subscriber base, respectively. Strong contributions by DaimlerChrysler and Ford fueled this growth.

The following table presents our key operating metrics for the past three years:

	For the Years Ended December 31,		
	2006	2005	2004
Gross subscriber additions	3,758,163	2,519,301	986,556
Deactivated subscribers	1,050,168	345,999	104,359
Average monthly churn ⁽¹⁾⁽⁶⁾	1.9%	1.5%	1.6%
ARPU ⁽²⁾⁽⁶⁾	\$ 11.01	\$ 10.34	\$ 10.16
SAC, as adjusted, per gross subscriber addition ⁽³⁾⁽⁶⁾	\$ 114	\$ 139	\$ 177
Customer service and billing expenses, as adjusted, per average subscriber ⁽⁴⁾⁽⁶⁾	\$ 1.24	\$ 2.10	\$ 3.56
Total revenue	\$ 637,235	\$ 242,245	\$ 66,854
Free cash flow ⁽⁵⁾⁽⁶⁾	\$ (500,715)	\$ (333,922)	\$ (452,758)
Adjusted loss from operations ⁽⁷⁾	\$ (513,140)	\$ (567,507)	\$ (456,209)
Net loss	\$ (1,104,867)	\$ (862,997)	\$ (712,162)

ARPU. Total ARPU for the year ended December 31, 2006 was \$11.01, up from \$10.34 for the year ended December 31, 2005. This increase in ARPU was driven by higher net advertising revenue; the effects of mail-in rebates resulting from lower eligible activations and lower overall take rates; and the timing of the commencement of revenue recognition for prepaid subscriptions; offset by the impact of plan mix due in part to the increase in subscribers under multi-unit subscription plans. At December 31, 2006, approximately two-thirds of our subscribers were on a one-year or longer subscription plan, and approximately 16% were paying \$6.99 per month under a multi-unit subscription plan.

We expect ARPU to fluctuate based on the growth of our subscriber base, promotions, mail-in rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices and the identification of additional revenue streams from subscribers.

SAC, As Adjusted, Per Gross Subscriber Addition. SAC, as adjusted, per gross subscriber addition was \$114 and \$139 for the years ended December 31, 2006 and 2005, respectively. The decline was primarily attributable to lower average commission rates and decreased aftermarket and OEM average subsidy rates as we continued to reduce manufacturing and chip set costs, offset by the per subscriber effect of costs related to FM transmitter compliance with FCC rules.

We expect SAC, as adjusted, per gross subscriber addition to decline as the costs of subsidized components of SIRIUS radios decrease in the future. If competitive forces and changes in retailer promotional strategies, including the elimination of mail-in rebates by certain consumer electronics retailers, require us to increase hardware subsidies or promotions, SAC, as adjusted, per gross subscriber addition may increase. Our SAC, as adjusted, per gross subscriber addition is generally higher in the first three quarters of our fiscal year and declines in the fourth quarter as we experience higher activation rates.

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber Per Month. Customer service and billing expenses, as adjusted, per average subscriber per month declined 41% to \$1.24 for the year ended December 31, 2006 compared with \$2.10 for the year ended December 31, 2005.

We expect our costs per subscriber to decrease on an annual basis as our subscriber base grows due to scale efficiencies in call center and other customer care and billing operations.

Adjusted Loss from Operations. For the year ended December 31, 2006 and 2005, adjusted loss from operations was \$513,140 and \$567,507, respectively, a decrease of \$54,367. The decrease was primarily driven by an increase in total revenue of \$394,990, which more than offset increases in operating expenses of \$340,623.

Net Loss. For the years ended December 31, 2006 and 2005, net loss was \$1,104,867 and \$862,997, respectively, an increase of \$241,870. The increase was driven by an increase in our operating expenses to support the growth of our business, offset by an increase in total revenue of \$394,990.

Year Ended December 31, 2006 Compared with Year Ended December 31, 2005 and Year Ended December 31, 2005 Compared with Year Ended December 31, 2004

Revenue

Subscriber Revenue. Subscriber revenue includes subscription fees, activation fees and the effects of mail-in rebates.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, subscriber revenue was \$575,404 and \$223,615, respectively, an increase of 157% or \$351,789. The increase was attributable to the growth of subscribers to our service.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, subscriber revenue was \$223,615 and \$62,881, respectively, an increase of 256% or \$160,734. The increase was attributable to the growth of subscribers to our service.

The following table contains a breakdown of our subscriber revenue:

	For the Years Ended December 31,		
	2006	2005	2004
Subscription fees	\$ 572,386	\$ 233,635	\$ 65,201
Activation fees	15,612	6,790	2,102
Effects of mail-in rebates	(12,594)	(16,810)	(4,422)
Total subscriber revenue	\$ 575,404	\$ 223,615	\$ 62,881

Future subscriber revenue will be dependent upon, among other things, the growth of our subscriber base, promotions, mail-in rebates offered to subscribers and corresponding take-rates, churn, plan mix, subscription prices and the identification of additional revenue streams from subscribers.

Advertising Revenue. Advertising revenue includes the sale of advertising on some of our non-music channels, net of agency fees. Agency fees are based on a stated percentage per the advertising agreements applied to gross billing revenue.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, net advertising revenue was \$31,044 and \$6,131, respectively, an increase of \$24,913. More attractive programming and increased advertiser interest resulted in an increase in spots sold.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, net advertising revenue was \$6,131 and \$906, respectively, an increase of \$5,225. More attractive programming and increased advertiser interest resulted in an increase in spots sold.

We expect advertising revenue to grow as our subscribers increase, as we continue to improve brand awareness and content, and as we increase the size and effectiveness of our advertising sales force.

Equipment Revenue. Equipment revenue includes revenue from the direct sale of SIRIUS radios and accessories through our direct to consumer distribution channel.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, equipment revenue was \$26,798 and \$12,271, respectively, an increase of \$14,527. The increase was the result of higher sales through our direct to consumer distribution channel, offset by the effects of promotional discounts.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, equipment revenue was \$12,271 and \$2,898, respectively, an increase of \$9,373. The increase was the result of higher sales through our direct to consumer distribution channel.

We expect equipment revenue to increase as we continue to introduce new products and as sales through our direct to consumer distribution channel grow.

Operating Expenses

Satellite and Transmission. Satellite and transmission expenses consist of costs associated with the operation and maintenance of our satellites; satellite telemetry, tracking and control system; terrestrial repeater network; satellite uplink facility; and broadcast studios.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, satellite and transmission expenses were \$41,797 and \$29,798, respectively, an increase of \$11,999. Excluding stock-based compensation expense of \$2,568 and \$1,942 for the years ended December 31, 2006 and 2005, respectively, satellite and transmission expenses increased \$11,373 from \$27,856 to \$39,229. This increase of \$11,373 was primarily attributable to an impairment charge associated with certain satellite long-lead time parts we purchased in 1999 that we will no longer need as a result of our new satellite contract. As of December 31, 2006 and 2005, we had 127 and 140 terrestrial repeaters, respectively, in operation.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, satellite and transmission expenses were \$29,798 and \$33,198, respectively, a decrease of \$3,400. Excluding stock-based compensation expense of \$1,942 and \$2,041 for the years ended December 31, 2005 and 2004, respectively, satellite and transmission expenses decreased \$3,301 from \$31,157 to \$27,856. This decrease of \$3,301 was primarily attributable to a reduction in satellite insurance costs. Effective August 2004, we discontinued our in-orbit satellite insurance. Such decrease was offset by increased compensation related costs for additions to headcount. As of December 31, 2005 and 2004, we had 140 and 137 terrestrial repeaters, respectively, in operation.

Future increases in satellite and transmission expenses will primarily be attributable to the launch of new satellites, the addition of new terrestrial repeaters and maintenance costs of existing terrestrial repeaters. We expect to deploy additional terrestrial repeaters in 2007 and 2008. Such expenses may also increase in future periods if we decide to reinstate our in-orbit satellite insurance.

Programming and Content. Programming and content expenses include costs to acquire, create and produce content; on-air talent costs; and broadcast and webstreaming royalties. We have entered into various agreements with third parties for music and non-music programming. These agreements require us to pay license fees, share advertising revenue, purchase advertising on media properties owned or controlled by the licensor and pay other guaranteed amounts. Purchased advertising is recorded as a sales and marketing expense in the period the advertising is broadcast.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, programming and content expenses were \$551,989 and \$118,076, respectively, an increase of \$433,913. Excluding stock-based compensation expense of \$321,774 and \$19,469 for the years ended December 31, 2006 and 2005, respectively, programming and content expenses increased \$131,608 from \$98,607 to \$230,215. This increase of \$131,608 was primarily attributable to talent and license fees associated with new programming; broadcast and webstreaming royalties as a result of the increase in subscribers; and compensation related costs for additions to headcount. Stock-based compensation expense increased \$302,305 primarily due to \$224,813 associated with 34,375,000 shares of our common stock delivered to Howard Stern and his agent in January 2006. In addition, in 2006 we recorded expense associated with common stock earned upon the satisfaction of performance targets for which shares of our common stock were delivered in the first quarter of 2007.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, programming and content expenses were \$118,076 and \$87,252, respectively, an increase of \$30,824. Excluding stock-based compensation expense of \$19,469 and \$23,899 for the years ended December 31, 2005 and 2004, respectively, programming and content expenses increased \$35,254 from \$63,353 to \$98,607. This increase of \$35,254 was primarily attributable to license fees associated with new programming; compensation related costs for additions to headcount; broadcast royalties as a result of the increase in our subscribers; and additional on-air talent costs due to the expansion of the programming lineup. Stock-based compensation expense decreased \$4,430 primarily due to the timing of third parties achieving milestones.

Our programming and content expenses, excluding stock-based compensation expense, will increase as we continue to develop and enhance our channels. Beginning in February 2007, our agreement with NASCAR will increase our programming and content expenses. We regularly evaluate programming opportunities and may choose to acquire and develop new content or renew current programming agreements in the future at substantial costs. In addition, we expect total broadcast and webstreaming royalties, which are typically variable in nature, to increase as our subscriber base grows. We are currently a party to a proceeding before the Copyright Royalty Board of the Library of Congress to establish the royalty rate and terms for the sound recordings we use on our satellite radio service for the period 2007 through 2012.

Future expense associated with stock-based compensation is contingent upon a variety of factors, including the number of stock-based awards granted, the price of our common stock, assumptions used in estimating the fair value of stock-based awards, estimates for forfeitures, vesting provisions and the timing as to when certain performance criteria are met, and could materially change.

Customer Service and Billing. Customer service and billing expenses include costs associated with the operation of our customer service centers and subscriber management system.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, customer service and billing expenses were \$68,949 and \$47,202, respectively, an increase of \$21,747. Excluding stock-based compensation expense of \$812 and \$549 for the years ended December 31, 2006 and 2005, respectively, customer service and billing expenses increased \$21,484 from \$46,653 to \$68,137. This increase of \$21,484 was primarily due to call center operating costs necessary to accommodate our subscriber base and transaction fees due to the addition of new subscribers. Customer service and billing expenses, excluding stock-based compensation expense, increased 46% compared with an increase in our end of period subscribers of 82% year over year.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, customer service and billing expenses were \$47,202 and \$22,780, respectively, an increase of \$24,422. Excluding stock-based compensation expense of \$549 and \$439 for the years ended December 31, 2005 and 2004, respectively, customer service and billing expenses increased \$24,312 from \$22,341 to \$46,653. This increase of \$24,312 was primarily due to call center operating costs necessary to accommodate our subscriber base and transaction fees due to the addition of new subscribers. Customer service and billing expenses, excluding stock-based compensation expense, increased 109% compared with an increase in our end of period subscribers of 190% year over year.

We expect our customer care and billing expenses, excluding stock-based compensation expense, to increase as our subscriber base grows due to increased call center operating costs and transaction fees necessary to serve a larger subscriber base.

Cost of Equipment. Cost of equipment includes costs for SIRIUS radios and accessories sold through our direct to consumer distribution channel.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, cost of equipment was \$35,233 and \$11,827, respectively, an increase of \$23,406. The increase was primarily attributable to higher sales volume and per unit costs as we continued to introduce new products through our direct to consumer distribution channel.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, cost of equipment was \$11,827 and \$3,467, respectively, an increase of \$8,360. The increase was primarily attributable to higher sales volume through our direct to consumer distribution channel.

We expect cost of equipment to increase in the future as we introduce new products and as sales through our direct to consumer distribution channel grow.

Sales and Marketing. Sales and marketing expenses include costs for advertising, media and production, including promotional events and sponsorships; residuals; cooperative marketing; revenue share; customer retention and compensation. Residuals are monthly fees paid based upon the number of subscribers using a SIRIUS radio

purchased from a retailer. Cooperative marketing costs include fixed and variable payments to reimburse retailers and automakers for the cost of advertising and other product awareness activities.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, sales and marketing expenses were \$242,035 and \$212,741, respectively, an increase of \$29,294. Excluding stock-based compensation expense of \$19,543 and \$42,149 for the years ended December 31, 2006 and 2005, respectively, sales and marketing expenses increased \$51,900 from \$170,592 to \$222,492. This increase of \$51,900 was primarily due to increased residuals; OEM revenue share as a result of a 138% increase in our OEM subscriber base; cooperative marketing and advertising costs; and compensation related costs. This 30% increase in sales and marketing expenses, excluding stock-based compensation expense, compared with a 163% increase in total revenue from \$242,245 for the year ended December 31, 2005 to \$637,235 for the year ended December 31, 2006. Stock-based compensation expense decreased \$22,606 primarily due to the timing of third parties achieving milestones and changes in the fair market value of such awards.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, sales and marketing expenses were \$212,741 and \$202,848, respectively, an increase of \$9,893. Excluding stock-based compensation expense of \$42,149 and \$48,353 for the years ended December 31, 2005 and 2004, respectively, sales and marketing expenses increased \$16,097 from \$154,495 to \$170,592. This increase of \$16,097 was primarily due to increased residuals; OEM revenue share as a result of the increase in our subscriber base; cooperative marketing and advertising for both the holiday season and the rollout of new products in the retail distribution channel; and compensation related costs. These increases were offset in part by reductions in costs for the expiration of certain sponsorships in 2004 and certain retail costs associated with sales efforts for the RadioShack rollout in 2004. Stock-based compensation expense decreased \$6,204 primarily due to the timing of third parties achieving milestones and changes in the fair market value of such awards.

We expect sales and marketing expenses, excluding stock-based compensation expense, to increase as we continue to build brand awareness through national advertising and promotional activities, expand OEM distribution of SIRIUS radios resulting in increased revenue share payments to automakers, and expand our subscriber retention efforts. Beginning in 2007, our agreement with NASCAR will increase sponsorship costs that are included in our sales and marketing expense.

Future expense associated with stock-based compensation is contingent upon a variety of factors, including the number of stock-based awards granted, the price of our common stock, assumptions used in estimating the fair value of stock-based awards, estimates for forfeitures, vesting provisions and the timing as to when certain performance criteria are met, and could materially change.

Subscriber Acquisition Costs. Subscriber acquisition costs include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a SIRIUS radio and a prepaid subscription to our service in the sale or lease price of a new vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; commissions paid to retailers and automakers as incentives to purchase, install and activate SIRIUS radios; product warranty obligations; and compensation costs associated with stock-based awards granted in connection with certain distribution agreements. The majority of subscriber acquisition costs are incurred and expensed in advance of acquiring a subscriber. Subscriber acquisition costs do not include advertising, loyalty payments to distributors and dealers of SIRIUS radios and revenue share payments to automakers and retailers of SIRIUS radios, which are included in sales and marketing expense. Subscriber acquisition costs also do not include amounts capitalized in connection with our agreement with Hertz, as we retain ownership of certain SIRIUS radios used by Hertz.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, subscriber acquisition costs were \$451,614 and \$399,350, respectively, an increase of 13% or \$52,264. Excluding stock-based compensation expense of \$31,898 and \$49,709 for the years ended December 31, 2006 and 2005, respectively, subscriber acquisition costs increased 20%, or \$70,075, from \$349,641 to \$419,716. This increase of \$70,075 was primarily attributable to increased OEM hardware subsidies due to higher production volume and costs related to FM transmitter compliance with FCC rules, offset by decreased aftermarket hardware subsidies as we continued to reduce manufacturing and chip set costs. Stock-based compensation expense decreased \$17,811 primarily due to the timing of third parties achieving milestones and changes in the fair market value of such awards.

- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, subscriber acquisition costs were \$399,350 and \$206,851, respectively, an increase of 93% or \$192,499. Excluding stock-based compensation expense of \$49,709 and \$33,149 for the years ended December 31, 2005 and 2004, respectively, subscriber acquisition costs increased 101%, or \$175,939, from \$173,702 to \$349,641. This increase of \$175,939 was attributable to higher shipments of SIRIUS radios and chip sets and increases in commissions to support a 155% increase in gross subscriber additions from 986,556 for the year ended December 31, 2004 to 2,519,301 for the year ended December 31, 2005, offset by reductions in average subsidy rates as we continued to reduce manufacturing and chip set costs. Stock-based compensation expense increased \$16,560 primarily due to the timing of third parties achieving milestones and changes in the fair market value of such awards.

We expect total subscriber acquisition costs, excluding stock-based compensation expense, to decrease in 2007 as increases in our gross subscriber additions are offset by continuing declines in the costs of subsidized components of SIRIUS radios. We intend to continue to offer subsidies, commissions and other incentives to acquire subscribers.

Future expense associated with stock-based compensation is contingent upon a variety of factors, including the number of stock-based awards granted, the price of our common stock, assumptions used in estimating the fair value of stock-based awards, estimates for forfeitures, vesting provisions and the timing as to when certain performance criteria are met, and could materially change.

General and Administrative. General and administrative expenses include rent and occupancy, finance, legal, human resources, information technology and investor relations costs and bad debt expense.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, general and administrative expenses were \$137,466 and \$87,555, respectively, an increase of \$49,911. Excluding stock-based compensation expense of \$49,928 and \$27,724 for the years ended December 31, 2006 and 2005, respectively, general and administrative expenses increased \$27,707 from \$59,831 to \$87,538. This increase of \$27,707 was primarily a result of legal fees, employment-related costs and bad debt expense to support the growth of our business. Stock-based compensation expense increased \$22,204 primarily as a result of the adoption of SFAS No. 123R, offset by a decrease in expense for restricted stock units that vested in the first quarter of 2006.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, general and administrative expenses were \$87,555 and \$57,905, respectively, an increase of \$29,650. Excluding stock-based compensation expense of \$27,724 and \$13,877 for the years ended December 31, 2005 and 2004, respectively, general and administrative expenses increased \$15,803 from \$44,028 to \$59,831. This increase of \$15,803 was primarily a result of additional employment-related costs and rent and occupancy costs to support the growth of our business and bad debt expense. Stock-based compensation expense increased \$13,847 primarily due to expense associated with grants of restricted stock and restricted stock units and modifications of existing stock-based awards.

We expect our general and administrative expenses, excluding stock-based compensation expense, to increase in future periods as a result of higher personnel, information technology, and facilities costs, as well as increased legal fees and bad debt expenses to support the growth of our business.

Future expense associated with stock-based compensation is contingent upon a variety of factors, including the number of stock-based awards granted, the price of our common stock, assumptions used in estimating the fair value of stock-based awards, estimates for forfeitures, vesting provisions and the timing as to when certain performance criteria are met, and could materially change.

Engineering, Design and Development. Engineering, design and development expenses include costs to develop our future generation of chip sets and new products and costs associated with the incorporation of SIRIUS radios into vehicles manufactured by automakers.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, engineering, design and development expenses were \$70,127 and \$66,281, respectively, an increase of \$3,846. Excluding stock-based compensation expense of \$11,395 and \$21,536 for the years ended December 31, 2006 and 2005, respectively, engineering, design and development expenses increased \$13,987

from \$44,745 to \$58,732. This increase of \$13,987 was primarily attributable to OEM tooling and manufacturing upgrades and receiver integration for factory installations of SIRIUS radios, development costs associated with the manufacturing of SIRIUS radios and additional personnel-related costs to support research and development efforts. Stock-based compensation expense decreased \$10,141 primarily due to the timing of third parties achieving certain production milestones.

- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, engineering, design and development expenses were \$66,281 and \$35,487, respectively, an increase of \$30,794. Excluding stock-based compensation expense of \$21,536 and \$4,967 for the years ended December 31, 2005 and 2004, respectively, engineering, design and development expenses increased \$14,225 from \$30,520 to \$44,745. This increase of \$14,225 was primarily attributable to additional personnel-related costs to support research and development efforts, costs associated with OEM tooling and manufacturing upgrades to support factory installations of SIRIUS radios and development costs for our next generation of radios. These increases were offset by decreases in chip set development costs. Stock-based compensation expense increased \$16,569 primarily due to the timing of third parties achieving certain production milestones.

We expect engineering, design and development expenses, excluding stock-based compensation expense, to decrease in 2007, as we incorporated SIRIUS radios and accessories in a significant number of additional vehicle models in 2006 and incurred related non-recurring engineering expenses in that year.

We expect expense associated with stock-based compensation to decrease in 2007 as performance milestones pursuant to a certain third party agreement were achieved in 2006.

Other Income (Expense)

Interest and Investment Income. Interest and investment income includes realized gains and losses, dividends and interest income, including amortization of the premium and discount arising at purchase.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, interest and investment income was \$33,320 and \$26,878, respectively, an increase of \$6,442. The increase was primarily attributable to a combination of higher overall interest rates and our decision to invest in financial instruments bearing higher interest rates.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, interest and investment income was \$26,878 and \$9,713, respectively, an increase of \$17,165. The increase was attributable to higher interest rates and the increase in our average cash, cash equivalents and marketable securities balance as a result of funds raised through offerings of debt securities.

Interest Expense. Interest expense includes interest on outstanding debt, offset by interest capitalized in connection with the construction of our new satellite and launch vehicle.

- *2006 vs 2005:* For the years ended December 31, 2006 and 2005, interest expense was \$64,032 and \$45,361, respectively, an increase of \$18,671. The increase was primarily the result of a full year of interest expense for our 9 5/8% Senior Notes due 2013 issued in August 2005, offset by a decrease in interest expense both as a result of the 2005 redemption of our 15% Senior Secured Discount Notes due 2007 and our 14½% Senior Secured Notes due 2009 and \$4,205 of interest capitalized for the construction and launch of our new satellite.
- *2005 vs 2004:* For the years ended December 31, 2005 and 2004, interest expense was \$45,361 and \$41,386, respectively, an increase of \$3,975. The increase was primarily due to interest expense resulting from the issuance of our 9 5/8% Senior Notes due 2013 in August 2005 and a full year of interest expense from our 3¼% Convertible Notes due 2011 issued in October 2004 and our 2 ½% Convertible Notes due 2009 issued in the first quarter of 2004. This increase was offset by debt conversion costs in 2004 of \$19,592 as a result of the issuance of 56,409,853 shares of our common stock in exchange for \$69,000 in aggregate principal amount of our 3½% Convertible Notes due 2008, including accrued interest, and a decrease in interest expense resulting from the

redemption of our 15% Senior Secured Discount Notes due 2007 and our 14½% Senior Secured Notes due 2009 in the third quarter of 2005.

Loss from Redemption of Debt. For the year ended December 31, 2005, a loss from redemption of debt of \$6,214 was recognized in connection with the redemption of our 15% Senior Secured Discount Notes due 2007 and our 14½% Senior Secured Notes due 2009, including a redemption premium of \$5,502 and the write-off of unamortized debt issuance costs of \$712.

Equity in Net Loss of Affiliate. Equity in net loss of affiliate includes our share of SIRIUS Canada's net loss. We recorded \$4,445 and \$6,938 for the years ended December 31, 2006 and 2005, respectively, for our share of SIRIUS Canada's net loss.

As of December 31, 2006, our investment in SIRIUS Canada is \$0 as we have fully recognized our share of SIRIUS Canada's net loss to the extent we have funded it. We do not expect to recognize future net losses unless we commit to additional funding.

Income Taxes

Income Tax Expense. Income tax expense represents the recognition of a deferred tax liability related to the difference in accounting for our FCC license, which is amortized over 15 years for tax purposes but not amortized for book purposes in accordance with U.S. generally accepted accounting principles.

- *2006 vs 2005:* We recorded income tax expense of \$2,065 and \$2,311 for the years ended December 31, 2006 and 2005, respectively.
- *2005 vs 2004:* We recorded income tax expense of \$2,311 and \$4,201 for the years ended December 31, 2005 and 2004, respectively.

Footnotes to Results of Operations

- (1) Average monthly churn represents the number of deactivated subscribers divided by average quarterly subscribers.
- (2) ARPU is derived from total earned subscriber revenue and net advertising revenue divided by the daily weighted average number of subscribers for the period. ARPU is calculated as follows:

	For the Years Ended December 31,		
	2006	2005	2004
Subscriber revenue	\$ 575,404	\$ 223,615	\$ 162,881
Net advertising revenue	31,044	6,131	906
Total subscriber and net advertising revenue	\$ 606,448	\$ 229,746	\$ 163,787
Daily weighted average number of subscribers	4,591,693	1,851,149	523,219
ARPU	\$ 11.01	\$ 10.34	\$ 10.16

- (3) SAC, as adjusted, per gross subscriber addition is derived from subscriber acquisition costs, excluding stock-based compensation, and margins from the direct sale of SIRIUS radios and accessories divided by the number of gross subscriber additions for the period. SAC, as adjusted, per gross subscriber addition is calculated as follows:

	For the Years Ended December 31,		
	2006	2005	2004
Subscriber acquisition costs	\$ 451,614	\$ 399,350	\$ 206,851
Less: stock-based compensation	(31,898)	(49,709)	(33,149)
Add: margin from direct sale of SIRIUS radios and accessories	8,435	(444)	569
SAC, as adjusted	\$ 428,151	\$ 349,197	\$ 174,271
Gross subscriber additions	3,758,163	2,519,301	986,556
SAC, as adjusted, per gross subscriber addition	\$ 114	\$ 139	\$ 177

- (4) Customer service and billing expenses, as adjusted, per average subscriber is derived from total customer service and billing expenses, excluding stock-based compensation, divided by the daily weighted average number of subscribers for the period. Customer service and billing expenses, as adjusted, per average subscriber is calculated as follows:

For the Years Ended December 31,			
	2006	2005	2004
Customer service and billing expenses	\$ 68,949	\$ 47,202	\$ 22,780
Less: stock-based compensation	(812)	(549)	(439)
Customer service and billing expenses, as adjusted	\$ 68,137	\$ 46,653	\$ 22,341
Daily weighted average number of subscribers	4,591,693	1,851,149	523,219
Customer service and billing expenses, as adjusted, per average subscriber	\$ 1.24	\$ 2.10	\$ 3.56

- (5) Free cash flow is derived from cash flow used in operating activities, capital expenditures and restricted and other investment activity. Free cash flow is calculated as follows:

For the Years Ended December 31,			
	2006	2005	2004
Net cash used in operating activities	\$ (414,549)	\$ (269,994)	\$ (334,463)
Additions to property and equipment	(99,827)	(49,888)	(28,589)
Restricted and other investment activity	13,661	(14,040)	(89,706)
Free cash flow	\$ (500,715)	\$ (333,922)	\$ (452,758)

- (6) Average monthly churn; ARPU; SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; and free cash flow are not measures of financial performance under U.S. generally accepted accounting principles ("GAAP"). We believe these non-GAAP financial measures provide meaningful supplemental information regarding our operating performance and are used by us for budgetary and planning purposes; when publicly providing our business outlook; as a means to evaluate period-to-period comparisons; and to compare our performance to that of our competitors. We also believe that investors also use our current and projected metrics to monitor the performance of our business and make investment decisions.

We believe the exclusion of stock-based compensation expense in our calculations of SAC, as adjusted, per gross subscriber addition and customer service and billing expenses, as adjusted, per average subscriber is useful given the significant variation in expense that can result from changes in the fair market value of our common stock, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our subscriber acquisition costs and customer service and billing expenses. Specifically, the exclusion of stock-based compensation expense in our calculation of SAC, as adjusted, per gross subscriber addition is critical in being able to understand the economic impact of the direct costs incurred to acquire a subscriber and the effect over time as economies of scale are reached.

These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. These non-GAAP financial measures 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.

- (7) We refer to net loss before taxes; other income (expense) - including interest and investment income, interest expense, loss from redemption of debt and equity in net loss of affiliate; depreciation; impairment charges; and stock-based compensation expense as adjusted loss from operations. Adjusted loss from operations is not a measure of financial performance under generally accepted accounting principles. We believe adjusted loss from operations is a useful measure of our operating performance. We use adjusted loss from operations for budgetary and planning purposes; to assess the relative profitability and on-going performance of our consolidated operations; to compare our performance from period to period; and to compare our performance to that of our competitors. We also believe adjusted loss from operations is useful to investors to compare our operating performance to the performance of other communications, entertainment and media companies. We believe that investors use current and projected adjusted loss from operations to estimate our current or prospective enterprise value and make investment decisions.

Because we fund and build-out our satellite radio system through the periodic raising and expenditure of large amounts of capital, our results of operations reflect significant charges for interest and depreciation expense. We believe adjusted loss from operations provides useful information about the operating performance of our business apart from the costs associated with our capital structure and physical plant. The exclusion of interest and depreciation expense is useful given fluctuations in interest rates and significant variation in depreciation expense that can result from the amount and timing of capital expenditures and potential variations in estimated useful lives, all of which can vary widely across different industries or among companies within the same industry. We believe the exclusion of taxes is appropriate for comparability purposes as the tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the various jurisdictions in which they operate. We also believe the exclusion of stock-based compensation expense is useful given the significant variation in expense that can result from changes in the fair market value of our common stock. Finally, we believe that the exclusion of our equity in net loss of affiliate (SIRIUS Canada Inc.) is useful to assess the performance of our core consolidated operations in the continental United States. To compensate for the exclusion of taxes, other income (expense), depreciation, impairment charges and stock-based compensation expense, we separately measure and budget for these items.

There are material limitations associated with the use of adjusted loss from operations in evaluating our company compared with net loss, which reflects overall financial performance, including the effects of taxes, other income (expense), depreciation, impairment charges and stock-based compensation expense. We use adjusted loss from operations to supplement GAAP results to provide a more

complete understanding of the factors and trends affecting the business than GAAP results alone. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to net loss as disclosed in our consolidated statements of operations. Since adjusted loss from operations is a non-GAAP financial measure, our calculation of adjusted loss from operations 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.

Adjusted loss from operations is calculated as follows:

	For the Years Ended December 31,		
	2006	2005	2004
Net loss	\$ (1,104,867)	\$ (862,997)	\$ (712,162)
Impairment loss	10,917	—	—
Depreciation	105,749	98,555	95,370
Stock-based compensation	437,918	163,078	126,725
Other income (expense)	35,078	31,546	29,657
Income tax expense	2,065	2,311	4,201
Adjusted loss from operations	\$ (513,140)	\$ (567,507)	\$ (456,209)

Liquidity and Capital Resources

Cash Flows for the Year Ended December 31, 2006 Compared with Year Ended December 31, 2005 and for the Year Ended December 31, 2005 Compared with Year Ended December 31, 2004

As of December 31, 2006, 2005 and 2004, we had \$393,421, \$762,007 and \$753,891, respectively, in cash and cash equivalents.

	For the Years ended December 31,			Variances	
	2006	2005	2004	2006 vs 2005	2005 vs 2004
Net cash used in operating activities	\$ (414,549)	\$ (269,994)	\$ (334,463)	\$ (144,555)	\$ 64,469
Net cash provided by (used in) investing activities	20,176	(175,821)	(92,852)	195,997	(82,969)
Net cash provided by financing activities	25,787	453,931	660,227	(428,144)	(206,296)
Net (decrease) increase in cash and cash equivalents	(368,586)	8,116	232,912	(376,702)	(224,796)
Cash and cash equivalents at beginning of period	762,007	753,891	520,979	8,116	232,912
Cash and cash equivalents at end of period	\$ 393,421	\$ 762,007	\$ 753,891	\$ (368,586)	\$ 8,116

Net Cash Used in Operating Activities.

- **2006 vs 2005:** Net cash used in operating activities increased \$144,555 to \$414,549 for the year ended December 31, 2006 from \$269,994 for the year ended December 31, 2005. Such increase in the net outflows of cash was attributable to payments for increased operating expenses to support the growth of our subscriber base from 3,316,560 subscribers at December 31, 2005 to 6,024,555 subscribers at December 31, 2006; higher purchases of inventory to support production of SIRIUS radios and higher sales volumes through our direct to consumer distribution channel; and prepayments for new programming and distribution arrangements entered into in 2006; offset by cash collected for subscribers electing annual and other prepaid subscription programs compared with the prior year.
- **2005 vs 2004:** Net cash used in operating activities decreased \$64,469 to \$269,994 for the year ended December 31, 2005 from \$334,463 for the year ended December 31, 2004. Such decrease in the net outflows of cash was attributable to cash received for subscribers electing annual and other prepaid subscription programs and the effects of payments made in 2004 for future services pursuant to certain programming agreements. These positive impacts to cash flow were offset by payments for increased operating expenses to support the growth of our subscriber base.

Net Cash Used in Investing Activities.

- *2006 vs 2005:* Net cash provided by investing activities was \$20,176 for the year ended December 31, 2006 compared with net cash used in investing activities of \$175,821 for the year ended December 31, 2005. The \$195,997 increase was primarily a result of sales of auction rate securities in 2006, offset by an increase in capital expenditures from \$49,888 for the year ended December 31, 2005 to \$99,827 for the year ended December 31, 2006 primarily as a result of costs associated with our satellite construction and launch vehicle.
- *2005 vs 2004:* Net cash used in investing activities increased \$82,969 to \$175,821 for the year ended December 31, 2005 from \$92,852 for the year ended December 31, 2004. The increase was primarily a result of purchasing \$148,900 of auction rate securities with the proceeds from the offering of our 9 ⁵/₈ % Senior Notes due 2013, of which we sold \$31,850, for the year ended December 31, 2005, offset by payments deposited in escrow pursuant to certain agreements.

We will incur significant capital expenditures to construct and launch our new satellite and to improve our terrestrial repeater network and broadcast and administrative infrastructure. These capital expenditures will support our growth and the resiliency of our operations, and will also support the delivery of future new revenue streams.

Net Cash Provided by Financing Activities.

- *2006 vs 2005:* Net cash provided by financing activities decreased \$428,144 to \$25,787 for the year ended December 31, 2006 from \$453,931 for the year ended December 31, 2005. The decrease was primarily a result of the offering of \$500,000 in aggregate principal amount of our 9 ⁵/₈ % Senior Notes due 2013 in August 2005 resulting in net proceeds to us of \$493,005.
- *2005 vs 2004:* Net cash provided by financing activities decreased \$206,296 to \$453,931 for the year ended December 31, 2005 from \$660,227 for the year ended December 31, 2004. In 2005, we raised net proceeds of \$493,005 through the offering of \$500,000 in aggregate principal amount of our 9 ⁵/₈ % Senior Notes due 2013. In 2004, we raised net proceeds of \$614,438 through the offering of 25,000,000 shares of our common stock resulting in net proceeds of \$96,025, \$230,000 in aggregate principal amount of our 3 ¹/₄ % Convertible Notes due 2011 resulting in net proceeds of \$224,813, and \$300,000 in aggregate principal amount of our 2 ¹/₂ % Convertible Notes due 2009 resulting in net proceeds of \$293,600. We also received proceeds from the exercise of options of \$18,543 and \$26,051 for the years ended December 31, 2005 and 2004, respectively, and proceeds from the exercise of warrants of \$19,850 for the year ended December 31, 2004.

Financings and Capital Requirements

We have financed our operations through the sale of debt and equity securities. In 2006, we did not enter into any new debt or equity financing transactions. However, in 2005 and 2004 we had the following transactions:

- in August 2005, we sold \$500,000 in aggregate principal amount of our 9 ⁵/₈ % Senior Notes due 2013 resulting in net proceeds of \$493,005;
- in October 2004, we sold 25,000,000 shares of our common stock and issued \$230,000 in aggregate principal amount of our 3 ¹/₄ % Convertible Notes due 2011 resulting in aggregate net proceeds of \$320,838; and
- in the first quarter of 2004, we issued \$300,000 in aggregate principal amount of our 2 ¹/₂ % Convertible Notes due 2009 resulting in net proceeds of \$293,600. We also issued 21,027,512 shares of our common stock for \$19,850 in net proceeds in connection with the exercise of warrants held by affiliates of The Blackstone Group L.P.

Future Liquidity and Capital Resource Requirements

Based upon our current plans, we believe that our cash, cash equivalents and marketable securities will be sufficient to cover our estimated funding needs through cash flow breakeven, the point at which our revenues are sufficient to fund expected operating expenses, capital expenditures, working capital requirements, interest and principal payments and taxes. In light of our pending merger with XM Radio, and the uncertainty surrounding the timing and financial impact, we are no longer currently providing cash flow guidance. Our first quarter of positive free cash flow was reached in the fourth quarter of 2006. Our financial projections are based on assumptions, which we believe are reasonable but contain significant uncertainties.

Our business is in its early stages, and we regularly evaluate our plans and strategy. These evaluations often result in changes to our plans and strategy, some of which may be material and significantly change our cash requirements or cause us to achieve cash flow breakeven at a later date. These changes in our plans or strategy may include: the acquisition of unique or compelling programming; the introduction of new features or services; significant new or enhanced distribution arrangements; investments in infrastructure, such as satellites, equipment or radio spectrum; and acquisitions of third parties that own programming, distribution, infrastructure, assets, or any combination of the foregoing.

In June 2006, we entered into a Credit Agreement with Space Systems/Loral. Under the Credit Agreement, Space Systems/Loral has agreed to make loans to us in an aggregate principal amount of up to \$100,000 to finance the purchase of our new satellite. Loans made under the Credit Agreement will be secured by our rights under the Satellite Purchase Agreement with Space Systems/Loral, including our rights to the new satellite. The loans are also entitled to the benefits of a subsidiary guarantee from Satellite CD Radio, Inc., our subsidiary that holds our FCC license, and any future material subsidiary that may be formed by us. The maturity date of the loans is the earliest to occur of (i) April 6, 2009, (ii) 90 days after the new satellite becomes available for shipment and (iii) 30 days prior to the scheduled launch of the new satellite. Any loans made under the Credit Agreement generally will bear interest at a variable rate equal to three-month LIBOR plus 4.75%. The Credit Agreement permits us to prepay all or a portion of the loans outstanding without penalty. We have no current plans to draw under this Credit Agreement.

To fund incremental cash requirements, or as market opportunities arise, we may choose to raise additional funds through the sale of additional debt securities, equity securities or a combination of debt and equity securities. The incurrence of indebtedness would result in increased fiscal obligations and could contain restrictive covenants. The sale of additional equity or convertible debt securities may result in dilution to our stockholders. These additional sources of funds may not be available or, if available, may not be available on terms favorable to us.

2003 Long-Term Stock Incentive Plan

In January 2003, our board of directors adopted the Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan (the "2003 Plan"), and on March 4, 2003 our stockholders approved this plan. On May 25, 2004, our stockholders approved an amendment to the 2003 Plan to include members of our board of directors as eligible participants. Employees, consultants and members of our board of directors are eligible to receive awards under the 2003 Plan. The 2003 Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate.

Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2003 Plan are generally subject to a vesting requirement that includes one or all of the following: (1) over time, generally three to five years from the date of grant; (2) on a specific date in future periods with acceleration to earlier periods if performance criteria are satisfied; or (3) as certain performance targets set at the time of grant are achieved. Stock-based awards generally expire ten years from date of grant. Each restricted stock unit entitles the holder to receive one share of our common stock upon vesting.

As of December 31, 2006, approximately 75,879,000 stock options, shares of restricted stock and restricted stock units were outstanding. As of December 31, 2006, approximately 86,524,000 shares of our common stock were available for grant under the 2003 Plan. During the year ended December 31, 2006, employees exercised 19,284,495 stock options at exercise prices ranging from \$0.47 to \$3.93 per share, resulting in proceeds to us of \$26,679. The exercise of the remaining outstanding, vested options could result in an inflow of cash in future periods.

Contractual Cash Commitments

We have entered into various contracts that contain significant cash obligations. These cash obligations could vary in future periods if we change our business plan or strategy, which could include significant additions to our programming, infrastructure or distribution. The following table summarizes our expected contractual cash commitments as of December 31, 2006:

	2007	2008	2009	2010	2011	Thereafter	Total
Long-term debt obligations	\$ —	\$ 36,505	\$ 301,744	\$ —	\$ 230,000	\$ 500,000	\$ 1,068,249
Cash interest payments	64,755	64,391	59,856	55,600	55,559	97,320	397,481
Lease obligations	9,079	9,391	9,345	9,161	8,424	26,502	71,902
Satellite and transmission	27,765	79,165	39,869	2,010	1,720	6,617	157,146
Programming and content	122,365	123,549	146,211	147,647	38,660	27,667	606,099
Customer service and billing	3,492	45	—	—	—	—	3,537
Marketing and distribution	80,289	31,534	22,743	26,153	18,173	5,500	184,392
Chip set development and production	7,022	—	—	—	—	—	7,022
Other	7,098	11,575	9	—	—	—	18,682
Total contractual cash commitments	\$ 321,865	\$ 356,155	\$ 579,777	\$ 240,571	\$ 352,536	\$ 663,606	\$ 2,514,510

Long-Term Debt Obligations. Long-term debt obligations include principal payments on our outstanding debt. The amounts presented assume that the debt will not be converted to common stock since conversion is outside of our control.

Cash Interest Payments. Cash interest payments include interest due on our outstanding debt through maturity.

Lease Obligations. We have entered into operating leases related to our studios, office space, terrestrial repeaters and equipment.

Satellite and Transmission. We have entered into agreements with third parties to operate and maintain our off-site satellite telemetry, tracking and control facilities and certain components of our terrestrial repeater network. We have also entered into an agreement with Space Systems/Loral to design and construct a new satellite. Construction of this satellite is expected to be completed in the fourth quarter of 2008. We plan to launch this satellite on a Proton rocket under our contract with International Launch Services.

Programming and Content. We have entered into agreements with licensors of programming and other content providers and, in certain instances, are obligated to pay license fees and guarantee minimum advertising revenue share. In addition, we pay royalties for public performances of music to various rights organizations.

Customer Service and Billing. We have entered into agreements with third parties to provide billing and subscriber management services.

Marketing and Distribution. We have entered into various marketing, sponsorship and distribution agreements to promote our brand and are obligated to make payments to sponsors, retailers, automakers and radio manufacturers under these agreements. In addition, certain programming and content agreements require us to purchase advertising on properties owned or controlled by the licensors. We also reimburse automakers for certain engineering and development costs associated with the incorporation of SIRIUS radios into vehicles they manufacture.

Chip Set Development and Production. We have entered into agreements with third parties to develop, produce and supply chip sets; to develop products; and in certain instances to license intellectual property related to chip sets.

Other. We have entered into various agreements with third parties for general operating and strategic purposes. Amounts associated with these agreements are included in the commitments table.

In addition to the contractual cash commitments described above, we have entered into agreements with automakers, radio manufacturers and others that include per-radio, per-subscriber, per-show and other variable cost arrangements. These future costs are dependent upon many factors including our subscriber growth and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar provisions.

Under the terms of a joint development agreement with XM Radio, each party is obligated to fund one half of the development cost for a unified standard for satellite radios. The costs related to the joint development agreement are being expensed as incurred to engineering, design and development expense in the accompanying unaudited consolidated statements of operations. We are currently unable to determine the expenditures necessary to complete this process, but we do not expect that these expenditures will be material.

We are required under the terms of certain agreements to provide letters of credit and deposit monies in escrow, which place restrictions on our cash and cash equivalents. As of December 31, 2006 and 2005, \$77,850 and \$107,615, respectively, were classified as restricted investments as a result of our reimbursement obligations under these letters of credit and escrow deposits.

As of December 31, 2006, we have not entered into any off-balance sheet arrangements or transactions.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. We are currently evaluating the impact of the adoption, if any, that SFAS No. 157 will have on our consolidated results of operations and financial position.

In September 2006, the FASB issued EITF No. 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider." The EITF concluded that if consideration given by a service provider to a third-party manufacturer or a reseller that is not the service provider's customer can be linked contractually to the benefit received by the service provider's customer, a service provider should account for the consideration in accordance with EITF No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer." EITF No. 06-1 is effective for annual reporting periods beginning after June 15, 2007. We are currently evaluating the effects that EITF No. 06-1 will have on our consolidated results of operations and financial position.

In June 2006, the FASB issued EITF No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)," to clarify diversity in practice on the presentation of different types of taxes in the financial statements. The EITF concluded that for taxes within the scope of the issue, a company may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. If taxes subject to EITF No. 06-3 are significant, a company is required to disclose its accounting policy for presenting taxes and the amounts of such taxes that are recognized on a gross basis. EITF No. 06-3 is effective for the first interim reporting period beginning after December 15, 2006. We will adopt EITF No. 06-3 effective January 1, 2007. The adoption of EITF No. 06-3 will not have a material impact on our consolidated results of operations or financial position.

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, as well as criteria on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We will adopt FIN No. 48 effective January 1, 2007. The adoption of FIN No. 48 will not have a material impact on our consolidated results of operations or financial position.

Item 7A. Quantitative and Qualitative Disclosure About Market Risks

(All dollar amounts referenced in this Item 7A are in thousands, unless otherwise stated)

As of December 31, 2006, we did not have any derivative financial instruments and we do not intend to use derivatives. We do not hold or issue any free-standing derivatives. We hold investments in marketable securities, which consist of United States government notes, certificates of deposit and auction rate securities. We classify our marketable securities as available-for-sale. These securities are consistent with the investment objectives contained within our investment policy. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield. Despite the underlying long-

term maturity of auction rate securities, from the investor's perspective, such securities are priced and subsequently traded as short-term investments because of the interest rate reset feature. Interest rates are reset through an auction process at predetermined periods of 28 or 35 days. Failed auctions rarely occur. As of December 31, 2006, we held approximately \$10,850 in auction rate securities.

Our long-term debt includes fixed interest rates and the fair market value of the debt is sensitive to changes in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations.

Item 8. *Financial Statements and Supplementary Data*

See Index to Consolidated Financial Statements contained in Item 15 herein.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Controls and Procedures

We have performed an evaluation under the supervision and with the participation of our management, including Mel Karmazin, our Chief Executive Officer, and David Frear, our Executive Vice President and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2006 to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. As a result of this evaluation, there were no significant changes in our disclosure controls and procedures during the three months ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our internal control over financial reporting. Our management used the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations to perform this evaluation. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2006.

Ernst & Young LLP, our independent registered public accounting firm, who audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, a copy of which is included in this Annual Report on Form 10-K.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Information required by this item for executive officers is set forth under the heading "Executive Officers of the Registrant" in Part I, Item 1, of this report. The other information required by this Item 10 is included in our

definitive proxy statement for our 2007 annual meeting of stockholders to be held on Thursday, May 24, 2007, and is incorporated herein by reference.

Item 11. *Executive Compensation*

The information required by this item is included in our definitive proxy statement for our 2007 annual meeting of stockholders to be held on Thursday, May 24, 2007, and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is included in our definitive proxy statement for our 2007 annual meeting of stockholders to be held on Thursday, May 24, 2007, and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is included in our definitive proxy statement for our 2007 annual meeting of stockholders to be held on Thursday, May 24, 2007, and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is included in our definitive proxy statement for our 2007 annual meeting of stockholders to be held on Thursday, May 24, 2007, and is incorporated herein by reference.

PART IV

Item 15. *Exhibits, Financial Statement Schedules*

- (a) Financial Statements, Financial Statement Schedules and Exhibits
 - (1) Financial Statements
See Index to Consolidated Financial Statements appearing on page F-1.
 - (2) Financial Statement Schedules
See Index to Consolidated Financial Statements appearing on page F-1.
 - (3) Exhibits

See Exhibit Index appearing on pages E-1 through E-3 for a list of exhibits filed or incorporated by reference as part of this Annual Report on Form 10-K.

**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Sirius Satellite Radio Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Sirius Satellite Radio Inc. (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2007 expressed an unqualified opinion thereon.

As discussed in Notes 2 and 11 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment", effective January 1, 2006.

/s/ ERNST & YOUNG LLP

New York, NY

February 23, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Sirius Satellite Radio Inc.:

We have audited management's assessment, included in the accompanying Item 9A, that Sirius Satellite Radio Inc. (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 23, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, NY
February 23, 2007

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

For the Years Ended December 31,

	2006	2005	2004
Revenue:			
Subscriber revenue, including effects of mail-in rebates	\$ 575,404	\$ 223,615	\$ 62,881
Advertising revenue, net of agency fees	31,044	6,131	906
Equipment revenue	26,798	12,271	2,898
Other revenue	3,989	228	169
Total revenue	637,235	242,245	66,854
Operating expenses (excludes depreciation shown separately below) ⁽¹⁾:			
Cost of services:			
Satellite and transmission	41,797	29,798	33,198
Programming and content	551,989	118,076	87,252
Customer service and billing	68,949	47,202	22,780
Cost of equipment	35,233	11,827	3,467
Sales and marketing	242,035	212,741	202,848
Subscriber acquisition costs	451,614	399,350	206,851
General and administrative	137,466	87,555	57,905
Engineering, design and development	70,127	66,281	35,487
Depreciation	105,749	98,555	95,370
Total operating expenses	1,704,959	1,071,385	745,158
Loss from operations	(1,067,724)	(829,140)	(678,304)
Other income (expense):			
Interest and investment income	33,320	26,878	9,713
Interest expense, net of amounts capitalized	(64,032)	(45,361)	(41,386)
Loss from redemption of debt	—	(6,214)	—
Equity in net loss of affiliate	(4,445)	(6,938)	—
Other income	79	89	2,016
Total other income (expense)	(35,078)	(31,546)	(29,657)
Loss before income taxes	(1,102,802)	(860,686)	(707,961)
Income tax expense	(2,065)	(2,311)	(4,201)
Net loss	\$ (1,104,867)	\$ (862,997)	\$ (712,162)
Net loss per share (basic and diluted)	\$ (0.79)	\$ (0.65)	\$ (0.57)
Weighted average common shares outstanding (basic and diluted)	1,402,619	1,325,739	1,238,585

(1) Amounts related to stock-based compensation included in other operating expenses were as follows:

Satellite and transmission	\$ 2,568	\$ 1,942	\$ 2,041
Programming and content	321,774	19,469	23,899
Customer service and billing	812	549	439
Sales and marketing	19,543	42,149	48,353
Subscriber acquisition costs	31,898	49,709	33,149
General and administrative	49,928	27,724	13,877
Engineering, design and development	11,395	21,536	4,967
Total stock-based compensation	\$ 437,918	\$ 163,078	\$ 126,725

See Notes to Consolidated Financial Statements.



SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	As of December 31,	
	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 393,421	\$ 762,007
Marketable securities	15,500	117,250
Accounts receivable, net of allowance for doubtful accounts of \$3,183 and \$1,550 at December 31, 2006 and 2005, respectively	24,189	31,688
Receivables from distribution partners	46,825	26,513
Inventory	34,502	14,256
Prepaid expenses	52,588	18,248
Restricted investments	25,000	25,165
Other current assets	25,241	16,321
Total current assets	617,266	1,011,448
Property and equipment, net	810,389	828,357
FCC license	83,654	83,654
Restricted investments, net of current portion	52,850	82,450
Deferred financing fees	13,166	16,303
Other long-term assets	81,203	63,150
Total assets	\$ 1,658,528	\$ 2,085,362
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 437,913	\$ 331,953
Accrued interest	24,782	23,546
Deferred revenue	412,370	251,468
Total current liabilities	875,065	606,967
Long-term debt	1,068,249	1,084,437
Deferred revenue, net of current portion	76,580	56,479
Other long-term liabilities	27,705	12,511
Total liabilities	2,047,599	1,760,394
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, \$0.001 par value: 2,500,000,000 shares authorized, 1,434,635,501 and 1,346,226,851 shares issued and outstanding at December 31, 2006 and 2005, respectively	1,435	1,346
Additional paid-in capital	3,443,214	3,079,169
Deferred compensation	—	(26,694)
Accumulated deficit	(3,833,720)	(2,728,853)
Total stockholders' (deficit) equity	(389,071)	324,968
Total liabilities and stockholders' equity	\$ 1,658,528	\$ 2,085,362

See Notes to Consolidated Financial Statements.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share and per share amounts)

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount					
Balances, December 31, 2003	1,137,758,947	\$ 1,138	\$ 2,525,135	\$ (47,411)	\$ 26	\$ (1,153,694)	\$ 1,325,194
Net loss	—	—	—	—	—	(712,162)	(712,162)
Change in unrealized loss on available-for-sale securities	—	—	—	—	(50)	—	(50)
Total comprehensive loss							\$ (712,212)
Sale of common stock, par value \$0.001 per share, \$3.87 per share, net of expenses	25,000,000	25	96,000	—	—	—	96,025
Issuance of common stock to employees and employee benefit plans	3,942,133	4	1,624	—	—	—	1,628
Issuance of common stock to third parties	99,602	—	280	—	—	—	280
Compensation in connection with the issuance of stock-based awards	—	—	87,029	—	—	—	87,029
Issuance of stock-based awards	—	—	33,499	(33,499)	—	—	—
Cancellation of stock-based awards	—	—	(703)	703	—	—	—
Amortization of deferred compensation	—	—	—	29,244	—	—	29,244
Issuance of equity to the NFL	15,173,070	15	40,952	—	—	—	40,967
Exercise of options, \$0.49 to \$7.61 per share	17,447,086	18	26,042	—	—	—	26,060
Exchange of 3½% Convertible Notes due 2008, including accrued interest	56,409,853	56	86,512	—	—	—	86,568
Exercise of warrants, \$0.92 and \$1.04 per share	21,091,943	21	19,829	—	—	—	19,850
Balances, December 31, 2004	1,276,922,634	1,277	2,916,199	(50,963)	(24)	(1,865,856)	1,000,633
Net loss	—	—	—	—	—	(862,997)	(862,997)
Change in unrealized gain on available-for-sale securities	—	—	—	—	24	—	24
Total comprehensive loss							\$ (862,973)
Issuance of common stock to employees and employee benefit plans	2,773,776	3	3,366	—	—	—	3,369
Issuance of common stock to third parties	38,580	—	480	—	—	—	480
Compensation in connection with the issuance of stock-based awards	—	—	109,112	—	—	—	109,112
Issuance of stock-based awards	—	—	18,300	(18,300)	—	—	—
Cancellation of stock-based awards	—	—	(1,333)	1,333	—	—	—
Amortization of deferred compensation	—	—	—	41,236	—	—	41,236
Exercise of options, \$0.67 to \$5.32 per share	14,460,738	14	18,803	—	—	—	18,817
Exchange of 3½% Convertible Notes due 2008, including accrued interest	10,548,545	11	14,283	—	—	—	14,294
Exercise of warrants, \$0.92 to \$2.392 per share	41,482,578	41	(41)	—	—	—	—
Balances, December 31, 2005	1,346,226,851	1,346	3,079,169	(26,694)	—	(2,728,853)	324,968

table continued on next page

See Notes to Consolidated Financial Statements.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - Continued
(In thousands, except share and per share amounts)

table continued from previous page

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount					
Net loss	—	—	—	—	—	(1,104,867)	(1,104,867)
Issuance of common stock to employees and employee benefit plans	20,063,322	20	22,253	—	—	—	22,273
Issuance of common stock to third parties	34,467,869	35	224,917	—	—	—	224,952
Compensation in connection with the issuance of stock-based awards	—	—	100,923	—	—	—	100,923
Reversal of deferred compensation related to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R	—	—	(26,694)	26,694	—	—	—
Exercise of options, \$0.47 to \$3.93 per share	19,284,495	19	26,660	—	—	—	26,679
Exercise of warrants, \$2.392 per share	2,862,533	3	(3)	—	—	—	—
Exchange of 3½% Convertible Notes due 2008, including accrued interest	11,730,431	12	15,989	—	—	—	16,001
Balances, December 31, 2006	1,434,635,501	\$ 1,435	\$ 3,443,214	\$ —	\$ —	\$ (3,833,720)	\$ (389,071)

See Notes to Consolidated Financial Statements.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

For the Years Ended December 31,

	2006	2005	2004
Cash flows from operating activities:			
Net loss	\$ (1,104,867)	\$ (862,997)	\$ (712,162)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	105,749	98,555	95,370
Non-cash interest expense	3,107	3,169	21,912
Provision for doubtful accounts	7,513	4,311	1,648
Non-cash equity in net loss of affiliate	4,445	6,938	—
Non-cash loss from redemption of debt	—	712	—
Loss on disposal of assets	1,661	1,028	70
Impairment loss	10,917	—	—
Stock-based compensation	437,918	163,078	126,725
Deferred income taxes	2,065	2,311	4,201
Changes in operating assets and liabilities:			
Marketable securities	—	16	(292)
Accounts receivable	(14)	(28,440)	(7,684)
Receivables from distribution partners	(20,312)	(17,265)	(8,031)
Inventory	(20,246)	(6,329)	(1,850)
Prepaid expenses and other current assets	(42,367)	(11,864)	2,395
Other long-term assets	(19,331)	6,476	(44,563)
Accounts payable and accrued expenses	33,519	145,052	108,511
Accrued interest	1,239	17,813	4,689
Deferred revenue	181,003	210,947	78,541
Other long-term liabilities	3,452	(3,505)	(3,943)
Net cash used in operating activities	(414,549)	(269,994)	(334,463)
Cash flows from investing activities:			
Additions to property and equipment	(99,827)	(49,888)	(28,589)
Sales of property and equipment	127	72	443
Purchases of restricted and other investments	(12,339)	(25,037)	(89,706)
Release of restricted investments	26,000	10,997	—
Purchases of available-for-sale securities	(123,500)	(148,900)	—
Sales of available-for-sale securities	229,715	36,935	25,000
Net cash provided by (used in) investing activities	20,176	(175,821)	(92,852)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt, net	—	493,005	518,413
Proceeds from issuance of common stock, net	—	—	96,025
Redemption of debt	—	(57,609)	—
Proceeds from exercise of stock options	25,787	18,543	26,051
Proceeds from exercise of warrants	—	—	19,850
Other	—	(8)	(112)
Net cash provided by financing activities	25,787	453,931	660,227
Net (decrease) increase in cash and cash equivalents	(368,586)	8,116	232,912
Cash and cash equivalents at the beginning of period	762,007	753,891	520,979
Cash and cash equivalents at the end of period	\$ 393,421	\$ 762,007	\$ 753,891

Supplemental Disclosure of Cash and Non-Cash Flow Information

Cash paid during the period for:			
Interest, net of amounts capitalized	\$ 59,929	\$ 24,387	\$ 14,920
Income taxes	583	158	—
Non-cash operating activities:			
Common stock issued in satisfaction of accrued compensation	7,243	4,824	913
Non-cash investing and financing activities:			
Release of restriction on marketable securities	4,750	—	—
Common stock issued in exchange of 3¼% Convertible Notes due 2008, including accrued interest	16,001	14,294	86,568
Common stock issued to third parties	224,952	—	40,967

See Notes to Consolidated Financial Statements.

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

1. Business

We are a satellite radio provider in the United States. We currently broadcast over 130 channels of programming to listeners across the country. We offer 69 channels of 100% commercial-free music and feature 65 channels of sports, news, talk, entertainment, traffic and weather for a monthly subscription fee of \$12.95.

We broadcast through our proprietary satellite radio system, which currently consists of three orbiting satellites, 127 terrestrial repeaters that receive and retransmit our signal, a satellite uplink facility and our studios. Subscribers receive our service through SIRIUS radios, which are sold by automakers, consumer electronics retailers, mobile audio dealers and through our website. Subscribers can also receive our music channels and certain other channels over the Internet. As of December 31, 2006, we had 6,024,555 subscribers.

Our music channels are available to DISH satellite television subscribers and certain of our music channels are offered to Sprint subscribers over multi-media handsets. We also offer traffic and weather data services for a separate fee. Subscribers to DISH satellite television, Sprint and our traffic and weather data services are not included in our subscriber count.

In 2005, SIRIUS Canada Inc., a Canadian corporation owned by us, Canadian Broadcasting Corporation and Standard Radio Inc., received a license from the Canadian Radio-television and Telecommunications Commission to offer a satellite radio service in Canada. In December 2005, SIRIUS Canada launched service in Canada with 110 channels of commercial-free music and news, sports, talk and entertainment programming, including 11 channels of Canadian content. Subscribers to the SIRIUS Canada service are not included in our subscriber count.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements of Sirius Satellite Radio Inc. and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles. All intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgment and available information. Actual results could differ from those estimates.

Significant estimates inherent in the preparation of the accompanying consolidated financial statements include allowances for doubtful accounts; depreciable lives of our assets; stock-based compensation; mail-in rebates; certain subscriber acquisition costs, including product warranty obligations; asset retirement obligations; and impairments.

Revenue Recognition

Revenue from subscribers consists of subscription fees; revenue derived from our agreement with Hertz; non-refundable activation fees; and the effects of mail-in rebates.

We recognize subscription fees as our service is provided to a subscriber. We record deferred revenue for prepaid subscription fees and amortize these prepayments to revenue ratably over the term of the respective subscription plan.

At the time of sale, vehicle owners purchasing or leasing a vehicle with a subscription to our service typically receive between a six month and one year prepaid subscription. We receive payment from automakers for these subscriptions in advance of our service being activated. Such prepayments are recorded to deferred revenue and amortized ratably over the service period upon activation and sale to a customer. We also reimburse automakers

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

for certain costs associated with the SIRIUS radio installed in the applicable vehicle at the time the vehicle is manufactured. The associated payments to the automakers are included in subscriber acquisition costs. Although we receive payments from the automakers, they do not resell our service; rather, automakers facilitate the sale of our service to our customers, acting similar to an agent. We believe this is the appropriate characterization of our relationship since we are responsible for providing service to our customers including being obligated to the customer if there was interruption of service.

Activation fees are recognized ratably over the estimated term of a subscriber relationship, currently estimated to be 3.5 years. The estimated term of a subscriber relationship is based on market research and management's judgment and, if necessary, will be refined in the future as historical data becomes available.

As required by Emerging Issues Task Force ("EITF") No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," an estimate of mail-in rebates that are paid by us directly to subscribers is recorded as a reduction to revenue in the period the subscriber activates our service. For certain mail-in rebate promotions, a subscriber must remain active for a specified period of time to be considered eligible. In those instances, such estimate is recorded as a reduction to revenue over the required activation period. We estimate the effects of mail-in rebates based on actual take-rates for rebate incentives offered in prior periods, adjusted as deemed necessary based on current take-rate data available at the time. In subsequent periods, estimates are adjusted when necessary.

We recognize revenues from the sale of advertising on some of our non-music channels as the advertising is broadcast. Agency fees are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory and are reported as a reduction of advertising revenue. Advertising revenue includes advertising sold in exchange for goods or services (barter) recorded at fair value. Revenue from barter transactions is recognized when the advertising is broadcast and goods or services exchanged are received. Goods or services received are charged to expense when received and/or used. Barter transactions are not significant to our consolidated financial statements. We pay certain third parties a percentage of advertising revenue. Advertising revenue is recorded gross of such revenue share payments in accordance with EITF No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," as we are the primary obligor in the transaction. Advertising revenue share payments are recorded to programming and content expense during the period in which the advertising is broadcast.

Equipment revenue from the direct sale of SIRIUS radios and accessories is recognized upon shipment. Shipping and handling costs billed to customers are recorded as revenue. Shipping and handling costs associated with shipping goods to customers are recorded to cost of equipment.

EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," provides guidance on how and when to recognize revenues for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables are required to be divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. Arrangement consideration must be allocated among the separate units of accounting based on their relative fair values.

We determined that the sale of our service through our direct to consumer channel with accompanying equipment constitutes a revenue arrangement with multiple deliverables. In these types of arrangements, amounts received for equipment are recognized as equipment revenue; amounts received for service are recognized as subscription revenue; and amounts received for the non-refundable, up-front activation fee that are not contingent on the delivery of the service are allocated to equipment revenue. Activation fees are recorded to equipment revenue only to the extent that the aggregate equipment and activation fee proceeds do not exceed the fair value of the equipment. Any activation fees not allocated to the equipment are deferred upon activation and recognized as subscriber revenue on a straight-line basis over the estimated term of a subscriber relationship.

Stock-Based Compensation

Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), using the modified prospective transition method. Prior periods are not restated under this transition method. The stock-based compensation cost recognized beginning January 1, 2006 includes compensation cost for all stock-based awards granted to employees and members of our board of directors (i) prior to, but not vested as of, January 1, 2006 based on the grant date fair value originally estimated in accordance with

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

the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and (ii) subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R.

Compensation cost under SFAS No. 123R is recognized ratably using the straight-line attribution method over the expected vesting period.

SFAS No. 123R requires forfeitures to be estimated on the grant date and revised in subsequent periods if actual forfeitures differ from those estimates. Prior to the adoption of SFAS No. 123R we accounted for forfeitures as they occurred. For pro forma disclosure purposes in accordance with SFAS No. 123, we estimated forfeitures. As of January 1, 2006, the cumulative effect of adopting the estimated forfeiture method was not significant.

Prior to January 1, 2006, we used the intrinsic value method to measure the compensation cost of stock-based awards granted to employees and members of our board of directors in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." Accordingly, we recorded compensation expense for stock-based awards granted to employees and members of our board of directors over the vesting period equal to the excess of the market price of the underlying common stock at the date of grant over the exercise price of the stock-based award. The intrinsic value of restricted stock units as of the date of grant was amortized to expense over the vesting period. We accounted for modifications to stock-based awards in accordance with Financial Accounting Standards Board Interpretation ("FIN") No. 44, "Accounting for Certain Transactions Involving Stock Compensation." FIN No. 44 provided that when the modification of a stock-based award occurred, a new measurement date resulted because the modification allowed an employee to vest in an award that would have otherwise been forfeited pursuant to the original terms. In accordance with FIN No. 44, we also recorded compensation charges or benefits related to repriced stock options based on the market value of our common stock until the repriced stock options were exercised, forfeited or expired.

The following table reflects net loss and net loss per share had stock-based compensation to employees and members of our board of directors been recorded based on the fair value method under SFAS No. 123 for the periods set forth below:

	For the Years Ended December 31,	
	2005	2004
Net loss—as reported	\$ (862,997)	\$ (712,162)
Stock-based compensation to employees and members of our board of directors	47,915	35,434
Stock-based compensation to employees and members of our board of directors— <i>pro forma</i>	(94,677)	(62,491)
Net loss— <i>pro forma</i>	\$ (909,759)	\$ (739,219)
Net loss per share:		
Basic and diluted—as reported	\$ (0.65)	\$ (0.57)
Basic and diluted— <i>pro forma</i>	\$ (0.69)	\$ (0.60)

Pursuant to SFAS 123R, we recognized \$70,392 of compensation cost for stock-based awards granted to employees and members of our board of directors for the year ended December 31, 2006. This compared to \$47,915 and \$35,434 of compensation cost for stock-based awards granted to employees and members of our board of directors recognized pursuant to APB No. 25 for the years ended December 31, 2005 and 2004, respectively. Total unrecognized compensation related to unvested stock-based awards granted to employees and members of our board of directors at December 31, 2006, net of estimated forfeitures, is \$105,146 and is expected to be recognized over a weighted-average period of three years.

Prior to January 1, 2006, we accounted for stock-based awards granted to non-employees, other than non-employee members of our board of directors, at fair value in accordance with SFAS No. 123. Effective January 1, 2006, we account for such awards at fair value in accordance with SFAS No. 123R and SEC guidance contained in Staff Accounting Bulletin ("SAB") No. 107. The fair value of equity instruments granted to non-employees is measured in accordance with EITF No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." The final measurement date of equity instruments with performance criteria is the date that each performance commitment for such equity instrument is satisfied or there is a significant disincentive for non-performance.

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

Stock-based awards granted to employees, non-employees and members of our board of directors generally include warrants, stock options, restricted stock and restricted stock units. Charges associated with such stock-based awards are referred to by us as stock-based compensation.

Upon adoption of SFAS No. 123R, we continued to estimate the fair value of stock-based awards using the Black-Scholes option valuation model ("Black-Scholes"). Black-Scholes was developed to estimate the fair market value of traded options, which have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions. Because our stock-based awards have characteristics significantly different from those of traded options and because changes in the subjective assumptions can materially affect the fair market value estimate, the existing option valuation models do not necessarily provide a reliable single measure of the fair value of our stock-based awards.

Fair value determined using Black-Scholes varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. For the years ended December 31, 2005 and 2004, we used historical volatility of our stock over a period equal to the expected life of stock-based awards to estimate fair value. We estimated the fair value of awards granted during the year ended December 31, 2006 using the implied volatility of actively traded options on our stock. We believe that implied volatility is more representative of future stock price trends than historical volatility. The expected life assumption represents the weighted-average period stock-based awards are expected to remain outstanding. These expected life assumptions are established through a review of historical exercise behavior of stock-based award grants with similar vesting periods. Where historical patterns do not exist contractual terms are used. The risk-free interest rate represents the daily treasury yield curve rate at the reporting date based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term. Our assumptions may change in future periods.

The following table summarizes the weighted-average assumptions used to compute reported and pro forma stock-based compensation to employees and members of our board of directors for the periods set forth below:

	For the Years Ended December 31,		
	2006	2005	2004
Risk-free interest rate	4.20%	(pro forma) 4.18%	(pro forma) 3.85%
Expected life of options—years	4.45	5.07	6.23
Expected stock price volatility	60%	89%	110%
Expected dividend yield	N/A	N/A	N/A

The following table summarizes the range of assumptions used to compute reported stock-based compensation to third parties, other than non-employee members of our board of directors, for the periods set forth below:

	For the Years Ended December 31,		
	2006	2005	2004
Risk-free interest rate	4.29-5.23%	2.83-4.58%	1.99-4.69%
Expected life of options—years	1.67-10.00	1.00-9.93	1.00-10.00
Expected stock price volatility	60%	56-116%	56-116%
Expected dividend yield	N/A	N/A	N/A

SFAS No. 123R changes the presentation of realized excess tax benefits associated with the exercise of stock options in the statements of cash flows. Excess tax benefits are realized tax benefits from tax deductions for the exercise of stock options in excess of the deferred tax asset attributable to stock compensation expense for such options. Prior to the adoption of SFAS No. 123R such realized tax benefits were required to be presented as operating cash flows. SFAS No. 123R requires such realized tax benefits to be presented as part of cash flows from

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

financing activities. No income tax benefits have been realized from stock option exercises during the years ended December 31, 2006, 2005 and 2004 because a valuation allowance was recorded for all net deferred tax assets.

Subscriber Acquisition Costs

Subscriber acquisition costs include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a SIRIUS radio and a prepaid subscription to our service in the sale or lease price of a new vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; commissions paid to retailers and automakers as incentives to purchase, install and activate SIRIUS radios; product warranty obligations; and compensation costs associated with stock-based awards granted in connection with certain distribution agreements. The majority of subscriber acquisition costs are incurred in advance of acquiring a subscriber. Subscriber acquisition costs do not include advertising, loyalty payments to distributors and dealers of SIRIUS radios and revenue share payments to automakers and retailers of SIRIUS radios which are included in sales and marketing expense. Subscriber acquisition costs also do not include amounts capitalized in connection with our agreement with Hertz, as we retain ownership of certain SIRIUS radios used by Hertz.

Subsidies paid to radio manufacturers and automakers are expensed upon shipment or installation. Commissions paid to retailers and automakers are expensed either upon activation or sale of the SIRIUS radio. Chip sets that are shipped to radio manufacturers and held on consignment are recorded as inventory and expensed as subscriber acquisition costs when placed into production by radio manufacturers. Costs for chip sets not held on consignment are expensed as subscriber acquisition costs when the chip sets are shipped to radio manufacturers.

We record product warranty obligations in accordance with FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34." FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. We warrant that certain products sold through our retail and direct to consumer distribution channels will perform in all material respects in accordance with standard published specifications in effect at the time of the purchase of the products by the customer. We provide a 12-month warranty on our products from purchase date for repair or replacement of components and/or products that contain defects of material or workmanship. Customers may exchange products directly to the retailer within 30 days of purchase. We record a liability for an estimate of costs that we expect to incur under our warranty guarantee when the product is shipped from the manufacturer. Factors affecting our warranty liability include the number of units sold and historical and anticipated rates of claims and costs per claim. We periodically assess the adequacy of our warranty liability based on changes in these factors.

The following table reconciles the beginning and ending aggregate product warranty liability:

	Product Warranty Liability
Balance, December 31, 2005	\$ 1,434
Accrual for warranties issued during the period	7,127
Settlements during the period	(3,520)
	\$ 5,041
Balance, December 31, 2006	

Sports Programming Costs

We record the costs associated with our sports programming agreements in accordance with SFAS No. 63, "Financial Reporting by Broadcasters." Programming costs which are for a specified number of events are amortized on an event-by-event basis; programming costs which are for a specified season are amortized over the season on a straight-line basis. We allocate that portion of sports programming costs which are related to sponsorship and marketing activities to sales and marketing expenses on a straight-line basis over the term of the agreement.

Advertising Costs

We record the costs associated with advertising in accordance with Statement of Position ("SOP") No. 93-7, "Reporting on Advertising Costs." Media is expensed when aired and advertising production costs are expensed

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

as incurred. Market development funds are fixed and variable payments to reimburse retailers for the cost of advertising and other product awareness activities. Fixed market development funds are expensed over the periods specified in the applicable agreement; variable costs are expensed at the time a subscriber is activated.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs for the years ended December 31, 2006, 2005 and 2004 were \$46,460, \$53,401 and \$26,121, respectively, and are included in engineering, design and development expenses.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes are recognized for the tax consequences related to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established when necessary based on the weight of available evidence, if it is considered more likely than not that all or some portion of the deferred tax assets will not be realized. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

Net (Loss) Income Per Share

We compute net (loss) income per share in accordance with SFAS No. 128, "Earnings Per Share." Basic net (loss) income per share is based on the weighted average common shares outstanding during each reporting period. Diluted net (loss) income per share adjusts the weighted average for the potential dilution that could occur if common stock equivalents (convertible debt, warrants, stock options and restricted stock units) were exercised or converted into common stock. Common stock equivalents of approximately 194,000,000, 235,000,000 and 190,000,000 were not considered in the calculation of diluted net loss per share for the years ended December 31, 2006, 2005 and 2004, respectively, as the effect would have been anti-dilutive.

Comprehensive (Loss) Income

We report comprehensive (loss) income in accordance with SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 established a standard for reporting and displaying other comprehensive (loss) income and its components within financial statements. Unrealized gains and losses on available-for-sale securities were the only component of our other comprehensive loss for the years ended December 31, 2005 and 2004. There were no unrealized gains and losses on available-for-sale securities for the year ended December 31, 2006. Comprehensive loss for the years ended December 31, 2006, 2005 and 2004 was \$1,104,867, \$862,973 and \$712,212, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, money market funds and investments with an original maturity of three months or less when purchased. Cash and cash equivalents are stated at fair market value.

Investments

Our investments consist of the following:

	As of December 31,	
	2006	2005
Marketable securities	\$ 15,500	\$ 117,250
Restricted investments	77,850	107,615
Investment, stated at cost	5,000	—
Total investments	\$ 98,350	\$ 224,865

Marketable Securities

We account for marketable securities in accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Marketable securities consist of certificates of deposit and auction rate securities. For the years ended December 31, 2006 and 2005, certificates of deposit were \$4,650 and

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

\$200, respectively, and auction rate securities were \$10,850 and \$117,050, respectively. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield. We classify our marketable securities as available-for-sale securities. Available-for-sale securities are carried at fair market value. Unrealized gains and losses are included in accumulated other comprehensive (loss) income as a separate component of stockholders' equity. Realized gains and losses, dividends and interest income, including amortization of the premium and discount arising at purchase, are included in interest and investment income. The specific-identification method is used to determine the cost of all securities and the basis by which amounts are reclassified from accumulated comprehensive (loss) income into earnings. While the underlying securities of auction rate securities have contractual maturities of more than 20 years, the interest rates on such securities reset at intervals of 28 or 35 days. Auction rate securities are priced and subsequently trade as short-term investments because of such interest rate reset feature.

We received proceeds from the sale or maturity of marketable securities of \$229,715, \$36,935 and \$25,000 for the years ended December 31, 2006, 2005 and 2004, respectively. There were no unrealized holding gains or losses on marketable securities as of December 31, 2006 and 2005.

Restricted Investments

As of December 31, 2006 and 2005, short-term restricted investments of \$25,000 and \$25,165, respectively, included certificates of deposit placed in escrow primarily for the benefit of a third party pursuant to a programming agreement.

As of December 31, 2006 and 2005, long-term restricted investments of \$52,850 and \$82,450, respectively, included certificates of deposit and money market funds deposited in escrow for the benefit of third parties pursuant to programming agreements and certificates of deposit placed in escrow to secure our reimbursement obligations under letters of credit issued for the benefit of lessors of office space.

Cost Method Investment

In September 2006, we invested in a third party for strategic purposes. We account for this investment under the cost method. The carrying value of our investment was \$5,000 at December 31, 2006 and is included in other long-term assets in our accompanying consolidated balance sheet.

Equity Method Investment

We have a 49.9% economic interest in SIRIUS Canada. Our investment in SIRIUS Canada is recorded using the equity method since we have significant influence, but less than a controlling voting interest. Under this method, our investment in SIRIUS Canada, originally recorded at cost, is adjusted to recognize our share of net earnings or losses as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments to fund SIRIUS Canada. Our share of net earnings or losses of SIRIUS Canada is recorded to equity in net loss of affiliate in our accompanying consolidated statements of operations. We recorded \$4,445 and \$6,938 for the years ended December 31, 2006 and 2005, respectively, for our share of SIRIUS Canada's net loss.

Accounts Receivable

Accounts receivable are stated at amounts due from customers net of an allowance for doubtful accounts. We specifically reserve for customers with known disputes or collectibility issues. The remaining reserve recorded in the allowance for doubtful accounts is our best estimate of the amount of probable losses in our existing accounts receivable based on our actual write-off experience.

Inventory

Inventory consists of finished goods, chip sets and other raw material components used in manufacturing radios. Inventory is stated at the lower of cost, determined on a first-in, first-out basis, or market. We record an estimated allowance for inventory that is considered slow moving and obsolete or whose carrying value is in excess of net realizable value.

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

Property and Equipment

Property and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, which range from 2 to 30 years. Our satellite system is depreciated on a straight-line basis over the respective remaining useful lives of our satellites from the date we launched our service in February 2002 or, in the case of our spare satellite, from the date it was delivered to ground storage in April 2002. Leasehold improvements and equipment under capital leases is depreciated using the straight-line method over the lesser of the lease term or the estimated useful life. 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 for the year ended December 31, 2006 was \$4,205. We had no capitalized interest for the year ended December 31, 2005.

Major additions and improvements are capitalized, while replacements, repairs and maintenance that do not improve or extend the life of the assets are charged to expense. In the period assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss on disposal is included in our results of operations.

The costs of acquiring, developing and testing software are capitalized under SOP No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." We capitalize costs associated with software developed or obtained for internal use when the following occur: (1) the preliminary project stage is completed and (2) management has authorized funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended use. The total net book value of capitalized software costs was \$17,349 and \$14,943 for the years ended December 31, 2006 and 2005, respectively. Costs charged to expense for the amortization of capitalized software costs were \$4,971, \$3,451 and \$2,387 for the years ended December 31, 2006, 2005 and 2004, respectively, and are included in depreciation in our accompanying consolidated statements of operations.

The estimated useful lives of our property and equipment are as follows:

Customer care, billing and conditional access	3-7 years
Furniture, fixtures, equipment and other	2-7 years
Broadcast studio equipment	3-15 years
Satellite telemetry, tracking and control facilities	3, 4 or 15 years
Terrestrial repeater network	5 or 15 years
Leasehold improvements	2-15 years
Satellite system	13 or 15 years
Building	30 years

The expected useful lives of our three in-orbit satellites were originally 15 years from the date they were placed into orbit. In June 2006, we entered into an agreement with Space Systems/Loral to design and construct a new satellite. In connection with this agreement, we adjusted the useful lives of two of our in-orbit satellites to 13 years to reflect the way we intend to operate the constellation. We continue to expect our spare satellite to operate effectively for 15 years from the date of launch.

Our satellites have experienced circuit failures on their solar arrays. We continue to monitor the operating condition of our satellites. If events or circumstances indicate that the useful lives of our satellites have changed we will modify the depreciable life accordingly.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is not recoverable. At the time an impairment in value of a long-lived asset is identified, except for our FCC license discussed below, the impairment is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. To determine fair value, we employ an expected present value technique, which utilizes multiple cash flow scenarios that reflect the range of possible outcomes and an appropriate discount rate.

In connection with our new satellite agreement, in June 2006 we wrote-off \$10,917 for the net book value of certain satellite long-lead time parts purchased in 1999 that we will no longer need. Such amount is included in satellite and transmission expenses in our accompanying consolidated statement of operations.

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

FCC License

In October 1997, the FCC granted us a license to operate a commercial satellite radio service in the United States. While the FCC license has a renewable eight-year term, we expect to renew our license as there are no legal, regulatory, contractual, competitive, economic or other factors that limit its useful life. As a result, we treat the FCC license as an indefinite-lived intangible asset under the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." We re-evaluate the useful life determination for our FCC license each reporting period to determine whether events and circumstances continue to support an indefinite useful life. To date, we have not recorded any amortization expense related to our FCC license.

We test our FCC license for impairment at least annually or more frequently if indicators of impairment exist. We use a direct approach in performing our annual impairment test for this asset which requires estimates of future cash flows and other factors. If these estimates or projections change in the future, we may be required to record an impairment charge related to this asset. We began using the direct approach in 2005. Prior to 2005, we used the residual method in estimating the fair value of our FCC license. Use of the direct approach is in accordance with a September 29, 2004 Staff Announcement from the staff of the Securities and Exchange Commission, "Use of the Residual Method to Value Acquired Assets Other Than Goodwill." Under either the direct method or the residual method, if the fair value of our license was less than the aggregated carrying amount of the license, an impairment would have been recognized.

Deferred Financing Fees

Costs associated with the issuance of debt are deferred and amortized to interest expense over the term of the respective debt.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximate fair value due to the short-term nature of these instruments.

We determined the estimated fair values of our debt using available market information and commonly accepted valuation methods. Considerable judgment is necessary to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that could be realized upon disposition. The use of alternative valuation methods and/or estimates may have resulted in materially different estimates from those presented.

Quoted market prices were used to estimate the fair market values of our debt as of December 31, 2006 and 2005. The following table summarizes the book and fair values of our debt:

	As of December 31,			
	2006		2005	
	Book Value	Fair Value	Book Value	Fair Value
9 5/8% Senior Notes due 2013	\$ 500,000	\$ 496,250	\$ 500,000	\$ 492,500
3 1/4% Convertible Notes due 2011	230,000	226,838	230,000	338,443
2 1/2% Convertible Notes due 2009	300,000	310,125	300,000	484,875
3 1/2% Convertible Notes due 2008	36,505	100,024	52,693	255,693
8 3/4% Convertible Subordinated Notes due 2009	1,744	N/A	1,744	907

Asset Retirement Obligation

In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations," we recorded costs equal to the present value of the future obligation associated with the retirement of our terrestrial repeater network. These costs, which are included in other long-term liabilities, include an amount that we estimate will be sufficient to satisfy our obligations under leases to remove our terrestrial repeater equipment and restore the sites to their original condition. The following table reconciles the beginning and ending aggregate carrying amount of this asset retirement obligation:

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
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	Asset Retirement Obligation
Balance, December 31, 2005	\$ 455
Liabilities settled	(16)
Accretion expense	114
Balance, December 31, 2006	\$ 553

Reclassifications

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation, including the reclassification of stock-based compensation from a separate line item disclosure to being included in other operating expense line items in order to comply with the requirements of SFAS No. 123R.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. We are currently evaluating the impact of the adoption, if any, that SFAS No. 157 will have on our consolidated results of operations and financial position.

In September 2006, the FASB issued EITF No. 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider." The EITF concluded that if consideration given by a service provider to a third-party manufacturer or a reseller that is not the service provider's customer can be linked contractually to the benefit received by the service provider's customer, a service provider should account for the consideration in accordance with EITF No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer." EITF No. 06-1 is effective for annual reporting periods beginning after June 15, 2007. We are currently evaluating the effects that EITF No. 06-1 will have on our consolidated results of operations and financial position.

In June 2006, the FASB issued EITF No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)," to clarify diversity in practice on the presentation of different types of taxes in the financial statements. The EITF concluded that for taxes within the scope of the issue, a company may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. If taxes subject to EITF No. 06-3 are significant, a company is required to disclose its accounting policy for presenting taxes and the amounts of such taxes that are recognized on a gross basis. EITF No. 06-3 is effective for the first interim reporting period beginning after December 15, 2006. We will adopt EITF No. 06-3 effective January 1, 2007. The adoption of EITF No. 06-3 will not have a material impact on our consolidated results of operations or financial position.

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, as well as criteria on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We will adopt FIN No. 48 effective January 1, 2007. The adoption of FIN No. 48 will not have a material impact on our consolidated results of operations or financial position.

3. Subscriber Revenue

Subscriber revenue consists of subscription fees, non-refundable activation fees and the effects of mail-in rebates. Revenues received from automakers for prepaid subscriptions included in the sale or lease price of a new vehicle are also included in subscriber revenue over the service period upon activation.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
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Subscriber revenue consists of the following:

	For the Years Ended December 31,		
	2006	2005	2004
Subscription fees	\$ 572,386	\$ 233,635	\$ 65,201
Activation fees	15,612	6,790	2,102
Effects of mail-in rebates	(12,594)	(16,810)	(4,422)
	\$ 575,404	\$ 223,615	\$ 62,881

4. Interest Costs

During the year ended December 31, 2006, we capitalized a portion of the interest on funds borrowed to finance the construction and launch of our new satellite. The following is a summary of our interest cost:

	For the Years Ended December 31,		
	2006	2005	2004
Interest costs charged to expense	\$ 64,032	\$ 45,361	\$ 21,794
Debt conversion costs charged to expense	—	—	19,592
	64,032	45,361	41,386
Total interest expense	64,032	45,361	41,386
Interest costs capitalized	4,205	—	—
	\$ 68,237	\$ 45,361	\$ 41,386

Debt conversion costs for the year ended December 31, 2004 were a result of the exchange of \$69,000 in aggregate principal amount of our 3½% Convertible Notes due 2008 for shares of our common stock.

5. Inventory

Inventory consists of the following:

	As of December 31,	
	2006	2005
Raw materials	\$ 16,459	\$ 13,459
Finished goods	18,043	797
	\$ 34,502	\$ 14,256

6. Property and Equipment

Property and equipment consists of the following:

	As of December 31,	
	2006	2005
Satellite system	\$ 933,141	\$ 948,573
Terrestrial repeater network	63,753	73,076

Leasehold improvements	33,334	28,476
Broadcast studio equipment	37,350	32,437
Customer care, billing and conditional access	35,796	29,534
Satellite telemetry, tracking and control facilities	17,611	17,416
Furniture, fixtures, equipment and other	54,027	46,336
Land	311	311
Building	2,343	1,936
Construction in progress	101,848	27,907
	<u>1,279,514</u>	<u>1,206,002</u>
Total property and equipment		
Accumulated depreciation	(469,125)	(377,645)
	<u>\$ 810,389</u>	<u>\$ 828,357</u>
Property and equipment, net		

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
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Construction in progress consists of the following:

	As of December 31,	
	2006	2005
Satellite system	\$ 78,491	\$ 21,000
Terrestrial repeater network	10,973	2,619
Leasehold improvements	100	1,472
Other	12,284	2,816
	\$ 101,848	\$ 27,907

Satellites

Our satellites were successfully launched in 2000. Our spare satellite was delivered to ground storage in 2002. Our three-satellite constellation and terrestrial repeater network were placed into service in 2002.

In 2006, we entered into an agreement with Space Systems/Loral for the design and construction of a new satellite. Construction of this satellite is expected to be completed in the fourth quarter of 2008. We plan to launch this satellite on a Proton rocket under our contract with International Launch Services, which we entered into in 2005. As of December 31, 2006 and 2005, we recorded \$78,491 and \$21,000, respectively, to property and equipment in our accompanying consolidated balance sheets in connection with these agreements.

7. Related Party Transactions

In 2005, we entered into a license and services agreement with SIRIUS Canada Inc. Pursuant to such agreement, we are reimbursed for certain costs incurred by us to provide SIRIUS Canada Inc. service, including certain costs we incur for the production and distribution of radios used by its subscribers as well as information technology support costs. In consideration for the rights granted pursuant to the license and services agreement, SIRIUS Canada Inc. pays us a royalty based on a percentage of its annual gross revenues. Additionally, the initial financing we provided to SIRIUS Canada is by way of subscription to non-voting shares which carries an 8% cumulative dividend.

Total costs reimbursed by SIRIUS Canada Inc. for the years ended December 31, 2006 and 2005 were \$9,227 and \$6,025, respectively. We recorded \$945 and \$10 in royalty income for the years ended December 31, 2006 and 2005, respectively. Such royalty income was recorded to other revenue in our accompanying consolidated statements of operations. We also recorded dividend income of \$700 for the year ended December 31, 2006, which was included in interest and investment income in our accompanying consolidated statements of operations.

Amounts due from SIRIUS Canada Inc. at December 31, 2006 were \$4,157, of which \$2,502 and \$1,655 are included in other current assets and other long-term assets, respectively, on our accompanying consolidated balance sheets. Amounts due from SIRIUS Canada Inc. at December 31, 2005 were \$2,277, of which \$2,267 and \$10 are included in other current assets and other long-term assets, respectively, on our accompanying consolidated balance sheets. Amounts payable to SIRIUS Canada Inc. at December 31, 2006 and 2005 to fund its remaining capital requirements were \$1,148 and \$3,059, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

8. Accounts Payable and Accrued Expenses

Our accounts payable and accrued expenses consist of the following:

	As of December 31,	
	2006	2005
Accounts payable	\$ 26,048	\$ 6,829
Accrued programming	116,370	41,436
Accrued compensation and other payroll related costs	28,376	26,370
Accrued subsidies and distribution	185,188	151,311
Accrued web streaming and broadcast royalties	13,629	19,190
Other accrued expenses	68,302	86,817

Total accounts payable and accrued expenses

\$ 437,913

\$ 331,953

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
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9. Long-Term Debt and Accrued Interest

Our long-term debt consists of the following:

	Conversion Price (per share)	As of December 31,	
		2006	2005
9 ⁵ / ₈ % Senior Notes due 2013	N/A	\$ 500,000	\$ 500,000
3 ¹ / ₄ % Convertible Notes due 2011	\$ 5.30	230,000	230,000
2 ¹ / ₂ % Convertible Notes due 2009	4.41	300,000	300,000
3 ¹ / ₂ % Convertible Notes due 2008	1.38	36,505	52,693
8 ³ / ₄ % Convertible Subordinated Notes due 2009	28.4625	1,744	1,744
Total long-term debt		\$ 1,068,249	\$ 1,084,437

Accrued interest associated with our long-term debt is as follows:

	As of December 31,	
	2006	2005
9 ⁵ / ₈ % Senior Notes due 2013	\$ 20,053	\$ 18,888
3 ¹ / ₄ % Convertible Notes due 2011	1,557	1,557
2 ¹ / ₂ % Convertible Notes due 2009	2,902	2,902
3 ¹ / ₂ % Convertible Notes due 2008	107	161
8 ³ / ₄ % Convertible Subordinated Notes due 2009	38	38
Space Systems/Loral Credit Agreement	125	—
Total accrued interest	\$ 24,782	\$ 23,546

The maturities of our long-term debt are as follows:

	As of December 31, 2006
2007	\$ —
2008	36,505
2009	301,744
2010	—
2011	230,000
Thereafter	500,000
Total debt	\$ 1,068,249

9⁵/₈% Senior Notes due 2013

In August 2005, we issued \$500,000 in aggregate principal amount of our 9⁵/₈% Senior Notes due 2013 resulting in net proceeds of \$493,005. Our 9⁵/₈% Senior Notes due 2013 mature on August 1, 2013 and interest is payable semi-annually on February 1 and August 1 of each year. The obligations under our 9⁵/₈% Senior Notes due 2013 are not secured by any of our assets.

In September 2005, we used proceeds from the issuance of our 9⁵/₈% Senior Notes due 2013 to redeem our outstanding 15% Senior Secured Discount Notes due 2007 and our 14¹/₂% Senior Secured Notes due 2009, including accrued interest. We recognized a loss from redemption of debt of \$6,214 in connection with this redemption, including a redemption premium of \$5,502 and the write-off of unamortized debt issuance costs of \$712. The obligations under our 15% Senior Secured Discount Notes due 2007 and 14¹/₂% Senior Secured Notes due 2009 were secured by liens on certain of our assets which were released in connection with the redemption of the notes.

3¼% Convertible Notes due 2011

In October 2004, we issued \$230,000 in aggregate principal amount of our 3¼% Convertible Notes due 2011 resulting in net proceeds of \$224,813. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 188.6792 shares of common stock for each \$1,000.00 principal

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
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amount, or \$5.30 per share of common stock, subject to certain adjustments. Our 3¼% Convertible Notes due 2011 mature on October 15, 2011 and interest is payable semi-annually on April 15 and October 15 of each year. The obligations under our 3¼% Convertible Notes due 2011 are not secured by any of our assets.

2½% Convertible Notes due 2009

In February 2004, we issued \$250,000 in aggregate principal amount of our 2½% Convertible Notes due 2009 resulting in net proceeds of \$244,625. In March 2004, we issued an additional \$50,000 in aggregate principal amount of our 2½% Convertible Notes due 2009 pursuant to an option granted in connection with the initial offering of the notes, resulting in net proceeds of \$48,975. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 226.7574 shares of common stock for each \$1,000.00 principal amount, or \$4.41 per share of common stock, subject to certain adjustments. Our 2½% Convertible Notes due 2009 mature on February 15, 2009 and interest is payable semi-annually on February 15 and August 15 of each year. The obligations under our 2½% Convertible Notes due 2009 are not secured by any of our assets.

3½% Convertible Notes due 2008

In May 2003, we issued \$201,250 in aggregate principal amount of our 3½% Convertible Notes due 2008 resulting in net proceeds of \$194,224. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 724.6377 shares of common stock for each \$1,000.00 principal amount, or \$1.38 per share of common stock, subject to certain adjustments. Our 3½% Convertible Notes due 2008 mature on June 1, 2008 and interest is payable semi-annually on June 1 and December 1 of each year. The obligations under our 3½% Convertible Notes due 2008 are not secured by any of our assets.

During the year ended December 31, 2006, holders of \$16,188 in aggregate principal amount of our 3½% Convertible Notes due 2008 presented such notes for conversion in accordance with the terms of the indenture. We issued 11,730,431 shares of our common stock upon conversion of these notes. During the year ended December 31, 2005, we issued 10,548,545 shares of our common stock in exchange for \$14,557 in aggregate principal amount of our 3½% Convertible Notes due 2008, including accrued interest. In January 2004, we issued 56,409,853 shares of our common stock in exchange for \$69,000 in aggregate principal amount of our 3½% Convertible Notes due 2008, including accrued interest. We incurred debt conversion costs of \$19,592 for the year ended December 31, 2004. There were no debt conversion costs recorded for the years ended December 31, 2006 and 2005.

8¼% Convertible Subordinated Notes due 2009

In 1999, we issued our 8¼% Convertible Subordinated Notes due 2009. The remaining balance of our 8¼% Convertible Subordinated Notes due 2009 mature on September 29, 2009 and interest is payable semi-annually on March 29 and September 29 of each year. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 35.134 shares of common stock for each \$1,000.00 principal amount, or \$28.4625 per share of common stock, subject to certain adjustments. The obligations under our 8¼% Convertible Subordinated Notes due 2009 are not secured by any of our assets.

Space Systems/Loral Credit Agreement

In June 2006, we entered into a Credit Agreement with Space Systems/Loral. Under the Credit Agreement, Space Systems/Loral has agreed to make loans to us in an aggregate principal amount of up to \$100,000 to finance the purchase of our new satellite. Loans made under the Credit Agreement will be secured by our rights under the Satellite Purchase Agreement with Space Systems/Loral, including our rights to the new satellite. The loans are also entitled to the benefits of a subsidiary guarantee from Satellite CD Radio, Inc., our subsidiary that holds our FCC license, and any future material subsidiary that may be formed by us. The maturity date of the loans is the earliest to occur of (i) April 6, 2009, (ii) 90 days after the new satellite becomes available for shipment and (iii) 30 days prior to the scheduled launch of the new satellite. Any loans made under the Credit Agreement generally will bear interest at a variable rate equal to three-month LIBOR plus 4.75%. The daily unused balance bears interest at a rate per annum equal to 0.50%, payable quarterly on the last day of each March, June, September and December, commencing June 30, 2006. The Credit Agreement permits us to prepay all or a portion of the loans outstanding without penalty. We have not borrowed under this Credit Agreement as of December 31, 2006.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
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Covenants and Restrictions

Our 9 ⁵/₈ % Senior Notes due 2013 and the Credit Agreement require us to comply 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 as provided in the 9 ⁵/₈ % Senior Notes due 2013 indenture and the Credit Agreement. If we fail to comply with these covenants, our 9 ⁵/₈ % Senior Notes due 2013 and any loans outstanding under the Credit Agreement could become immediately payable and the Credit Agreement could be terminated. At December 31, 2006, we were in compliance with all such covenants.

10. Stockholders' Equity

Common Stock, Par Value \$0.001 Per Share

We are authorized to issue 2,500,000,000 shares of our common stock. As of December 31, 2006, approximately 424,385,000 shares of our common stock were reserved for issuance in connection with outstanding convertible debt, warrants, incentive stock plans and common stock to be granted to third parties upon satisfaction of performance targets.

During the year ended December 31, 2006, employees exercised 19,284,495 stock options at exercise prices ranging from \$0.47 to \$3.93 per share, resulting in proceeds to us of \$26,679. Of this amount, \$25,504 was collected as of December 31, 2006. We also collected \$283 in 2006 related to stock option exercises that occurred in 2005. During the year ended December 31, 2005, 14,460,738 stock options were exercised at exercise prices ranging from \$0.67 to \$5.32 per share, resulting in proceeds to us of \$18,817. Of this amount, \$18,534 was collected as of December 31, 2005.

In January 2006, Howard Stern and his agent were granted an aggregate of 34,375,000 shares of our common stock as a result of certain performance targets that were satisfied in January 2006. We recognized expense associated with these shares of \$224,813 during the year ended December 31, 2006.

In October 2004, we sold 25,000,000 shares of our common stock resulting in net proceeds of \$96,025.

In January 2004, we signed a seven-year agreement with the NFL. We delivered to the NFL 15,173,070 shares of our common stock valued at \$40,967 upon execution of this agreement. These shares of common stock are subject to certain transfer restrictions which lapse over time. We recognized \$5,852, \$5,852 and \$4,285 of expense associated with these shares during the years ended December 31, 2006, 2005 and 2004, respectively. Of the remaining \$24,978 in common stock value, \$5,852 and \$19,126 are included in other current assets and other long-term assets, respectively, on our accompanying consolidated balance sheet as of December 31, 2006.

Warrants

In June 2004, we issued DaimlerChrysler AG warrants to purchase up to 21,500,000 shares of our common stock at an exercise price of \$1.04 per share. These warrants have vested and are exercisable. These warrants replaced warrants issued to DaimlerChrysler AG in October 2002.

In February 2004, we announced an agreement with RadioShack Corporation to distribute, market and sell SIRIUS radios. In connection with this agreement, we issued RadioShack warrants to purchase up to 10,000,000 shares of our common stock. These warrants have an exercise price of \$5.00 per share and vest and become exercisable if RadioShack achieves activation targets during the five-year term of the agreement.

In January 2004, we signed an agreement with Penske Automotive Group, Inc., United Auto Group, Inc., Penske Truck Leasing Co. L.P. and Penske Corporation (collectively, the "Penske Companies"). In connection with this agreement, we agreed to issue the Penske companies warrants to purchase up to 38,000,000 shares of our common stock at an exercise price of \$2.392 per share. The warrants vest over time and upon achievement of certain milestones by the Penske companies. During the years ended December 31, 2006 and 2005, Penske exercised 5,292,500 and 2,838,700, respectively, vested warrants in a series of cashless exercises. In connection with these transactions, we issued 2,862,533 and 1,944,073 shares of our common stock for the years ended December 31, 2006 and 2005, respectively.

In January 2004, we issued the NFL warrants to purchase 50,000,000 shares of our common stock at an exercise price of \$2.50 per share. Of these warrants, 16,666,665 vest upon the delivery to us of media assets by the



SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
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NFL and its member clubs, and 33,333,335 of these warrants will be earned by the NFL or its member clubs as we acquire subscribers which are directly trackable through their efforts.

During the year ended December 31, 2004, we issued warrants to purchase 9,425,000 shares of our common stock at exercise prices of \$3.00 to \$3.21 per share to other third parties as part of distribution and programming arrangements. These warrants vest over time and upon achievement of certain milestones. During the years ended December 31, 2006, 2005 and 2004, 30,000, 230,000 and 62,000 of these warrants to purchase shares of our common stock, respectively, were issued to consultants as stock options and included in our stock option activity.

Warrants to acquire shares of our common stock were outstanding as follows (shares in thousands):

	Average Exercise Price	Expiration Date	Number of Warrants Outstanding as of December 31,	
			2006	2005
NFL	\$ 2.50	March 2008—March 2010	50,000	50,000
Penske companies	2.392	July 2009	29,869	35,161
DaimlerChrysler	1.04	May 2012	21,500	21,500
RadioShack	5.00	December 2010	10,000	10,000
Ford	3.00	September 2011	4,000	4,000
Other distribution and programming partners	3.11	January 2008—June 2014	4,053	9,133
Other	20.33	June 2005—April 2011	4,533	4,533
Total	\$ 3.11		123,955	134,327

We recognized expense of \$50,297, \$100,349 and \$74,700 in connection with warrants for the years ended December 31, 2006, 2005 and 2004, respectively.

11. Benefit Plans

Stock-Based Awards

In January 2003, our board of directors adopted the Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan (the "2003 Plan"), and on March 4, 2003 our stockholders approved this plan. On May 25, 2004, our stockholders approved an amendment to the 2003 Plan to include members of our board of directors as eligible participants. Employees, consultants and members of our board of directors are eligible to receive awards under the 2003 Plan. The 2003 Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate.

Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2003 Plan are generally subject to a vesting requirement that includes one or all of the following: (1) over time, generally three to five years from the date of grant; (2) on a specific date in future periods with acceleration to earlier periods if performance criteria are satisfied; or (3) as certain performance targets set at the time of grant are achieved. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of our common stock upon vesting.

As of December 31, 2006, approximately 75,879,000 stock options, shares of restricted stock and restricted stock units were outstanding. As of December 31, 2006, approximately 86,524,000 shares of our common stock were available for grant under the 2003 Plan.

The following table summarizes the stock option activity under our stock incentive plans for the year ended December 31, 2006 (shares in thousands):

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
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(Dollar amounts in thousands, unless otherwise stated)

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
Outstanding at beginning of period	87,024	\$ 4.61		
Granted	5,254	5.69		
Exercised	(19,284)	1.38		
Cancelled or expired	(1,201)	4.58		
Outstanding at end of period	71,793	5.56	6.83	\$ 23,411
Exercisable at end of period	42,449	6.00	6.09	21,527

The weighted average grant date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was \$3.11, \$6.17 and \$4.12, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2006, 2005 and 2004 was \$51,847, \$76,758 and \$76,071, respectively.

As of December 31, 2005 and 2004, we had \$2,073 and \$7,363, respectively, of deferred compensation in connection with stock options granted to employees and members of our board of directors. Such deferred compensation was reversed to additional paid-in capital in connection with the adoption of SFAS No. 123R. We also record expense for stock options granted to consultants based on fair value at the date of grant as determined in accordance with SFAS No. 123. We recognized stock compensation expense associated with stock options of \$49,083, \$13,814 and \$27,957 for the years ended December 31, 2006, 2005 and 2004, respectively. Stock compensation expense associated with stock options for the year ended December 31, 2005 included a charge of \$479 for an employee that was deemed to benefit from the modification of a stock-based award resulting in a new measurement date.

The following table summarizes the non-vested restricted stock unit activity under our stock incentive plans for the year ended December 31, 2006 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	21,977	\$ 2.36
Granted	1,503	5.57
Vested	(19,294)	2.11
Cancelled or expired	(100)	7.04
Outstanding at end of period	4,086	4.64

The weighted average grant date fair value of restricted stock units granted during the years ended December 31, 2005 and 2004 were \$6.11 and \$3.14, respectively. The total intrinsic value of restricted stock units that vested during the year ended December 31, 2006, 2005 and 2004 was \$97,846, \$11,625 and \$1,378, respectively.

In November 2004, we granted 3,000,000 shares of restricted common stock. Such shares were issued and outstanding as of December 31, 2006. The restrictions applicable to these shares lapse in equal installments on November 18 of each of the five years beginning on November 18, 2005.

As of December 31, 2005 and 2004, we had \$24,621 and \$43,600, respectively, of deferred compensation associated with restricted stock and restricted stock units. Such deferred compensation was reversed to additional paid-in capital in connection with the adoption of SFAS No. 123R. We recognized stock compensation expense associated with restricted stock units and shares of restricted stock of \$16,127, \$34,398 and \$13,896 for the years ended December 31, 2006, 2005 and 2004, respectively.

For the year ended December 31, 2006, we also recognized stock compensation expense of \$86,249 for restricted stock units expected to be granted for services performed in 2006 or upon the satisfaction of 2006 performance targets. For the year ended December 31, 2005, we also recognized stock compensation expense of \$3,361 for restricted stock units granted in February 2006 for services performed in 2005. For the year ended December 31, 2004, we also recognized stock compensation expense of \$2,651 for restricted stock units granted in February 2005 for services performed in 2004.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
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401(k) Savings Plan

We sponsor the Sirius Satellite Radio 401(k) Savings Plan (the "Plan") for eligible employees. The Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax salary subject to certain defined limits. Currently we match 50% of employee voluntary contributions, up to 6% of an employee's pre-tax salary, in the form of shares of our common stock. Our matching contribution vests at a rate of 33 1/3% for each year of employment and is fully vested after three years of employment. Expense resulting from our matching contribution to the Plan was \$1,246, \$926 and \$718 for the years ended December 31, 2006, 2005 and 2004, respectively.

We may also elect to contribute to the profit sharing portion of the Plan based upon the total compensation of all participants eligible to receive an allocation. These additional contributions, referred to as profit-sharing contributions, are determined by the compensation committee of our board of directors. Employees are only eligible to share in profit-sharing contributions during any year in which they are employed on the last day of the year. Profit sharing contribution expense was \$4,251, \$4,378 and \$2,518 for the years ended December 31, 2006, 2005 and 2004, respectively.

12. Income Taxes

Our income tax expense consisted of the following:

	For the Years Ended December 31,		
	2006	2005	2004
Current taxes:			
Federal	\$ —	\$ —	\$ —
State	—	—	—
Total current taxes	\$ —	\$ —	\$ —
Deferred taxes:			
Federal	\$ 2,169	\$ 1,952	\$ 3,662
State	(104)	359	539
Total deferred taxes	\$ 2,065	\$ 2,311	\$ 4,201
Total income tax expense	\$ 2,065	\$ 2,311	\$ 4,201

The following table indicates the significant elements contributing to the difference between the federal tax provision (benefit) at the statutory rate and at our effective rate:

	For the Years Ended December 31,		
	2006	2005	2004
Federal tax benefit, at statutory rate	\$ (385,981)	\$ (301,240)	\$ (247,786)
State income tax benefit, net of federal benefit	(52,650)	(55,414)	(36,459)
Change in state tax rates	45,916	(23,650)	—
Change in taxes resulting from permanent differences, net	(37,633)	(24,163)	(15,627)
Other	(974)	—	(2,237)
Change in valuation allowance	433,387	406,778	306,310
Income tax expense	\$ 2,065	\$ 2,311	\$ 4,201

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

As of December 31,	
2006	2005

Deferred tax assets:		
Net operating loss carryforwards	\$ 1,182,299	\$ 794,793
Stock-based awards	139,048	90,987
Start-up costs capitalized for tax purposes	1,904	25,635
Capitalized interest expense	43,572	53,976

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Deferred revenue	12,358	—
Other	64,910	51,860
	<u>1,444,091</u>	<u>1,017,251</u>
Total deferred tax asset		
Deferred tax liabilities:		
Depreciation of property and equipment	(216,896)	(223,237)
Amortization of FCC license	(10,814)	(8,955)
	<u>(227,710)</u>	<u>(232,192)</u>
Total deferred tax liability		
Net deferred tax assets before valuation allowance	1,216,381	785,059
Valuation allowance	(1,227,195)	(793,808)
	<u>\$ (10,814)</u>	<u>\$ (8,749)</u>
Net deferred tax liability		

The net deferred tax liability of \$10,814 and \$8,749 at December 31, 2006 and 2005, respectively, is a result of the difference in accounting for our FCC license, which is amortized over 15 years for tax purposes but not amortized for book purposes. This net deferred tax liability cannot be offset against our deferred tax assets under U.S. generally accepted accounting principles since it relates to an indefinite-lived asset and is not anticipated to reverse in the same period.

A significant portion of our costs incurred to date have been capitalized for tax purposes as a result of our status as a start-up enterprise. Total unamortized start-up costs as of December 31, 2006 and 2005 were \$4,787 and \$64,551, respectively. These capitalized costs are being amortized over 60 months.

At December 31, 2006, we had net operating loss ("NOL") carryforwards of approximately \$2,973,000 for federal and state income tax purposes available to offset future taxable income. These NOL carryforwards expire on various dates beginning in 2023. We have had several ownership changes under Section 382 of the Internal Revenue Code, which limit our ability to utilize tax deductions. Due to an ownership change on March 4, 2003, we determined that \$353,569 of gross deferred tax assets with respect to pre-March 5, 2003 tax loss carryovers will not be available. This amount was written off against the valuation allowance in 2003. Furthermore, future changes in our ownership may limit our ability to utilize our deferred tax asset. Realization of our deferred tax assets is dependent upon future earnings; accordingly, a full valuation allowance was recorded against the assets.

13. Lease Obligations

We have entered into cancelable and non-cancelable operating leases for office space, equipment and terrestrial repeaters. These leases provide for minimum lease payments, additional operating expense charges, have initial terms ranging from one to fifteen years, and certain leases have options to renew. Total rent expense recognized in connection with leases for the years ended December 31, 2006, 2005 and 2004 was \$15,984, \$14,958 and \$13,567, respectively.

Future minimum lease payments under non-cancelable leases as of December 31, 2006 were as follows:

	<u>Operating</u>
2007	\$ 9,079
2008	9,391
2009	9,345
2010	9,161
2011	8,424
Thereafter	26,502
	<u>\$ 71,902</u>
Total minimum lease payments	

14. Commitments and Contingencies

Contractual Cash Commitments

The following table summarizes our expected contractual cash commitments (other than long-term debt obligations, cash interest payments and lease obligations) as of December 31, 2006:

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	2007	2008	2009	2010	2011	Thereafter	Total
Satellite and transmission	\$ 27,765	\$ 79,165	\$ 39,869	\$ 2,010	\$ 1,720	\$ 6,617	\$ 157,146
Programming and content	122,365	123,549	146,211	147,647	38,660	27,667	606,099
Customer service and billing	3,492	45	—	—	—	—	3,537
Marketing and distribution	80,289	31,534	22,743	26,153	18,173	5,500	184,392
Chip set development and production	7,022	—	—	—	—	—	7,022
Other	7,098	11,575	9	—	—	—	18,682
Total contractual cash commitments	\$ 248,031	\$ 245,868	\$ 208,832	\$ 175,810	\$ 58,553	\$ 39,784	\$ 976,878

Satellite and Transmission. We have entered into agreements with third parties to operate and maintain our off-site satellite telemetry, tracking and control facilities and certain components of our terrestrial repeater network. We have also entered into an agreement with Space Systems/Loral to design and construct a new satellite. Construction of this satellite is expected to be completed in the fourth quarter of 2008. We plan to launch this satellite on a Proton rocket under our contract with International Launch Services.

Programming and Content. We have entered into agreements with licensors of programming and other content providers and, in certain instances, are obligated to pay license fees and guarantee minimum advertising revenue share. In addition, we pay royalties for public performances of music to various rights organizations.

Customer Service and Billing. We have entered into agreements with third parties to provide billing and subscriber management services.

Marketing and Distribution. We have entered into various marketing, sponsorship and distribution agreements to promote our brand and are obligated to make payments to sponsors, retailers, automakers and radio manufacturers under these agreements. In addition, certain programming and content agreements require us to purchase advertising on properties owned or controlled by the licensors. We also reimburse automakers for certain engineering and development costs associated with the incorporation of SIRIUS radios into vehicles they manufacture.

Chip Set Development and Production. We have entered into agreements with third parties to develop, produce and supply chip sets; to develop products; and in certain instances to license intellectual property related to chip sets.

Other. We have entered into various agreements with third parties for general operating and strategic purposes. Amounts associated with these agreements are included in the commitments table.

In addition to the contractual cash commitments described above, we have entered into agreements with automakers, radio manufacturers and others that include per-radio, per-subscriber, per-show and other variable cost arrangements. These future costs are dependent upon many factors including our subscriber growth and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar provisions.

Under the terms of a joint development agreement with XM Radio, each party is obligated to fund one half of the development cost for a unified standard for satellite radios. The costs related to the joint development agreement are being expensed as incurred to engineering, design and development expense in the accompanying consolidated statements of operations. We are currently unable to determine the expenditures necessary to complete this process, but we do not expect that these expenditures will be material.

We are required under the terms of certain agreements to provide letters of credit and deposit monies in escrow, which place restrictions on our cash and cash equivalents. As of December 31, 2006 and 2005, \$77,850 and \$107,615, respectively, were classified as restricted investments as a result of our reimbursement obligations under these letters of credit and escrow deposits.

As of December 31, 2006, we have not entered into any off-balance sheet arrangements or transactions.

Legal Proceedings

FCC Matters. In April 2006, we learned that two manufacturers of SIRIUS radios and XM Radio had received inquiries from the Federal Communications Commission as to whether the FM transmitters in their products complied with the FCC's emissions and frequency rules. We promptly began an internal review of the compliance of the FM transmitters in a number of our radios. In June 2006, we learned that a third manufacturer of SIRIUS radios had received an inquiry from the Federal Communications Commission as to whether the FM



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transmitters in its products complied with the FCC's emissions and frequency rules. In June 2006, we received a letter from the FCC making similar inquiries. In July 2006, we responded to the letter from the FCC in respect of the preliminary results of our review. In August 2006, we received a follow-up letter of inquiry from the FCC and responded to the FCC's further inquiry. We continue to cooperate with the FCC's inquiry.

During our internal review, we determined that certain of our radios with FM transmitters were not compliant with FCC rules. We have taken a series of actions to correct the problem.

In connection with our internal review, we discovered that certain SIRIUS personnel requested manufacturers to produce SIRIUS radios that were not consistent with the FCC's rules. As a result of this review, we are taking significant steps to ensure that this situation does not happen again, including the adoption of a comprehensive compliance plan, approved by our board of directors, to ensure that in the future our products comply with all applicable FCC rules.

The FCC is continuing its review of our products. The FCC's laboratory has tested a number of our products and found them to be compliant with the FCC's rules. We believe our radios that are currently in production comply with applicable FCC's rules. No health or safety issues are involved with these SIRIUS radios and radios which are factory-installed in new vehicles are not affected. We do not expect the resolution of these issues to have an adverse impact on our previous guidance.

In October 2006, we ceased operating 11 of our terrestrial repeaters which we discovered had been operating at variance to the specifications and applied to the FCC for new authority to resume operating these repeaters.

Copyright Royalty Board Proceeding. We are a party to a proceeding before the Copyright Royalty Board of the Library of Congress to establish the royalty rate and terms for the sound recordings we use on our satellite radio service for the period for 2007 through 2012. In October 2006, we and XM filed our direct case in this proceeding with the Copyright Royalty Board and proposed a royalty rate for our satellite radio subscription revenue.

The Copyright Royalty Board must set a rate that is calculated to achieve four statutory objectives:

- to maximize the availability of creative works to the public;
- to afford the copyright owner a fair return for his creative work and the copyright user a fair income under existing economic conditions;
- to reflect the relative roles of the copyright owner and the copyright user in the product made available to the public with respect to relative creative contribution, technological contribution, capital investment, cost, risk and contribution to the opening of new markets for creative expression and media for their communication; and
- to minimize any disruptive impact on the structure of the industries involved and on generally prevailing industry practices.

We believe that the fee we proposed achieves these objectives and is consistent in principle with the fee established under the same standard for digital cable audio.

SoundExchange, the organization that collects and distributes royalties from various digital music services on behalf of artists and music labels, simultaneously submitted its direct case in this proceeding and proposed a substantially higher royalty rate than we proposed. This submission of direct cases is the beginning of a twelve to eighteen month process which, absent an agreement among the parties, will result in a determination by the Copyright Royalty Board of an applicable royalty rate.

U.S. Electronics Arbitration. U.S. Electronics Inc., a licensed manufacturer and distributor of SIRIUS radios, has commenced an arbitration proceeding against us. U.S. Electronics alleges that we breached our contract, failed to pay monies owed under the contract, interfered with U.S. Electronics' relationships with retailers and manufacturers, and withheld information relating to the FCC's inquiring into SIRIUS radios that include FM modulators. U.S. Electronics is seeking \$48,000 in damages. We believe that approximately \$41,000 of these

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damages are barred by the limitation of liability provisions contained in the contract between us and U.S. Electronics. We are vigorously defending this action.

15. Quarterly Financial Data (Unaudited)

Our quarterly results of operations are summarized below:

	For the Three Months Ended			
	March 31	June 30	September 30	December 31
2006:				
Total revenue	\$ 126,664	\$ 150,078	\$ 167,113	\$ 193,380
Cost of services ⁽¹⁾	(333,997)	(112,561)	(108,223)	(143,187)
Loss from operations	(446,169)	(230,472)	(154,154)	(236,929)
Net loss	(458,544)	(237,828)	(162,898)	(245,597)
Net loss per share (basic and diluted) ⁽²⁾	\$ (0.33)	\$ (0.17)	\$ (0.12)	\$ (0.17)
2005:				
Total revenue	\$ 43,216	\$ 52,194	\$ 66,831	\$ 80,004
Cost of services ⁽¹⁾	(47,145)	(37,732)	(47,101)	(74,925)
Loss from operations	(190,259)	(174,582)	(166,919)	(297,380)
Net loss	(193,612)	(177,546)	(180,450)	(311,389)
Net loss per share (basic and diluted) ⁽²⁾	\$ (0.15)	\$ (0.13)	\$ (0.14)	\$ (0.23)

(1) Quarterly cost of services previously reported for the quarters ended 2005 reflect the reclassification of certain costs from cost of services to sales and marketing expenses and from stock-based compensation to cost of services.

(2) The sum of the quarterly net loss per share applicable to common stockholders (basic and diluted) does not necessarily agree to the net loss per share for the year due to the timing of our common stock issuances.

16. Subsequent Events

In January 2007, Howard Stern and his agent were granted an aggregate of approximately 22,058,000 shares of our common stock as a result of certain performance targets that were satisfied on December 31, 2006. The value of these shares recorded to stock-based compensation expense during 2006 was \$82,941.

We and XM Radio announced on February 19, 2007 a definitive agreement, under which we will be combined in a tax-free, all-stock merger of equals. Under the terms of the agreement, XM Radio shareholders will receive 4.6 shares of our common stock for each share of XM Radio they own. XM Radio and our shareholders will each own approximately 50% of the combined company. The transaction is subject to approval by XM Radio and our shareholders, the satisfaction of customary closing conditions and regulatory review and approvals, including antitrust agencies and the FCC. We and XM Radio expect the transaction to be completed by the end of 2007.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES

Schedule II—Schedule of Valuation and Qualifying Accounts

	<u>Balance at Beginning of Year</u>	<u>Charged to Expense</u>	<u>Write-offs/ Other</u>	<u>Balance at End of Year</u>
For the year ended December 31, 2004				
Allowance for Doubtful Accounts	\$ 380	\$ 1,648	\$ (1,496)	\$ 532
Deferred Tax Assets—Valuation Allowance	80,720	306,310	—	387,030
For the year ended December 31, 2005				
Allowance for Doubtful Accounts	\$ 532	\$ 4,311	\$ (3,293)	\$ 1,550
Deferred Tax Assets—Valuation Allowance	387,030	406,778	—	793,808
For the year ended December 31, 2006				
Allowance for Doubtful Accounts	\$ 1,550	\$ 7,542	\$ (5,909)	\$ 3,183
Deferred Tax Assets—Valuation Allowance	793,808	433,387	—	1,227,195

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
2.1	— Agreement and Plan of Merger, dated as of February 19, 2007, by and among the Company, Vernon Merger Corporation and XM Satellite Radio Holdings Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated February 21, 2007).
3.1	— Amended and Restated Certificate of Incorporation dated March 4, 2003 (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
3.2	— Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
4.1	— Form of certificate for shares of Common Stock (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-1 (File No. 33-74782)).
4.2	— Warrant Agreement, dated as of May 15, 1999, between the Company and United States Trust Company of New York, as warrant agent (incorporated by reference to Exhibit 4.4.4 to the Company's Registration Statement on Form S-4 (File No. 333-82303)).
4.3	— Indenture, dated as of September 29, 1999, between the Company and United States Trust Company of Texas, N.A., as trustee, relating to the Company's 8¾% Convertible Subordinated Notes due 2009 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 13, 1999).
4.4	— First Supplemental Indenture, dated as of September 29, 1999, between the Company and United States Trust Company of Texas, N.A., as trustee, relating to the Company's 8¾% Convertible Subordinated Notes due 2009 (incorporated by reference to Exhibit 4.01 to the Company's Current Report on Form 8-K filed on October 1, 1999).
4.5	— Second Supplemental Indenture, dated as of March 4, 2003, among the Company, The Bank of New York (as successor to United States Trust Company of Texas, N.A.), as resigning trustee, and HSBC Bank USA, as successor trustee, relating to the Company's 8¾% Convertible Subordinated Notes due 2009 (incorporated by reference to Exhibit 4.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
4.6	— Third Supplemental Indenture, dated as of March 7, 2003, between the Company and HSBC Bank USA, as trustee, relating to the Company's 8¾% Convertible Subordinated Notes due 2009 (incorporated by reference to Exhibit 4.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
4.7	— Form of 8¾% Convertible Subordinated Note due 2009 (incorporated by reference to Article VII of Exhibit 4.01 to the Company's Current Report on Form 8-K filed on October 1, 1999).
4.8	— Indenture, dated as of May 23, 2003, between the Company and The Bank of New York, as trustee (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K dated May 30, 2003).
4.9	— First Supplemental Indenture, dated as of May 23, 2003, between the Company and The Bank of New York, as trustee, relating to the Company's 3½% Convertible Notes due 2008 (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K dated May 30, 2003).
4.10	— Second Supplemental Indenture, dated as of February 20, 2004, between the Company and The Bank of New York, as trustee, relating to the Company's 2½% Convertible Notes due 2009 (incorporated by reference to Exhibit 4.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
4.11	— Third Supplemental Indenture, dated as of October 13, 2004, between the Company and The Bank of New York, as trustee, relating to the Company's 3¼% Convertible Notes due 2011 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 13, 2004).
4.12	— Indenture, dated as of August 9, 2005, between the Company and The Bank of New York, as trustee relating to the Company's 9 5/8% Senior Notes due 2013 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 12, 2005).
4.13	— Common Stock Purchase Warrant granted by the Company to DaimlerChrysler AG dated October 4, 2005 (incorporated by reference to Exhibit 4.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).

<u>Exhibit</u>	<u>Description</u>
4.14	— Common Stock Purchase Warrant granted by the Company to Ford Motor Company dated October 7, 2002 (incorporated by reference to Exhibit 4.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
4.15	— Form of Media-Based Incentive Warrant dated February 3, 2004 issued by the Company to NFL Enterprises LLC (incorporated by reference to Exhibit 4.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
4.16	— Bounty-Based Incentive Warrant dated February 3, 2004 issued by the Company to NFL Enterprises LLC (incorporated by reference to Exhibit 4.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
4.17	— Amended and Restated Warrant Agreement, dated as of December 27, 2000, between the Company and United States Trust Company of New York, as warrant agent and escrow agent (incorporated by reference to Exhibit 4.27 to the Company's Registration Statement on Form S-3 (File No. 333-65602)).
4.18	— Customer Credit Agreement, dated as of May 31, 2006, between the Company and Space Systems/Loral, Inc. (incorporated by reference to Exhibit 4.18 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
10.1.1	— Lease Agreement, dated as of March 31, 1998, between Rock-McGraw, Inc. and the Company (incorporated by reference to Exhibit 10.1.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
10.1.2	— Supplemental Indenture, dated as of March 22, 2000, between Rock-McGraw, Inc. and the Company (incorporated by reference to Exhibit 10.1.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).
*10.2	— Employment Agreement dated November 18, 2004 between the Company and Mel Karmazin (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.3	— Employment Agreement, dated as of June 3, 2003, between the Company and David J. Frear (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
*10.4	— First Amendment, dated as of August 10, 2005, to the Employment Agreement, dated as of June 3, 2003, between the Company and David Frear (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 12, 2005).
*10.5	— Employment Agreement, dated as of May 5, 2004, between the Company and Scott A. Greenstein (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
*10.6	— First Amendment, dated as of August 8, 2005, to the Employment Agreement, dated as of May 5, 2004, between the Company and Scott Greenstein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 12, 2005).
*10.7	— Amended and Restated Employment Agreement, dated as of March 11, 2005, between the Company and James E. Meyer (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.8	— First Amendment, dated February 2, 2006, to the Amended and Restated Employment Agreement, dated March 11, 2005, between the Company and James E. Meyer (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 1, 2006).
*10.9	— Restricted Stock Unit Agreement, dated as of August 9, 2005, between the Company and James E. Meyer (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated August 12, 2005).
*10.10	— Employment Agreement, dated as of November 8, 2004, between the Company and Patrick L. Donnelly (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).

<u>Exhibit</u>	<u>Description</u>
*10.11	— CD Radio Inc. 401(k) Savings Plan (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 (File No. 333-65473)).
*10.12	— Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan (filed herewith).
*10.13	— Form of Option Agreement, dated as of December 29, 1997, between the Company and each Optionee (incorporated by reference to Exhibit 10.16.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
†10.14	— Joint Development Agreement, dated as of February 16, 2000, between the Company and XM Satellite Radio Inc. (incorporated by reference to Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).
21.1	— List of subsidiaries (filed herewith).
23.1	— Consent of Ernst & Young LLP (filed herewith).
31.1	— Certificate of Mel Karmazin, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	— Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	— Certificate of Mel Karmazin, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	— Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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

† Portions of this exhibit have been omitted pursuant to Applications for Confidential treatment filed by the Company with the Securities and Exchange Commission.

AMENDED AND RESTATED SIRIUS SATELLITE RADIO
2003 LONG-TERM STOCK INCENTIVE PLAN

Section 1. Purpose. The purposes of this Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan are to promote the interests of Sirius Satellite Radio Inc. and its stockholders by (i) attracting and retaining employees and directors of, and consultants to, the Company and its Affiliates, as defined below; (ii) motivating such individuals by means of performance-related incentives to achieve longer-range performance goals; and (iii) enabling such individuals to participate in the long-term growth and financial success of the Company.

Section 2. Definitions. As used in the Plan, the following terms shall have the meanings set forth below:

“Affiliate” shall mean any entity (i) that, directly or indirectly, is controlled by, controls or is under common control with, the Company or (ii) in which the Company has a significant equity interest, in either case as determined by the Committee.

“Award” shall mean any Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Performance Award, Other Stock-Based Award or Performance Compensation Award made or granted from time to time hereunder.

“Award Agreement” shall mean any written agreement, contract, or other instrument or document evidencing any Award, which may, but need not, be executed or acknowledged by a Participant.

“Board” shall mean the Board of Directors of the Company.

“Change of Control” shall mean the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the assets of the Company to any “person” or “group” (as such terms are used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), (ii) any person or group is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have “beneficial ownership” of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total voting power of the voting stock of the Company, including by way of merger, consolidation or otherwise or (iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board (together with any new directors whose election by such Board or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the directors of the Company, then still in office, who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board, then in office.

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

“Committee” shall mean a committee of the Board designated by the Board to administer the Plan and composed of not less than two directors, each of whom is required to be a “Non-Employee Director” (within the meaning of Rule 16b-3) and an “outside director” (within the meaning of Section 162(m) of the Code) to the extent Rule 16b-3 and Section 162(m) of the Code, respectively, are applicable to the Company and the Plan. If at any time such a committee has not been so designated, the Board shall constitute the Committee.

“Company” shall mean Sirius Satellite Radio Inc., together with any successor thereto.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Fair Market Value” shall mean (i) with respect to any property other than Shares, the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee and (ii) with respect to the Shares, as of any date, (1) the mean between the high

and low sales prices of the Shares on the Nasdaq Stock Market for such date (or if not then trading on the Nasdaq Stock Market, the mean between the high and low sales price of the Shares on the stock exchange or over-the-counter market on which the Shares are principally trading on such date), or, if there were no sales on such date, on the closest preceding date on which there were sales of Shares or (2) in the event there shall be no public market for the Shares on such date, the fair market value of the Shares as determined in good faith by the Committee.

“Incentive Stock Option” shall mean a right to purchase Shares from the Company that is granted under Section 6 of the Plan and that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

“Negative Discretion” shall mean the discretion authorized by the Plan to be applied by the Committee to eliminate or reduce the size of a Performance Compensation Award; *provided* that the exercise of such discretion would not cause the Performance Compensation Award to fail to qualify as “performance-based compensation” under Section 162(m) of the Code. By way of example and not by way of limitation, in no event shall any discretionary authority granted to the Committee by the Plan including, but not limited to, Negative Discretion, be used to (a) grant or provide payment in respect of Performance Compensation Awards for a Performance Period if the Performance Goals for such Performance Period have not been attained or (b) increase a Performance Compensation Award above the maximum amount payable under Section 4(a) or 11(d)(vi) of the Plan. Notwithstanding anything herein to the contrary, in no event shall Negative Discretion be exercised by the Committee with respect to any Option or Stock Appreciation Right (other than an Option or Stock Appreciation Right that is intended to be a Performance Compensation Award under Section 11 of the Plan).

“Non-Qualified Stock Option” shall mean a right to purchase Shares from the Company that is granted under Section 6 of the Plan and that is not intended to be an Incentive Stock Option.

“Option” shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

“Other Stock-Based Award” shall mean any right granted under Section 10 of the Plan.

“Participant” shall mean any employee of, or consultant to, the Company or its Affiliates, or non-employee director who is a member of the Board or the board of directors of an Affiliate, eligible for an Award under Section 5 and selected by the Committee to receive an Award under the Plan.

“Performance Award” shall mean any right granted under Section 9 of the Plan.

“Performance Compensation Award” shall mean any Award designated by the Committee as a Performance Compensation Award pursuant to Section 11 of the Plan.

“Performance Criteria” shall mean the criterion or criteria that the Committee shall select for purposes of establishing the Performance Goal (s) for a Performance Period with respect to any Performance Compensation Award under the Plan. The Performance Criteria that will be used to establish the Performance Goal(s) shall be based on the attainment of specific levels of performance of the Company (or an Affiliate, division or operational unit of the Company) and shall be limited to the following: return on net assets, return on shareholders' equity, return on assets, return on capital, shareholder returns, profit margin, earnings per Share, net earnings, operating earnings, earnings before interest, taxes, depreciation and amortization, number of subscribers, growth of subscribers, operating expenses, capital expenses, subscriber acquisition costs, Share price or sales or market share. To the extent required under Section 162(m) of the Code, the Committee shall, within the first 90 days of a Performance Period (or, if longer, within the maximum period allowed under Section 162(m) of the Code), define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period.

“Performance Formula” shall mean, for a Performance Period, the one or more objective formulas applied against the relevant Performance Goal to determine, with regard to the Performance Compensation Award of a particular Participant, whether all, some portion but less than all, or none of the Performance Compensation Award has been earned for the Performance Period.

“Performance Goals” shall mean, for a Performance Period, the one or more goals established by the Committee for the Performance Period based upon the Performance Criteria. The Committee is authorized at any time during the first 90 days of a Performance Period, or at any time thereafter (but only to the extent the exercise of such authority after the first 90 days of a Performance Period would not cause the Performance Compensation Awards granted to any Participant for the Performance Period to fail to qualify as 'performance-based compensation' under Section 162(m) of the Code), in its sole and absolute discretion, to adjust or modify the calculation of a Performance Goal for such Performance Period to the extent permitted under Section 162(m) of the Code in order to prevent the dilution or enlargement of the rights of Participants, (a) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development affecting the Company; or (b) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

“Performance Period” shall mean the one or more periods of time of at least one year in duration, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to and the payment of a Performance Compensation Award.

“Person” shall mean any individual, corporation, partnership, association, limited liability company, joint-stock company, trust, unincorporated organization, government or political subdivision thereof or other entity.

“Plan” shall mean this Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan.

“Restricted Stock” shall mean any Share granted under Section 8 of the Plan.

“Restricted Stock Unit” shall mean any unit granted under Section 8 of the Plan.

“Rule 16b-3” shall mean Rule 16b-3 as promulgated and interpreted by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

“SEC” shall mean the Securities and Exchange Commission or any successor thereto and shall include the Staff thereof.

“Shares” shall mean the common stock of the Company, \$.001 par value, or such other securities of the Company (i) into which such common stock shall be changed by reason of a recapitalization, merger, consolidation, split-up, combination, exchange of shares or other similar transaction or (ii) as may be determined by the Committee pursuant to Section 4(b) of the Plan.

“Stock Appreciation Right” shall mean any right granted under Section 7 of the Plan.

“Substitute Awards” shall have the meaning specified in Section 4(c) of the Plan.

Section 3. Administration. (a) The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant and designate those Awards which shall constitute Performance Compensation Awards; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable with respect to an Award (subject to Section 162(m) of the Code with respect to Performance Compensation Awards) shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret, administer or reconcile any inconsistency, correct any defect, resolve ambiguities and/or supply any omission in the Plan and any instrument or agreement relating to, or Award made under, the Plan;

(viii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (ix) establish and administer Performance Goals and certify whether, and to what extent, they have been attained; and (x) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

(b) Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, any Affiliate, any Participant, any holder or beneficiary of any Award, and any stockholder.

(c) The mere fact that a Committee member shall fail to qualify as a "Non-Employee Director" or "outside director" within the meaning of Rule 16b-3 and Section 162(m) of the Code, respectively, shall not invalidate any Award made by the Committee which Award is otherwise validly made under the Plan.

(d) No member of the Committee shall be liable to any Person for any action or determination made in good faith with respect to the Plan or any Award hereunder.

(e) With respect to any Performance Compensation Award granted to a Covered Employee (within the meaning of Section 162(m) of the Code) under the Plan, the Plan shall be interpreted and construed in accordance with Section 162(m) of the Code.

(f) Notwithstanding the foregoing, the Committee may delegate to one or more officers of the Company the authority to grant awards to Participants who are not officers or directors of the Company subject to Section 16 of the Exchange Act or Covered Employees (within the meaning of Section 162(m) of the Code).

Section 4. Shares Available for Awards.

(a) *Shares Available*. Subject to adjustment as provided in Section 4(b), the aggregate number of Shares with respect to which Awards may be granted from time to time under the Plan shall in the aggregate not exceed, at any time, 240,000,000; provided, however, that the aggregate number of Shares with respect to which Incentive Stock Options may be granted under the Plan shall be 40,000,000. The maximum number of Shares with respect to which Options and Stock Appreciation Rights may be granted to any Participant in any fiscal year shall be 40,000,000 and the maximum number of Shares which may be paid to a Participant in the Plan in connection with the settlement of any Award(s) designated as "Performance Compensation Awards" in respect of a single Performance Period shall be 40,000,000 or, in the event such Performance Compensation Award is paid in cash, the equivalent cash value thereof. If, after the effective date of the Plan, any Shares covered by an Award granted under the Plan, or to which such an Award relates, are forfeited, or if an Award has expired, terminated or been canceled for any reason whatsoever (other than by reason of exercise or vesting), then the Shares covered by such Award shall again be, or shall become, Shares with respect to which Awards may be granted hereunder.

(b) *Adjustments*. Notwithstanding any provisions of the Plan to the contrary, in the event that the Committee determines in its sole discretion that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other corporate transaction or event affects the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, equitably adjust any or all of (i) the number of Shares or other securities of the Company (or number and kind of other securities or property) with respect to which Awards may be granted, (ii) the number of Shares or other securities of the Company (or number and kind of other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award in consideration for the cancellation of such Award, which, in the case of Options and Stock Appreciation Rights shall equal the excess, if any, of the Fair Market Value of the Shares subject to such Options or Stock Appreciation Rights over the aggregate exercise price or grant price of such Options or Stock Appreciation Rights.

(c) *Substitute Awards* . Awards may, in the discretion of the Committee, be made under the Plan in assumption of, or in substitution for, outstanding awards previously granted by the Company or its Affiliates or a company acquired by the Company or with which the Company combines (“Substitute Awards”). The number of Shares underlying any Substitute Awards shall be counted against the aggregate number of Shares available for Awards under the Plan.

(d) *Sources of Shares Deliverable Under Awards* . Any Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or of treasury Shares.

Section 5. *Eligibility* . Any employee of, or consultant to, the Company or any of its Affiliates (including any prospective employee), or non-employee director who is a member of the Board or the board of directors of an Affiliate, shall be eligible to be selected as a Participant.

Section 6. *Stock Options* .

(a) *Grant* . Subject to the terms of the Plan, the Committee shall have sole and complete authority to determine the Participants to whom Options shall be granted, the number of Shares to be covered by each Option, the exercise price therefor and the conditions and limitations applicable to the exercise of the Option. The Committee shall have the authority to grant Incentive Stock Options, or to grant Non-Qualified Stock Options, or to grant both types of Options. In the case of Incentive Stock Options, the terms and conditions of such grants shall be subject to and comply with such rules as may be prescribed by Section 422 of the Code, as from time to time amended, and any regulations implementing such statute. All Options when granted under the Plan are intended to be Non-Qualified Stock Options, unless the applicable Award Agreement expressly states that the Option is intended to be an Incentive Stock Option. If an Option is intended to be an Incentive Stock Option, and if for any reason such Option (or any portion thereof) shall not qualify as an Incentive Stock Option, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a Non-Qualified Stock Option appropriately granted under the Plan; provided that such Option (or portion thereof) otherwise complies with the Plan's requirements relating to Non-Qualified Stock Options.

(b) *Exercise Price* . The Committee shall establish the exercise price at the time each Option is granted, which exercise price shall be set forth in the applicable Award Agreement.

(c) *Exercise* . Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may, in its sole discretion, specify in the applicable Award Agreement. The Committee may impose such conditions with respect to the exercise of Options, including without limitation, any relating to the application of federal or state securities laws, as it may deem necessary or advisable. Options with an exercise price equal to or greater than the Fair Market Value per Share as of the date of grant are intended to qualify as “performance-based compensation” under Section 162(m) of the Code. In the sole discretion of the Committee, Options may be granted with an exercise price that is less than the Fair Market Value per Share and such Options may, but need not, be intended to qualify as performance-based compensation in accordance with Section 11 hereof.

(d) *Payment* . (i) No Shares shall be delivered pursuant to any exercise of an Option until payment in full of the aggregate exercise price therefor is received by the Company. Such payment may be made in cash, or its equivalent, or (x) by exchanging Shares owned by the optionee (which are not the subject of any pledge or other security interest and which have been owned by such optionee for at least six months) or (y) subject to such rules as may be established by the Committee, through delivery of irrevocable instructions to a broker to sell the Shares otherwise deliverable upon the exercise of the Option and to deliver promptly to the Company an amount equal to the aggregate exercise price or by a combination of the foregoing, *provided* that the combined value of all cash and cash equivalents and the Fair Market Value of any such Shares so tendered to the Company as of the date of such tender is at least equal to such aggregate exercise price.

(ii) Wherever in this Plan or any Award Agreement a Participant is permitted to pay the exercise price of an Option or taxes relating to the exercise of an Option by delivering Shares, the Participant may, subject to procedures satisfactory to the Committee, satisfy such delivery requirement by presenting proof of beneficial ownership of such Shares, in which case the Company shall treat the Option as exercised without further payment and shall withhold such number of Shares from the Shares acquired by the exercise of the Option.

Section 7. Stock Appreciation Rights.

(a) *Grant*. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Participants to whom Stock Appreciation Rights shall be granted, the number of Shares to be covered by each Stock Appreciation Right Award, the grant price thereof and the conditions and limitations applicable to the exercise thereof. Stock Appreciation Rights with a grant price equal to or greater than the Fair Market Value per Share as of the date of grant are intended to qualify as "performance-based compensation" under Section 162(m) of the Code. In the sole discretion of the Committee, Stock Appreciation Rights may be granted with an exercise price that is less than the Fair Market Value per Share and such Stock Appreciation Rights may, but need not, be intended to qualify as performance-based compensation in accordance with Section 11 hereof. Stock Appreciation Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to another Award. Stock Appreciation Rights granted in tandem with or in addition to an Award may be granted either before, at the same time as the Award or at a later time.

(b) *Exercise and Payment*. A Stock Appreciation Right shall entitle the Participant to receive an amount equal to the excess of the Fair Market Value of a Share on the date of exercise of the Stock Appreciation Right over the grant price thereof. The Committee shall determine in its sole discretion whether a Stock Appreciation Right shall be settled in cash, Shares or a combination of cash and Shares.

(c) *Other Terms and Conditions*. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine, at the grant of a Stock Appreciation Right, the term, methods of exercise, methods and form of settlement, and any other terms and conditions of any Stock Appreciation Right. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it shall deem appropriate.

Section 8. Restricted Stock and Restricted Stock Units.

(a) *Grant*. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Participants to whom Shares of Restricted Stock and Restricted Stock Units shall be granted, the number of Shares of Restricted Stock and/or the number of Restricted Stock Units to be granted to each Participant, the duration of the period during which, and the conditions, if any, under which, the Restricted Stock and Restricted Stock Units may be forfeited to the Company, and the other terms and conditions of such Awards.

(b) *Transfer Restrictions*. Shares of Restricted Stock and Restricted Stock Units may not be sold, assigned, transferred, pledged or otherwise encumbered, except, in the case of Restricted Stock, as provided in the Plan or the applicable Award Agreements. Certificates issued in respect of Shares of Restricted Stock shall be registered in the name of the Participant and deposited by such Participant, together with a stock power endorsed in blank, with the Company. Upon the lapse of the restrictions applicable to such Shares of Restricted Stock, the Company shall deliver such certificates to the Participant or the Participant's legal representative.

(c) *Payment*. Each Restricted Stock Unit shall have a value equal to the Fair Market Value of a Share. Restricted Stock Units shall be paid in cash, Shares, other securities or other property, as determined in the sole discretion of the Committee, upon the lapse of the restrictions applicable thereto, or otherwise in accordance with the applicable Award Agreement. Dividends paid on any Shares of Restricted Stock may be paid directly to the Participant, withheld by the Company subject to vesting of the Restricted Shares pursuant to the terms of the applicable Award Agreement, or may be reinvested in additional Shares of Restricted Stock or in additional Restricted Stock Units, as determined by the Committee in its sole discretion.

Section 9. Performance Awards.

(a) *Grant*. The Committee shall have sole and complete authority to determine the Participants who shall receive a "Performance Award", which shall consist of a right which is (i) denominated in cash or Shares, (ii) valued, as determined by the Committee, in accordance with the achievement of such performance goals during such performance periods as the Committee shall establish, and (iii) payable at such time and in such form as the Committee shall determine.

(b) *Terms and Conditions* . Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine the Performance Goals to be achieved during any Performance Period, the length of any Performance Period, the amount of any Performance Award and the amount and kind of any payment or transfer to be made pursuant to any Performance Award.

(c) *Payment of Performance Awards* . Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis.

SECTION 10. Other Stock-Based Awards .

(a) *General* . The Committee shall have authority to grant to Participants an “Other Stock-Based Award”, which shall consist of any right which is (i) not an Award described in Sections 6 through 9 above and (ii) an Award of Shares or an Award denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as deemed by the Committee to be consistent with the purposes of the Plan; provided that any such rights must comply, to the extent deemed desirable by the Committee, with Rule 16b-3 and applicable law. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine the terms and conditions of any such Other Stock-Based Award, including the price, if any, at which securities may be purchased pursuant to any Other Stock-Based Award granted under this Plan.

(b) *Dividend Equivalents* . In the sole and complete discretion of the Committee, an Award, whether made as an Other Stock-Based Award under this Section 10 or as an Award granted pursuant to Sections 6 through 9 hereof, may provide the Participant with dividends or dividend equivalents, payable in cash, Shares, other securities or other property on a current or deferred basis.

Section 11. Performance Compensation Awards .

(a) *General* . The Committee shall have the authority, at the time of grant of any Award described in Sections 6 through 10 (other than Options and Stock Appreciation Rights granted with an exercise price or grant price, as the case may be, equal to or greater than the Fair Market Value per Share on the date of grant), to designate such Award as a Performance Compensation Award in order to qualify such Award as “performance-based compensation” under Section 162(m) of the Code.

(b) *Eligibility* . The Committee will, in its sole discretion, designate within the first 90 days of a Performance Period (or, if longer, within the maximum period allowed under Section 162(m) of the Code) which Participants will be eligible to receive Performance Compensation Awards in respect of such Performance Period. Designation of a Participant eligible to receive an Award hereunder for a Performance Period shall not in any manner entitle the Participant to receive payment in respect of any Performance Compensation Award for such Performance Period. The determination as to whether or not such Participant becomes entitled to payment in respect of any Performance Compensation Award shall be decided solely in accordance with the provisions of this Section 11. Moreover, designation of a Participant eligible to receive an Award hereunder for a particular Performance Period shall not require designation of such Participant eligible to receive an Award hereunder in any subsequent Performance Period and designation of one person as a Participant eligible to receive an Award hereunder shall not require designation of any other person as a Participant eligible to receive an Award hereunder in such period or in any other period.

(c) *Discretion of Committee with Respect to Performance Compensation Awards* . With regard to a particular Performance Period, the Committee shall have full discretion to select the length of such Performance Period, the type(s) of Performance Compensation Awards to be issued, the Performance Criteria that will be used to establish the Performance Goal(s), the kind(s) and/or level(s) of the Performance Goals(s) is/are to apply to the Company and the Performance Formula. Within the first 90 days of a Performance Period (or, if longer, within the maximum period allowed under Section 162(m) of the Code), the Committee shall, with regard to the Performance Compensation Awards to be issued for such Performance Period, exercise its discretion with respect to each of the matters enumerated in the immediately preceding sentence of this Section 11(c) and record the same in writing.

(d) *Payment of Performance Compensation Awards* . (i) *Condition to Receipt of Payment*. Unless otherwise provided in the applicable Award Agreement, a Participant must be employed by the Company on the last day of a Performance Period to be eligible for payment in respect of a Performance Compensation Award for such Performance Period.

(ii) *Limitation*. A Participant shall be eligible to receive payment in respect of a Performance Compensation Award only to the extent that: (1) the Performance Goals for such period are achieved; and (2) the Performance Formula as applied against such Performance Goals determines that all or some portion of such Participant's Performance Award has been earned for the Performance Period.

(iii) *Certification*. Following the completion of a Performance Period, the Committee shall meet to review and certify in writing whether, and to what extent, the Performance Goals for the Performance Period have been achieved and, if so, to calculate and certify in writing that amount of the Performance Compensation Awards earned for the period based upon the Performance Formula. The Committee shall then determine the actual size of each Participant's Performance Compensation Award for the Performance Period and, in so doing, may apply Negative Discretion, if and when it deems appropriate.

(iv) *Negative Discretion*. In determining the actual size of an individual Performance Award for a Performance Period, the Committee may reduce or eliminate the amount of the Performance Compensation Award earned under the Performance Formula in the Performance Period through the use of Negative Discretion if, in its sole judgement, such reduction or elimination is appropriate.

(v) *Timing of Award Payments*. The Awards granted for a Performance Period shall be paid to Participants as soon as administratively possible following completion of the certifications required by this Section 11.

(vi) *Maximum Award Payable*. Notwithstanding any provision contained in the Plan to the contrary, the maximum Performance Compensation Award payable to any one Participant under the Plan for a Performance Period is 40,000,000 Shares or, in the event the Performance Compensation Award is paid in cash, the equivalent cash value thereof on the last day of the Performance Period to which such Award relates. Furthermore, any Performance Compensation Award that has been deferred shall not (between the date as of which the Award is deferred and the payment date) increase (i) with respect to Performance Compensation Award that is payable in cash, by a measuring factor for each fiscal year greater than a reasonable rate of interest set by the Committee or (ii) with respect to a Performance Compensation Award that is payable in Shares, by an amount greater than the appreciation of a Share from the date such Award is deferred to the payment date.

Section 12. Amendment and Termination .

(a) *Amendments to the Plan* . The Board may amend, alter, suspend, discontinue, or terminate the Plan or any portion thereof at any time; provided that no such amendment, alteration, suspension, discontinuation or termination shall be made without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement applicable to the Plan; and provided, further, that any such amendment, alteration, suspension, discontinuance or termination that would impair the rights of any Participant or any holder or beneficiary of any Award previously granted shall not be effective without the consent of the affected Participant, holder or beneficiary.

(b) *Amendments to Awards* . The Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, any Award theretofore granted; provided that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would impair the rights of any Participant or any holder or beneficiary of any Award previously granted shall not be effective without the consent of the affected Participant, holder or beneficiary.

(c) *Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events* . The Committee is hereby authorized to make equitable adjustments in the terms and conditions of, and the criteria included in, all outstanding Awards in recognition of unusual or nonrecurring events (including, without limitation,

the events described in Section 4(b) hereof) affecting the Company, any Affiliate, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan; provided that no such adjustment shall be authorized to the extent that such authority or adjustment would cause an Award designated by the Committee as a Performance Compensation Award under Section 11 of the Plan to fail to qualify as "performance-based compensation" under Section 162(m) of the Code.

Section 13. Change of Control. In the event of a Change of Control, any outstanding Awards then held by Participants which are unexercisable or otherwise unvested shall automatically be deemed exercisable or otherwise vested, as the case may be, effective as of immediately prior to such Change of Control, unless the terms of the Award Agreement expressly provides to the contrary.

Section 14. General Provisions.

(a) *Nontransferability*.

(i) Each Award, and each right under any Award, shall be exercisable only by the Participant during the Participant's lifetime, or, if permissible under applicable law, by the Participant's legal guardian or representative.

(ii) No Award may be sold, assigned, alienated, pledged, attached or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution, and any such purported sale, assignment, alienation, pledge, attachment, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute a sale, assignment, alienation, pledge, attachment, transfer or encumbrance.

(iii) Notwithstanding the foregoing, the Committee may in the applicable Award Agreement evidencing an Option granted under the Plan or at any time thereafter in an amendment to an Award Agreement provide that Options granted hereunder which are not intended to qualify as Incentive Options may be transferred by the Participant to whom such Option was granted (the "Grantee") without consideration, subject to such rules as the Committee may adopt to preserve the purposes of the Plan, to: (1) the Grantee's spouse, children or grandchildren (including adopted and stepchildren and grandchildren) (collectively, the 'Immediate Family'); (2) a trust solely for the benefit of the Grantee and his or her Immediate Family; or (3) a partnership, corporation or limited liability company whose only partners, members or shareholders are the Grantee and his or her Immediate Family; (each transferee described in clauses (1), (2) and (3) above is hereinafter referred to as a "Permitted Transferee"); provided that the Grantee gives the Committee advance written notice describing the terms and conditions of the proposed transfer and the Committee notifies the Grantee in writing that such a transfer would comply with the requirements of the Plan and any applicable Award Agreement evidencing the Option.

The terms of any Option transferred in accordance with the immediately preceding sentence shall apply to the Permitted Transferee and any reference in the Plan or in an Award Agreement to an optionee, Grantee or Participant shall be deemed to refer to the Permitted Transferee, except that (a) Permitted Transferees shall not be entitled to transfer any Options, other than by will or the laws of descent and distribution; (b) Permitted Transferees shall not be entitled to exercise any transferred Options unless there shall be in effect a registration statement on an appropriate form covering the Shares to be acquired pursuant to the exercise of such Option if the Committee determines that such a registration statement is necessary or appropriate, (c) the Committee or the Company shall not be required to provide any notice to a Permitted Transferee, whether or not such notice is or would otherwise have been required to be given to the Grantee under the Plan or otherwise and (d) the consequences of termination of the Grantee's employment by, or services to, the Company under the terms of the Plan and the applicable Award Agreement shall continue to be applied with respect to the Grantee, following which the Options shall be exercisable by the Permitted Transferee only to the extent, and for the periods, specified in the Plan and the applicable Award Agreement.

(b) *No Rights to Awards*. No Participant or other Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants, or holders or beneficiaries of Awards. The

terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant (whether or not such Participants are similarly situated).

(c) *Share Certificates* . All certificates for Shares or other securities of the Company or any Affiliate delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Shares or other securities are then listed, and any applicable Federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(d) *Withholding* . (i) A Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any Award, from any payment due or transfer made under any Award or under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, Shares, other securities, other Awards or other property) of any applicable withholding taxes in respect of an Award, its exercise, or any payment or transfer under an Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. The Committee may provide for additional cash payments to holders of Awards to defray or offset any tax arising from the grant, vesting, exercise or payments of any Award.

(ii) Without limiting the generality of clause (i) above, a Participant may satisfy, in whole or in part, the foregoing withholding liability by delivery of Shares owned by the Participant (which are not subject to any pledge or other security interest and which have been owned by the Participant for at least six months) with a Fair Market Value equal to such withholding liability or by having the Company withhold from the number of Shares otherwise issuable pursuant to the exercise of the option a number of Shares with a Fair Market Value equal to such withholding liability.

(iii) Notwithstanding any provision of this Plan to the contrary, in connection with the transfer of an Option to a Permitted Transferee pursuant to Section 14(a), the Grantee shall remain liable for any withholding taxes required to be withheld upon the exercise of such Option by the Permitted Transferee.

(e) *Award Agreements* . Each Award hereunder shall be evidenced by an Award Agreement which shall be delivered to the Participant and shall specify the terms and conditions of the Award and any rules applicable thereto, including but not limited to the effect on such Award of the death, disability or termination of employment or service of a Participant and the effect, if any, of such other events as may be determined by the Committee.

(f) *No Limit on Other Compensation Arrangements* . Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other compensation arrangements, which may, but need not, provide for the grant of options, restricted stock, Shares and other types of Awards provided for hereunder (subject to stockholder approval if such approval is required), and such arrangements may be either generally applicable or applicable only in specific cases.

(g) *No Right to Employment* . The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of, or in any consulting relationship to, or as a director on the Board or board of directors, as applicable, of, the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss a Participant from employment or discontinue any consulting relationship, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan, any Award Agreement or any applicable employment contract or agreement.

(h) *No Rights as Stockholder* . Subject to the provisions of the applicable Award, no Participant or holder or beneficiary of any Award shall have any rights as a stockholder with respect to any Shares to be distributed under the Plan until he or she has become the holder of such Shares. Notwithstanding the foregoing, in connection with each grant of Restricted Stock hereunder, the applicable Award shall specify if and to what extent the Participant shall not be entitled to the rights of a stockholder in respect of such Restricted Stock.

(i) *Governing Law* . The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan and any Award Agreement shall be determined in accordance with the laws of the State of New York, applied without giving effect to its conflict of laws principles.

(j) *Severability* . If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(k) *Other Laws* . The Committee may refuse to issue or transfer any Shares or other consideration under an Award if, acting in its sole discretion, it determines that the issuance or transfer of such Shares or such other consideration might violate any applicable law or regulation or entitle the Company to recover the same under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary. Without limiting the generality of the foregoing, no Award granted hereunder shall be construed as an offer to sell securities of the Company, and no such offer shall be outstanding, unless and until the Committee in its sole discretion has determined that any such offer, if made, would be in compliance with all applicable requirements of the U.S. federal securities laws.

(l) *No Trust or Fund Created* . Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(m) *No Fractional Shares* . No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

(n) *Headings* . Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

Section 15. Term of the Plan .

(a) *Effective Date* . The Plan shall be effective as of the date of its approval by the stockholders of the Company.

(b) *Expiration Date* . No Award shall be granted under the Plan after December 31, 2012. Unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted hereunder may, and the authority of the Board or the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under any such Award shall, continue after December 31, 2012.

Subsidiaries

Satellite CD Radio, Inc
Sirius Asset Management Company LLC
Sirius Entertainment Promotions LLC
Spend LLC
Earth Station Ecuador Cia. Ltda

State of Delaware
State of Delaware
State of Delaware
State of Maryland
Quito, Ecuador

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to reference to our firm in the headnote to Item 6 – Selected Financial Data and to the use of our reports dated February 23, 2007 in this Annual Report (Form 10-K) of Sirius Satellite Radio Inc. (“Company”), with respect to the consolidated financial statements of Sirius Satellite Radio Inc., Sirius Satellite Radio Inc. management’s assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Sirius Satellite Radio Inc., included in the 2006 Annual Report to Shareholders of Sirius Satellite Radio Inc.

Our audits also included the financial statement schedule of Sirius Satellite Radio Inc. listed in Item 15(a). This schedule is the responsibility of the Company’s management. Our responsibility is to express an opinion based on our audits. In our opinion, the consolidated financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We consent to the incorporation by reference in the following Registration Statements:

Form S-8 No. 333-139214, No. 333-133277, No. 333-125118, 333-119479, No. 333-81914, No. 333-74752, No. 333-65473, No. 333-15085, No. 33-95118, No. 33-92588, No. 333-31362, No. 333-62818, No. 333-81914, No. 333-100083, No. 333-101515, No. 333-106020 and No. 333-111221

Form S-3 No. 333-130949, No. 333-130949, No. 333-127169, No. 333-115695, No. 333-64344, No. 333-65602, No. 333-52893, No. 333-85847, No. 333-86003, No. 333-10446 and No. 333-108387

of our reports dated February 23, 2007, with respect to the consolidated financial statements and schedule of Sirius Satellite Radio Inc., Sirius Satellite Radio Inc. management’s assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Sirius Satellite Radio Inc., included in this Annual Report (Form 10-K) of Sirius Satellite Radio Inc.

/s/ Ernst & Young LLP

New York, New York
March 1, 2007

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Mel Karmazin, the Chief Executive Officer of Sirius Satellite Radio Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Sirius Satellite Radio Inc. for the period ended December 31, 2006;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ MEL KARMAZIN

Mel Karmazin
Chief Executive Officer
(Principal Executive Officer)

March 1, 2007

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, the Executive Vice President and Chief Financial Officer of Sirius Satellite Radio Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Sirius Satellite Radio Inc. for the period ended December 31, 2006;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ DAVID J. FREAR

David J. Frear
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

March 1, 2007

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Annual Report of Sirius Satellite Radio Inc. (the "Company") on Form 10-K for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mel Karmazin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ MEL K ARMAZIN

Mel Karmazin
Chief Executive Officer
(Principal Executive Officer)

March 1, 2007

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Annual Report of Sirius Satellite Radio Inc. (the "Company") on Form 10-K for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID J. FREAR

David J. Frear
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

March 1, 2007

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.



Ford Expands SIRIUS Satellite Radio Offering

- **Ford will offer SIRIUS Satellite Radio as a factory-installed option targeted for up to 20 Ford and Lincoln Mercury vehicle lines for 2006 and 2007 model years.**
- **Additionally, Ford expands SIRIUS as a dealer-installed option this fall.**

DETROIT and NEW YORK, Oct. 18, 2004 – Ford Motor Company today announced that it is expanding its availability of SIRIUS Satellite Radio as a dealer-installed option, and is targeting up to 20 vehicle lines for factory installations over the next two years.

SIRIUS (NASDAQ: SIRI) is known for delivering premium content, including commercial-free music, as well as sports, news, information and entertainment to cars and homes across the country, and is rapidly expanding its programming lineup.

Ford, Mercury and Lincoln now offer SIRIUS Satellite Radio as a dealer-installed option on nine models. Beginning this fall, this offering will be expanded to four additional models – Ford Escape, Crown Victoria, Mercury Grand Marquis and the all-new Mercury Mariner. The feature is currently available on the Ford Explorer, Sport Trac, Expedition and Thunderbird, the Mercury Mountaineer, the Lincoln LS, Aviator, Navigator and Town Car.

Over the next two model years – 2006 and 2007 – Ford and Lincoln Mercury plan to offer SIRIUS as a factory-installed option on up to 20 vehicle lines.

"With longer commutes and heavier traffic volume, people are spending more time than ever in their vehicles," said Phil Martens, Ford group vice president, Product Creation.

"Soon, more Ford, Lincoln and Mercury customers will have the opportunity to further enhance their time in the vehicle with SIRIUS Satellite Radio," he said.

SIRIUS provides listeners with over 120 channels of premium programming, including 65 commercial-free music channels and over 55 channels of news, traffic, weather, comedy, original entertainment and comprehensive sports coverage. In addition to broadcasting all NFL games live, plus a full schedule of college football games, beginning in January of 2006, SIRIUS will also be the only place to listen to famous radio personality Howard Stern.

"Ford is more than an innovative brand. Its name is a part of automotive and American history," said Joseph P. Clayton, CEO of SIRIUS. "Naturally, we are thrilled to see that Ford is adding more SIRIUS availability to its great lineup of quality vehicles, and that they are moving forward to offer SIRIUS as a factory-installed option."

According to Clayton, demand for satellite radio – and SIRIUS – is increasing, and the company expects to reach one million subscribers by the end of 2004.

The recent introduction of live NFL games and college football, as well as relationships with the NHL, *Maxim* magazine, Eminem and the announcement that Howard Stern will be joining SIRIUS in 2006, are yet other examples of the company's innovative content strategy to differentiate itself from the competition.

About Ford

Ford Motor Company, a global automotive industry leader based in Dearborn, Mich., manufactures and distributes automobiles in 200 markets across six continents. With more than 318,000 employees worldwide, the company's automotive brands include Aston Martin, Ford, Jaguar, Land Rover, Lincoln, Mazda, Mercury and Volvo.

Its automotive-related services include Ford Credit, Quality Care and Hertz.

SIR Ex. 48

Visit media.ford.com for information, news releases and high resolution photography.

About SIRIUS

SIRIUS, now available to over 10 million DISH Network satellite TV and SIRIUS Satellite Radio subscribers, provides listeners with over 120 channels of the best commercial-free music, sports, information and entertainment, with digital quality sound coast-to-coast, broadcast daily from New York City, Los Angeles, Nashville, New Orleans, Houston and Daytona. SIRIUS offers 65 channels of 100% commercial-free music, and features 55 channels of world-class sports, news, talk, entertainment, traffic and weather for a monthly subscription fee of only \$12.95, with greater savings for upfront payments of multiple months or a year or more. SIRIUS also broadcasts live play-by-play games of the NHL and the NFL, and is the Official Satellite Radio partner of the NFL.

SIRIUS Satellite Radio products for the car, truck, home, RV and boat are manufactured by Alpine, Audiovox, Blaupunkt, Clarion, Eclipse, Jensen, JVC, Kenwood, Panasonic, Sanyo and U.S. Electronics, and can be purchased at major retailers including Advance Auto Parts, Best Buy, Car Toys, Circuit City, Crutchfield, Good Guys, Wal-Mart, Sears, Tweeter and Ultimate Electronics, along with RadioShack and DISH Network outlets.

SIRIUS' exclusive automotive partners DaimlerChrysler, Ford and BMW represent over 40% of new cars and light trucks sold annually in the United States. Automotive brands currently offering SIRIUS radios in select new car models include BMW, MINI, Chrysler, Dodge, Jeep, Nissan, Infiniti, Mazda, Audi, Ford, Lincoln-Mercury, Mercedes-Benz, Porsche and Volkswagen. Automotive brands that have announced plans to offer SIRIUS radios in select models include Jaguar, Volvo, Land Rover and Aston Martin. In 2004, SIRIUS radios are expected to be available in over 80 different car models, with more than 50 of them factory programs. Also, Hertz currently offers SIRIUS in 29 vehicle models at 53 major locations around the country. In addition, the Penske companies – Penske Auto Group, United Auto Group and Penske Trucking – are offering SIRIUS radios as a factory installed option, where available, in their cars and trucks through their dealerships.

Genmar Holdings, the world's largest manufacturer of recreational boats, Formula Boats and Winnebago, the leading supplier of recreational vehicles and motor homes, also offer SIRIUS.

Click on sirius.com to listen to SIRIUS live, or to find a SIRIUS retailer or car dealer in your area.

Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance with respect to SIRIUS Satellite Radio Inc. are not historical facts and may be forward-looking and, accordingly, such statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in any forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission. Among the key factors that have a direct bearing on our results of operations are: our dependence upon third parties to manufacture, distribute, market and sell SIRIUS radios and components for those radios; the unproven market for our service; our competitive position and any events which affect the useful life of our satellites.

SIR EX. 49



Ford And SIRIUS Satellite Radio Target Extensive Factory Installations Beginning Summer 2005

- Up to one million SIRIUS subscribers expected in first two years
- Up to 21 vehicle lines targeted
- At least six months of SIRIUS Service included with factory-installed option

DETROIT, NEW YORK, January 4, 2005 – Ford Motor Company (NYSE: F) and SIRIUS Satellite Radio (NASDAQ: SIRI) today announced that Ford and Lincoln Mercury will begin offering SIRIUS as a factory installed option this summer. Ford is targeting the SIRIUS factory installed option for up to 21 vehicle lines. Ford expects to generate up to one million SIRIUS subscribers over the 2006 and 2007 model year periods.

Each Ford and Lincoln Mercury vehicle sold with factory equipped SIRIUS will include a six-month or longer subscription. Pricing will be announced at a later date.

Starting with the 2006 model year, Ford plans to offer factory installed SIRIUS on the following vehicle lines:

- Ford F-150
- Ford Explorer
- Lincoln Mark LT
- Mercury Mountaineer

Ford and Lincoln Mercury are targeting up to 17 additional vehicle lines for the SIRIUS factory installed option during the 2006 and 2007 calendar year period. In total about 80 percent of all Ford and Lincoln Mercury vehicles will have SIRIUS as a factory installed option.

"Ford is a very important automotive relationship for us, and we are very pleased that they plan to offer factory installed SIRIUS in the vast majority of their vehicle lines," said Mel Karmazin, CEO of SIRIUS. "When you add premium programming from SIRIUS to quality vehicles from Ford, you have an unbeatable combination that will enhance the driving experience of any Ford customer."

"We believe the option for SIRIUS satellite radio will be very attractive to many of our customers," said Earl Hesterberg, Ford group vice president, North America Marketing, Sales and Service. "This is an exciting opportunity for us and for our customers."

About Ford

Ford Motor Company, a global automotive industry leader based in Dearborn, Mich., manufactures and distributes automobiles in 200 markets across six continents. With more than 327,000 employees worldwide, the company's automotive brands include Aston Martin, Ford, Jaguar, Land Rover, Lincoln, Mazda, Mercury and Volvo. Its automotive-related services include Ford Credit, Quality Care and Hertz.

Visit media.ford.com for information, news releases and high-resolution photography.

About SIRIUS

SIRIUS delivers more than 120 channels of the best commercial-free music, compelling talk shows, news and information, and the most exciting sports programming to listeners across the country in digital quality sound. SIRIUS offers 65 channels of 100% commercial-free music, and features over 55 channels of sports, news, talk, entertainment, traffic and weather. SIRIUS also broadcasts live play-by-play games of the NFL and NBA, and is the Official Satellite Radio partner of the NFL.

Click on sirius.com to listen to SIRIUS live, or to find a SIRIUS retailer or car dealer in your area.

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Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance with respect to SIRIUS Satellite Radio Inc. are not historical facts and may be forward-looking and, accordingly, such statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in any forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission. Among the key factors that have a direct bearing on our results of operations are: our dependence upon third parties to manufacture, distribute, market and sell SIRIUS radios and components for those radios; the unproven market for our service; our competitive position and any events which affect the useful life of our satellites.

SIR EX. 50



Ford Motor Company and SIRIUS Satellite Radio Extend Exclusive Relationship

- All Ford Brands Included - Expanded Factory Installation Programs Expected - Factory Installed Volumes Expected To Significantly Increase

NEW YORK and DETROIT, June 6, 2005 /PRNewswire-FirstCall via COMTEX/ -- SIRIUS Satellite Radio (Nasdaq: SIRI), and the Ford Motor Company (NYSE: F), today announced an agreement that extends SIRIUS' exclusive relationship with Ford through September 2011, on certain terms and conditions. All Ford Motor Company brands in the U.S. -- Ford, Lincoln Mercury, Land Rover, Jaguar, Volvo, Aston Martin and Mazda -- are covered by the agreement.

(Logo: <http://www.newscom.com/cgi-bin/prnh/19991118/NYTH125>)

"Subscriptions to SIRIUS have increased dramatically over the past several years," said Phil Martens, Ford's Group Vice President of Product Creation. "So, it's only natural that Ford would want to continue to make SIRIUS' unique mix of programming available to Ford buyers in the future. Our relationship provides customers with the best of both worlds -- innovative technology, style and driving experience."

"We are delighted that Ford has decided to extend its exclusivity with SIRIUS, enabling future Ford buyers to experience the best programming in satellite radio," said Mel Karmazin, CEO of SIRIUS. "Ford and SIRIUS are both dedicated to providing our customers with the best quality possible. Now, Ford buyers can be assured that our two companies will continue to work together in the future to make their driving experience even more pleasurable."

Earlier this year, Ford and Lincoln Mercury announced plans to target up to 21 vehicle lines for factory installation of SIRIUS over the 2006 and 2007 model years, and announced that they expect to generate up to one million SIRIUS subscribers over the two model year period. In total, nearly 90% of Ford and Lincoln Mercury vehicles will have SIRIUS as a factory installed option for the 2008 model year. Factory installed volumes are expected to significantly increase.

Land Rover recently announced plans to offer SIRIUS as a factory-installed option on select vehicle lines, beginning with the 2006 model year. Volvo, Jaguar and Mazda currently offer SIRIUS as a dealer-installed option, with future plans to offer SIRIUS as a factory-installed option and/or as an option installed as overseas vehicles enter U.S. ports.

Ford has the option to extend the agreement through September 2013. The agreement also contains customary terms and conditions, including termination rights. Beginning in January 2009, Ford may elect to become nonexclusive under the agreement, in which case Ford would forfeit all future economic benefits, which could be significant.

About SIRIUS

SIRIUS delivers more than 120 channels of the best commercial-free music, compelling talk shows, news and information, and the most exciting sports programming to listeners across the country in digital quality sound. SIRIUS offers 65 channels of 100% commercial-free music, and features over 55 channels of sports, news, talk, entertainment, traffic and weather. SIRIUS also broadcasts live play-by-play games of the NFL and NBA, and is the Official Satellite Radio partner of the NFL.

Click on <http://www.sirius.com> to listen to SIRIUS live, or to find a SIRIUS retailer or car dealer.

Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance with respect to SIRIUS Satellite Radio Inc. are not historical facts and may be forward-looking and, accordingly, such statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in any forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission. Among the key factors that have a direct bearing on our operational results are:

SIR Ex. 50

our dependence upon third parties, including manufacturers of SIRIUS radios, retailers, automakers and programming partners, our competitive position and any events which affect the useful life of our satellites.

O-SIRI

SOURCE SIRIUS Satellite Radio

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News Provided by COMTEX

SIR EX. 51



Ford to Offer Factory Installed SIRIUS Satellite Radio Beginning This Month

- **\$195 MSRP for Factory-Installed SIRIUS System - Price Includes Six-Month Subscription**
- **SIRIUS Receivers to Arrive at Dealership Pre-Activated**

NEW YORK and DETROIT, Aug 01, 2005 /PRNewswire-FirstCall via COMTEX/ -- The Ford Motor Company (NYSE: F) and SIRIUS Satellite Radio (Nasdaq: SIRI) today announced that Ford and Lincoln Mercury will begin offering SIRIUS as a factory-installed option this month on select vehicle lines.

(Logo: <http://www.newscom.com/cgi-bin/prnh/19991118/NYTH125>)

Beginning with the 2006 model year, SIRIUS will be offered factory- installed on the following vehicle lines:

- * Ford F150 (August 2005)
 - * Lincoln Mark LT (September 2005)
 - * Ford Explorer (December 2005)
 - * Mercury Mountaineer (December 2005)

Ford and Lincoln Mercury plan to offer the factory-installed SIRIUS system for an MSRP of \$195, which will include a six-month subscription to the SIRIUS service.

"We are very excited about the start of Ford's factory program for SIRIUS," said Doug Wilsterman, Senior Vice President and General Manager of SIRIUS' OEM Division. "It will now be even easier for Ford customers to hear the unique programming that SIRIUS offers, and to see first-hand how this will enhance their driving experience."

"Satellite radio is the fastest growing consumer electronics product today," said Steve Lyons, Group Vice President, For Marketing, Sales and Service. "With SIRIUS radio, we are providing another way for our customers to personalize their vehicles and driving experience to their tastes. We look forward to growing the relationship and offering SIRIUS in more product lines in the near future."

SIRIUS radios will arrive at the dealership pre-activated, allowing the dealer to conduct an in-vehicle demonstration of the SIRIUS service, and enabling the customer to immediately access SIRIUS at the time of delivery.

Earlier this year, Ford and Lincoln Mercury announced plans to target up to 21 vehicle lines for factory installation of SIRIUS over the 2006 and 2007 model years. Ford also announced that they expect to generate up to one million SIRIUS subscribers over those two model year periods. Nearly ninety percent of Ford and Lincoln Mercury vehicles will have SIRIUS as a factory- installed option for the 2008 model year.

About SIRIUS

SIRIUS delivers more than 120 channels of the best commercial-free music, compelling talk shows, news and information, and the most exciting sports programming to listeners across the country in digital quality sound. SIRIUS offers 65 channels of 100% commercial-free music, and features over 55 channels of sports, news, talk, entertainment, traffic and weather for a monthly subscription fee of only \$12.95. SIRIUS also broadcasts live play-by-play games of the NFL and NBA, and is the Official Satellite Radio partner of the NFL.

SIRIUS radios for the car, truck, home, RV and boat are manufactured by Alpine, Audiovox, Blaupunkt, Clarion, Delphi, Jensen, JVC, Kenwood, Pioneer, Sanyo and XACT Communications. Available in more than 25,000 retail locations, SIRIUS radios can be purchased at major retailers including Best Buy, Circuit City, Crutchfield, Office Depot, Sears, Target, Wal-Mart and RadioShack. SIRIUS is also available at heavy truck dealers and truck stops nationwide.

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SIRIUS radios are currently offered in vehicles from Audi, BMW, Chrysler, Dodge, Ford, Infiniti, Jeep(R), Lincoln-Mercury, Mazda, Mercedes-Benz, MINI, Nissan, Scion, Toyota, Porsche, Volkswagen and Volvo. Hertz currently offers SIRIUS at major locations around the country.

Click on <http://www.sirius.com> to listen to SIRIUS live, or to find a SIRIUS retailer or car dealer in your area.

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O-SIRI

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THEREFORE WAS OMITTED FROM
THIS PUBLIC VERSION**

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SIR EX. 54

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Watch new episodes of "Martha" all week for Simple Suppers, the best baking recipes, and summer favorites.

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Don't Miss Martha's Summer Session. All week long, watch groundbreaking episodes of "The Martha Sheepest Show" with inspiring advice for summer.

learn more

July 22

LEARN HOW TO MAKE CUCUMBERS

Choose firm cucumbers with uniform thickness. Those with bulging centers tend to have large seeds and watery flesh.

MEET SARAH

Modern Baby Shower

Cut-and-Paste Makeovers

Embellish and Personalize

SIR EX. 55

MARTHA STEWART Living

Sharing the 'Good Things'

PLEASURES
OF THE
SEASON

HYDRANGEAS
FOR EVERY GARDEN

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DESSERTS

KEBABS 101
LAMB, SHRIMP, AND BEEF

Plus:
FLOWER-ARRANGING
SECRETS FROM MARTHA

CRAFTING
WITH SEA GLASS

A NEW LIFE
FOR OLD FURNITURE

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Where to find Martha AUGUST 2007

Highlights from *The Martha Stewart Show* and *Martha Stewart Living Radio*.

The Martha Stewart Show

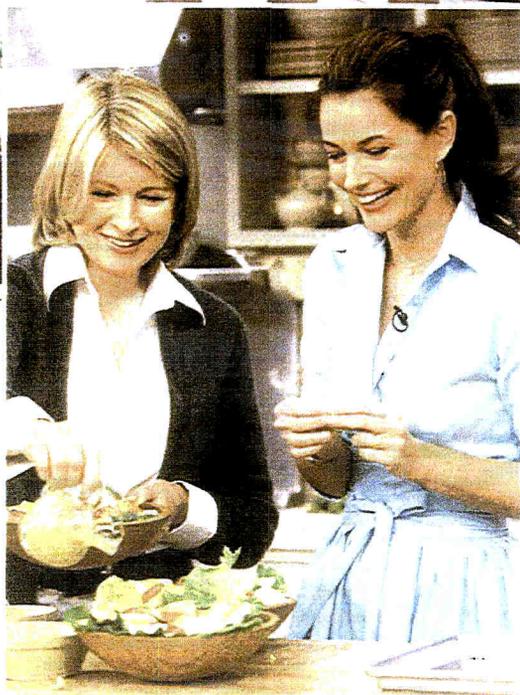
Tune in to this daily program to see what Martha and her guests are up to now.

A nationally syndicated weekday show (check local listings or www.marthastewart.com/tv for showtimes)



coming up on the show

You'll find useful how-tos, fail-safe recipes, and interesting guests on every episode of *The Martha Stewart Show*. And this month, every week has a theme. August 6 to 10 is Prime Time's Best week, featuring actresses Jennifer Garner, Katherine Heigl, and Emily Proctor, among others. Chefs' Secrets week (August 13 to 17) will spotlight a celebrity chef each day, including Michael Lomonaco and Sue Torres, both based in New York City, who will share cooking tips and techniques from their professional kitchens. And during Easy-as-Pie week (August 20 to 24), Martha will offer secrets for making a variety of pies, such as classic Key lime and an elegant rhubarb galette.



NEVER A DULL MOMENT Laughter and lessons go together in every episode. **CLOCKWISE FROM TOP:** Martha's daughter, Alexis, left, and Jennifer Koppelman Hutt, hosts of *Whatever* on *Martha Stewart Living Radio*, stop by for a chat. Model and author Paula Patton and Martha prepare a salmon Nicoise salad. Martha teaches actress Tracee Ellis Ross how to make a leather belt.

get free tickets—or be a guest on the show

To see Martha in person, visit www.marthastewart.com/martha, and then click on "Get Tickets" to find out about availability or "Be on the Show" to get information about becoming a guest. You also can submit recipes and share your "Good Things."

Where to find Martha

Martha Stewart Living Radio

Hear Martha and her team of experts around the clock on Sirius Satellite Radio channel 112.

Visit www.marthastewart.com/radio for showtimes

learn more and subscribe

Listeners have come to rely on the many informative shows—including cooking, decorating, homekeeping, collecting, entertaining, and crafts—on Martha Stewart Living Radio. Join us August 27 to 31 for Back-to-School week, when our editors will offer advice on related topics, such as dealing with first-day jitters and packing lunches that are as healthful as they are delicious. To subscribe to Sirius or sign up for a free trial subscription, go to www.marthastewart.com/radio.

talk to Martha

Every week, Martha responds to listeners' queries live on *Ask Martha*. For showtimes, visit www.marthastewart.com/radio. Here is a question Martha answered recently:

Q: *What can I use to wash the tassels on my Oriental rug between professional cleanings?*

A: The tassels on an antique rug should be allowed to age and darken naturally over time. Instead of washing them, just vacuum the tassels gently. That should keep them clean and dust free.



MARTHA
STEWART LIVING RADIO

MARQUEE ROBERTS/017

An advertisement for Arm & Hammer Baking Soda. The background is a textured, light yellow. In the top left, there is a small, shallow dish containing a white substance. In the center, a box of Arm & Hammer Baking Soda is shown, with the iconic logo of a muscular arm holding a hammer. Below the box, a large, shallow bowl is filled with white powder. In the bottom right corner, there is a small circular logo with the text 'ARM & HAMMER THE STANDARD OF PURITY'. The text '1973: THE SECRET TO FIGHTING FRIDGE ODORS THEN.' is prominently displayed in the upper middle section.

**1973:
THE SECRET TO FIGHTING
FRIDGE ODORS THEN.**



Where to find Martha

from the experts

Are your closets and drawers filled with unused items? This month on Martha Stewart Living Radio, editors Kelly Tagore and Anthony Santelli offer tips for clearing clutter on Home 101.

● identify the source

If you figure out where the mess is coming from, you can prevent it from happening again. For example, if your counters are buried beneath newspapers, designate a basket for them.

● create a realistic plan

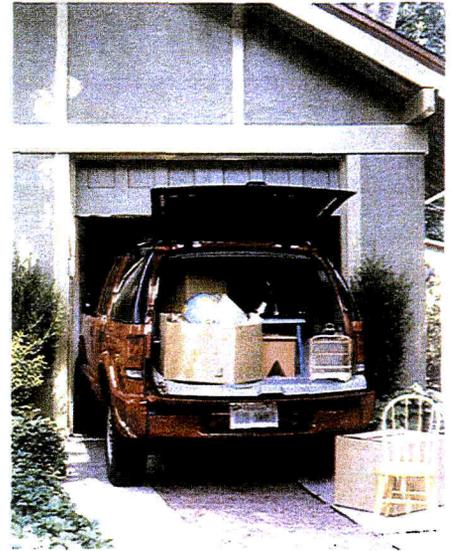
Instead of tackling a whole room or closet at once, which can overwhelm even the most organized person, divide your project into smaller, more manageable components, sorting through one drawer or shelf at a time.

● learn how to let go

If you experience difficulty deciding whether to get rid of something, ask yourself a few simple questions: Do I love it? Do I use it? Does it add value to my life? If the answer to these questions is no, let go of the item.

● donate or recycle

Put the things you no longer need to good use. Identify organizations that accept clothing, furniture, and other household objects. As you go through your belongings, sort objects according to their destination. Then check with your sanitation department to find out whether any of the remaining materials can be recycled.



CLEANING HOUSE Tag sales and office swaps are good ways to unload unwanted objects. You can also donate the items to a charity. You'll walk away with a sense of satisfaction—and a tax write-off.

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MARTHA STEWART

weddings

big, bold, beautiful bouquets

OH, SO PRETTY:
*summer's most
romantic
dresses*

*easy-to-make
FAVORS
you'll love
to display*

*luscious,
lemony
CAKES
and treats*

SUMMER 2007



\$6.95 USA (Can \$7.95)
marthastewart.com

ask martha

Tune in to Martha Stewart Radio July 16 to 20 for Weddings Week, when our editors and other experts will offer trade secrets and helpful tips. On Sirius Satellite Radio channel 112, you'll get advice on finding everything from the right gown to favors for the guests. During that week, we'll be giving away a honeymoon trip to Hawaii. For details on the giveaway and the programs, and to subscribe to Sirius, go to marthastewart.com/radio.

Handkerchief Ring Pillow

Q: *I want to use my grandmother's lovely lace-edged handkerchief for my ring pillow. What is the best way to show it off?*

A: By dressing up a ring pillow with a vintage heirloom, you can incorporate a cherished something old with an important something new: the wedding rings. You can attach the handkerchief to a small square pillow with no more than a few hand-stitches—when the wedding is over, a quick snip of the scissors releases the vintage fabric with no harm done. To highlight the lace, choose a pillow in a color that will contrast with the handkerchief.

For a design that shows off all the corner details of a square, use a pillow about two-thirds of the size of the handkerchief (if the handkerchief is ten inches square, use a six-inch pillow). First, lay the handkerchief face down, and iron it smooth. If you like, use a spray starch to keep the filigree of the lace in place. Set the ring pillow on top, and fold in the handkerchief's corners to meet in the middle. Pin corners to hold the handkerchief while you stitch. With a needle and a thread that matches the handkerchief, sew the

corners (leave the sides of the handkerchief loose). Make tiny stitches, sewing close to the threads of the lace itself; start and end your stitches underneath the body of the handkerchief so the knot and the anchoring stitches will not be visible.

A small decorative handkerchief could be laid on top of a slightly larger pillow and sewn into position at the corners or along the edges.

If your ring pillow doesn't have a tie for the rings, sew a ribbon at the center, stitching through all layers.

Should you have trouble finding a pillow in the color and dimensions you need, you can simply sew two squares of silk together, right sides facing; leave an opening on one side to turn it inside out and stuff, then stitch it closed. This can be done by hand if you don't own a sewing machine, or a seamstress or a friend who sews might make one for you. Using your treasured heirloom in this way will add another layer of sentiment, making it even more meaningful.

Seating Chart Strategy

Q: *Are we required to invite the boyfriends and girlfriends of our friends? Space is limited, and we don't know most of those people that well anyway.*

A: Wedding etiquette says you must invite the spouse, fiancé, or live-in partner of each invited guest, even if you've never met them. Beyond that, allowing your guests to invite someone to come with them is a gracious gesture, but not mandatory.

While this guideline might seem like an easy way to pare down your guest list, it isn't a catchall strategy. It may seem obvious that you don't have to reserve space on your guest list so

your unattached friends and relatives can seek out a date to invite. But you still have to consider those friends who, though they are not married, engaged, or cohabiting, have a significant other they have been dating for a while. In some instances, you and your groom may have socialized with these couples. Unfortunately, there is no fast rule for this category.

You and your fiancé might make a list of these couples, discussing cut-offs you feel comfortable with—based on the length of the romance, or on whether the two of you know them well. Your wedding party can be a useful sounding board as you make this decision. Then try to adhere to the limits you set, so there will be less of a chance people will take exclusions personally. Also mention to friends that you are trying to keep numbers low. That will help prepare them for the invitation, or lack thereof.

If you decide not to allow invitees to bring guests, you have a greater responsibility as hosts. Especially for those who will not know many people at the wedding, it is important to seat them next to people they will enjoy spending time with, so pay careful attention to your seating chart. And enlist the help of a friend to introduce them to others. You also shouldn't stick all the unattached guests at one table—put them at tables with friends, regardless of romantic status.

If you decide to extend an invitation to your single guests' dates after all, etiquette suggests you send those people their own invitations when possible. It is also acceptable to write the name of your friend's boyfriend or girlfriend on the inner envelope of the invitation instead of "and Guest."

where to seat the violinist

Q: *I'm having an outdoor ceremony with only one musician—a violinist. Where should she sit?*

A: It is best to seat musicians up front, where the main action will be—typically on the bride's side. The timing of the ceremony events—when the bride arrives at the end of the aisle and the final kiss, for example—will determine the music, so it is important that the musician has a good vantage point.

Note that you will need to provide shelter for your violinist since your wedding is outdoors. A tent, a gazebo, or some sort of overhang is a suitable option. "These are often very valuable instruments," says Rachel Sokolow, a New York violinist. "Musicians will want a space where their instrument will be protected. They won't want to just be under a tree."

Wooden instruments, especially, are affected by temperature; some musicians' contracts will include a clause that relates to weather conditions. For example, if the temperature is less than 50 degrees or above 80, the musician might not be willing to play. Some professionals have less expensive, older instruments they'll use outdoors, and conservatory students from music schools might be more relaxed.

To ensure you aren't in for any surprises, clarify these details with the musicians you might hire.

tips for writing thank-you notes

Q: *I'll have a lot of thank-you notes to write, since both of us have large families. Do you have any tips to make it easier?*

A: The simplest way to lighten the burden of writing thank-you notes is by getting organized. When you're first creating the guest list, carefully gather complete names and addresses of everyone who will be invited. Make room on this list to keep track of pres-

ents received and thank-you notes sent, so that all the information will be in a single place (for an example, see our "Guest-List Planner," page 236).

If you're in the early stages of wedding planning, you'll give yourself a head start if you order your thank-you cards along with your invitations. And if you're really ambitious, you can address the thank-you-note envelopes when you send out your invites, keeping them in alphabetical order so you can retrieve them readily later (though, of course, you could end up wasting a few of the envelopes).

Then assemble a kit of everything you'll need—pens, your guest list and gift records, stationery, stamps. Place them in an attractive box; having beautiful things to work with can make a daunting task seem like an indulgence. Keep the kit in an easy-to-access spot.

As presents arrive before the wedding, catalog them next to the corresponding names as soon as you've opened the packages. Write thank-you notes immediately so senders will know their gifts have been delivered, and check them off on your list. Try to finish these prior to the event.

In some circles, guests might bring gifts to the wedding instead. Obviously, you can't write those thank-yous all at once, so you'll need to set aside time to write those responses, as soon after the honeymoon as possible.

To avoid becoming overwhelmed, get your fiancé to pitch in—he could write to his friends and family, and you to yours. Write the notes in batches. If you both commit to completing four or five notes a day, or set aside a certain number of hours per week, you'll be done in no time. For a large number of gifts received on the same day, it's wisest to send the notes all at once. All thank-yous should be mailed no later than three months after your wedding.

love is a gift
to both give and receive



Receive your free 132-page
Wedding Planner/Organizer when
you register at our easy-to-use,
in-store kiosk or online at
jcp.com/registry



You'll also get exclusive access
to our "create your own"
wedding website along with
great tips for your special day

JCPenney
Wedding Registry



jcp.com

Each note needn't be more than a few sentences: one to mention the gift, another to tell how much you like it or how you'll use it, and the remainder to convey your affection. Worried about running out of things to say? Prepare some stock phrases in case you need them, though you should be sure that guests in the same family or social circle don't all receive the same exact note.

Using a cake for warm weather

Q: *I'm marrying in the summer and would like to display my cake for some of the reception. What icing would work?*

A: If you plan to leave your cake out for more than one hour on a hot, humid day, then rolled fondant and marzipan would be good choices, says cake maker Wendy Kromer, owner of Wendy Kromer Confections and contributing editor for *Martha Stewart Weddings*. Both fondant (a flavored sugar-based paste) and marzipan (a confection made of crushed almonds, sugar, and corn syrup) can be rolled out to a 1/8-inch thickness and draped over the tiers to create a flawless finish; a thin layer of jam or buttercream coats the cake beneath. When properly prepared, rolled fondant and marzipan will remain soft yet withstand warm temperatures.

In fact, a cake covered with these finishes should generally not be refrigerated because dewy droplets may form on the surface. If you do refrigerate the cake, move it to an air-conditioned room for two to three hours before bringing it outside to minimize condensation and allow any that does accumulate to evaporate on its own well before the cake goes onstage.

Rolled fondant can be purchased in many flavors. Or your baker can knead vanilla beans into it for a beautiful speckled look, blend it with modeling chocolate or white chocolate for added richness, or flavor it with a paste from

espresso for a pretty café au lait tint. Marzipan may also be kneaded into fondant, giving it an ivory color and almond flavor. Both mediums can be tinted to match your color scheme.

If your heart is set on buttercream, be aware that the softer Swiss- and Italian-meringue buttercreams will not do well on a hot day—they will melt right off the cake! But they will hold up for one to two hours on a moderately warm day (less than 80 degrees). Just keep the cake refrigerated until immediately beforehand. Some buttercreams contain more shortening than butter and can withstand higher temperatures. Check with your baker to see what kind he or she uses—but you may have to pass on using it as a coating for your cake.

Buttercream can be used between the layers, as long as the cake is kept fairly cool until just before displaying. Warm weather is not conducive to some other fillings, including custards, fresh curds, mousses, and whipped cream; preserves, however, are a fine option and especially suited to hot days.

Also consider what to use for decorations. If you want a piped effect, choose flourishes made from royal icing or dried meringue. Delicate decorations can be shaped from rolled fondant or marzipan, but avoid gum paste, since most versions absorb the humidity common in warm weather and may droop. Or add herbs, nuts, or candies.

Whatever you choose, keep the cake out of direct sun. Consult your baker about how long to display the cake once you know how hot the day is.

Send your questions to Ask Martha, c/o Letters Department, MARTHA STEWART LIVING, 11 West 42nd Street, New York, NY 10036, or to askmartha@marthastewart.com. Please include your full name, address, and a daytime phone number. Letters become the property of Martha Stewart Living Omnimedia, and may be published, broadcast, edited, or otherwise used in any of its media.

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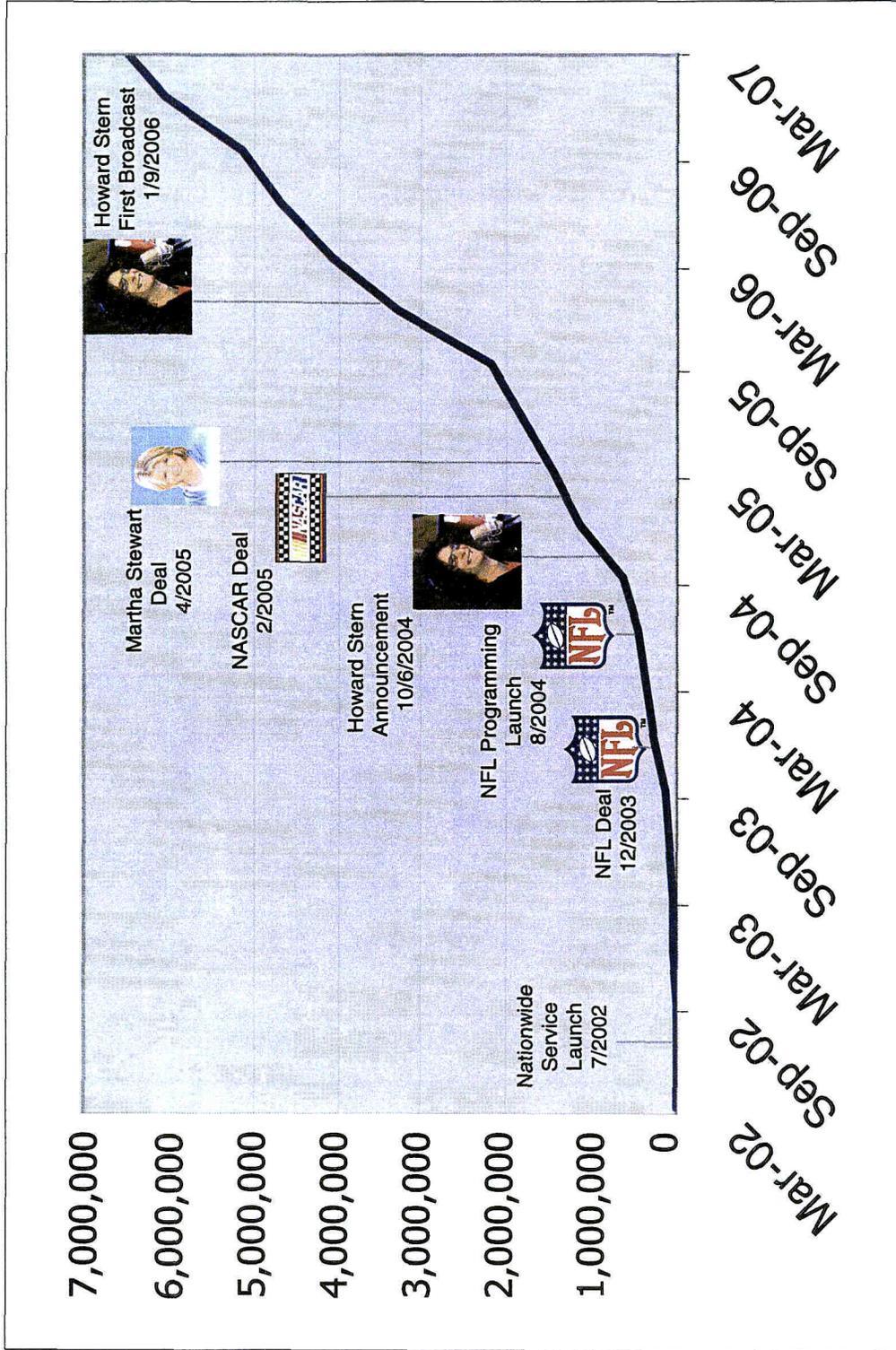


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SIR EX. 56



Total Sirius Subscribers And Major Content Deals



Subscribers

SIRIUS SATELLITE RADIO INC

FORM 10-Q
(Quarterly Report)

Filed 5/10/2007 For Period Ending 3/31/2007

Address	1221 AVENUE OF THE AMERICAS 36TH FLOOR NEW YORK, New York 10020
Telephone	212-899-5000
CIK	0000908937
Industry	Broadcasting & Cable TV
Sector	Services
Fiscal Year	12/31

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

Commission file number 0-24710

SIRIUS SATELLITE RADIO INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-1700207
(I.R.S. Employer
Identification No.)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$0.001 par value
(Class)

1,462,174,913 shares
(Outstanding as of April 30, 2007)

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended March 31,	
	2007	2006
Revenue:		
Subscriber revenue, including effects of mail-in rebates	\$ 190,796	\$ 115,181
Advertising revenue, net of agency fees	6,721	7,338
Equipment revenue	4,671	3,692
Other revenue	1,849	453
Total revenue	204,037	126,664
Operating expenses (excludes depreciation shown separately below) ⁽¹⁾:		
Cost of services:		
Satellite and transmission	7,986	8,203
Programming and content	59,998	299,734
Revenue share and royalties	27,134	13,527
Customer service and billing	21,853	17,862
Cost of equipment	9,292	3,465
Sales and marketing	38,162	34,481
Subscriber acquisition costs	100,117	119,043
General and administrative	35,343	31,873
Engineering, design and development	12,411	19,712
Depreciation	26,786	24,933
Total operating expenses	339,082	572,833
Loss from operations	(135,045)	(446,169)
Other income (expense):		
Interest and investment income	6,042	9,937
Interest expense, net of amounts capitalized	(15,192)	(17,124)
Equity in net loss of affiliate	-	(4,445)
Other income	5	10
Total other expense	(9,145)	(11,622)
Loss before income taxes	(144,190)	(457,791)
Income tax expense	(555)	(753)
Net loss	\$ (144,745)	\$ (458,544)
Net loss per share (basic and diluted)	\$ (0.10)	\$ (0.33)
Weighted average common shares outstanding (basic and diluted)	1,457,011	1,386,982

⁽¹⁾ Amounts related to stock-based compensation included in other operating expenses were as follows:

Satellite and transmission	\$ 656	\$ 902
Programming and content	2,935	249,800
Customer service and billing	199	244
Sales and marketing	5,644	2,202
Subscriber acquisition costs	1,880	9,899
General and administrative	11,940	14,506
Engineering, design and development	1,006	7,033
Total stock-based compensation	\$ 24,260	\$ 284,586

See Notes to Unaudited Consolidated Financial Statements

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	March 31, 2007	December 31, 2006
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 259,162	\$ 393,421
Marketable securities	4,650	15,500
Accounts receivable, net of allowance for doubtful accounts of \$4,634 and \$3,183 at March 31, 2007 and December 31, 2006, respectively	15,462	24,189
Receivables from distribution partners	54,394	46,825
Inventory, net	34,975	34,502
Prepaid expenses	53,939	52,588
Restricted investments	25,310	25,000
Other current assets	31,910	25,241
Total current assets	479,802	617,266
Property and equipment, net	795,018	810,389
FCC license	83,654	83,654
Restricted investments, net of current portion	52,850	52,850
Deferred financing fees	12,401	13,166
Other long-term assets	82,422	81,203
Total assets	\$ 1,506,147	\$ 1,658,528
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$ 301,060	\$ 437,913
Accrued interest	13,015	24,782
Deferred revenue	436,627	412,370
Total current liabilities	750,702	875,065
Long-term debt	1,067,339	1,068,249
Deferred revenue, net of current portion	74,054	76,580
Other long-term liabilities	35,962	27,705
Total liabilities	1,928,057	2,047,599
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.001 par value: 2,500,000,000 shares authorized, 1,461,371,331 and 1,434,635,501 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	1,461	1,435
Additional paid-in capital	3,555,094	3,443,214
Accumulated deficit	(3,978,465)	(3,833,720)
Total stockholders' deficit	(421,910)	(389,071)
Total liabilities and stockholders' deficit	\$ 1,506,147	\$ 1,658,528

See Notes to Unaudited Consolidated Financial Statements.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands, except share and per share amounts)
(Unaudited)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Deficit</u>	
Balances, December 31, 2006	1,434,635,501	\$ 1,435	\$ 3,443,214	\$ (3,833,720)	\$ (389,071)
Net loss	-	-	-	(144,745)	(144,745)
Issuance of common stock to employees and employee benefit plans	3,026,403	3	11,558	-	11,561
Issuance of common stock to third parties	22,058,824	22	82,919	-	82,941
Compensation in connection with the issuance of stock-based awards	-	-	16,144	-	16,144
Exercise of options, \$0.65 to \$3.30 per share	286,202	-	356	-	356
Exercise of warrants, \$2.392 per share	705,978	1	(1)	-	-
Exchange of 3 1/2 % Convertible Notes due 2008, including accrued interest	657,970	-	902	-	902
Exchange of 2 1/2 % Convertible Notes due 2009, including accrued interest	453	-	2	-	2
Balances, March 31, 2007	<u>1,461,371,331</u>	<u>\$ 1,461</u>	<u>\$ 3,555,094</u>	<u>\$ (3,978,465)</u>	<u>\$ (421,910)</u>

See Notes to Unaudited Consolidated Financial Statements

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

For the Three Months Ended March 31,

	2007	2006
Cash flows from operating activities:		
Net loss	\$ (144,745)	\$ (458,544)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	26,786	24,933
Non-cash interest expense	754	761
Provision for doubtful accounts	2,088	1,777
Non-cash equity in net loss of affiliate	-	4,445
(Gain) loss on disposal of assets	(4)	221
Stock-based compensation	24,260	284,586
Deferred income taxes	555	753
Changes in operating assets and liabilities:		
Accounts receivable	6,639	9,952
Inventory	(473)	(1,198)
Receivables from distribution partners	(7,569)	(8,687)
Prepaid expenses and other current assets	(9,173)	(13,071)
Other long-term assets	(2,924)	579
Accounts payable and accrued expenses	(47,811)	(45,220)
Accrued interest	(11,763)	(10,460)
Deferred revenue	21,731	44,458
Other long-term liabilities	7,702	7,543
Net cash used in operating activities	(133,947)	(157,172)
Cash flows from investing activities:		
Additions to property and equipment	(12,458)	(5,496)
Sales of property and equipment	96	52
Purchases of restricted and other investments	(310)	(2,869)
Purchases of available-for-sale securities	-	(71,600)
Sales of available-for-sale securities	10,850	104,450
Net cash (used in) provided by investing activities	(1,822)	24,537
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,510	1,459
Net cash provided by investing activities	1,510	1,459
Net decrease in cash and cash equivalents	(134,259)	(131,176)
Cash and cash equivalents at the beginning of period	393,421	762,007
Cash and cash equivalents at the end of period	\$ 259,162	\$ 630,831

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Three Months Ended March 31,	
	2007	2006
Supplemental Disclosure of Cash and Non-Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 26,200	\$ 26,819
Income taxes	123	474
Non-cash operating activities:		
Common stock issued in satisfaction of accrued compensation	7,949	7,243
Non-cash investing and financing activities:		
Common stock issued in exchange of 3½% Convertible Notes due 2008, including accrued interest	902	502
Common stock issued in exchange of 2½% Convertible Notes due 2009, including accrued interest	2	-
Common stock issued to third parties	82,941	224,833

See Notes to Unaudited Consolidated Financial Statements

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

1. Business

We are a satellite radio provider in the United States. We currently broadcast over 130 channels of programming to listeners across the country. We offer 69 channels of 100% commercial-free music and feature 65 channels of sports, news, talk, entertainment, traffic and weather for a monthly subscription fee of \$12.95.

We broadcast through our proprietary satellite radio system, which currently consists of three orbiting satellites, 127 terrestrial repeaters that receive and retransmit our signal, a satellite uplink facility and our studios. Subscribers receive our service through SIRIUS radios, which are sold by automakers, consumer electronics retailers, mobile audio dealers and through our website. Subscribers can also receive our music channels and certain other channels over the Internet. As of March 31, 2007, we had 6,581,045 subscribers.

Our music channels are available to DISH satellite television subscribers and certain of our music channels are offered to Sprint subscribers over multi-media handsets. We also offer traffic and weather data services for a separate fee. Subscribers to DISH satellite television, Sprint and our traffic and weather data services are not included in our subscriber count.

In 2005, SIRIUS Canada Inc., a Canadian corporation owned by us, Canadian Broadcasting Corporation and Standard Radio Inc., received a license from the Canadian Radio-television and Telecommunications Commission to offer a satellite radio service in Canada. In December 2005, SIRIUS Canada launched service in Canada with 110 channels of commercial-free music and news, sports, talk and entertainment programming, including 11 channels of Canadian content. Subscribers to the SIRIUS Canada service are not included in our subscriber count.

We and XM Radio announced on February 19, 2007 a definitive agreement, under which we will combine in a tax-free, all-stock merger of equals. Under the terms of the agreement, XM Radio stockholders will receive 4.6 shares of our common stock for each share of XM Radio they own. XM Radio and our stockholders will each own approximately 50% of the combined company. The transaction is subject to approval by XM Radio and our stockholders, the satisfaction of customary closing conditions and regulatory review and approvals, including antitrust agencies and the FCC. We and XM Radio expect the transaction to be completed by the end of the year.

2. Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements of Sirius Satellite Radio Inc. and subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles and the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. All intercompany transactions have been eliminated in consolidation.

In presenting unaudited consolidated financial statements, management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgment and available information. Actual results could differ from those estimates. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the consolidated financial statements as of March 31, 2007 and December 31, 2006, and for the three months ended March 31, 2007 and 2006 have been recorded. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the full year. Our unaudited consolidated financial statements should be read together with our consolidated financial statements and footnotes contained in our Annual Report on Form 10-K for the year ended December 31, 2006.

3. Summary of Significant Accounting Policies

Revenue Recognition

Revenue from subscribers consists of subscription fees; revenue derived from our agreement with Hertz; non-refundable activation fees; and the effects of mail-in rebates.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollar amounts in thousands, unless otherwise stated)
(Unaudited)

We recognize subscription fees as our service is provided to a subscriber. We record deferred revenue for prepaid subscription fees and amortize these prepayments to revenue ratably over the term of the respective subscription plan.

At the time of sale, vehicle owners purchasing or leasing a vehicle with a subscription to our service typically receive between a six month and one year prepaid subscription. We receive payment from automakers for these subscriptions in advance of our service being activated. Such prepayments are recorded to deferred revenue and amortized ratably over the service period upon activation and sale to a customer. We also reimburse automakers for certain costs associated with the SIRIUS radio installed in the applicable vehicle at the time the vehicle is manufactured. The associated payments to the automakers are included in subscriber acquisition costs. Although we receive payments from the automakers, they do not resell our service; rather, automakers facilitate the sale of our service to our customers, acting similar to an agent. We believe this is the appropriate characterization of our relationship since we are responsible for providing service to our customers including being obligated to the customer if there was interruption of service.

Activation fees are recognized ratably over the estimated term of a subscriber relationship, currently estimated to be 3.5 years. The estimated term of a subscriber relationship is based on market research and management's judgment and, if necessary, will be refined in the future as historical data becomes available.

As required by Emerging Issues Task Force ("EITF") No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," an estimate of mail-in rebates that are paid by us directly to subscribers is recorded as a reduction to revenue in the period the subscriber activates our service. For certain mail-in rebate promotions, a subscriber must remain active for a specified period of time to be considered eligible. In those instances, such estimate is recorded as a reduction to revenue over the required activation period. We estimate the effects of mail-in rebates based on actual take-rates for rebate incentives offered in prior periods, adjusted as deemed necessary based on current take-rate data available at the time. In subsequent periods, estimates are adjusted when necessary.

We recognize revenues from the sale of advertising on some of our non-music channels as the advertising is broadcast. Agency fees are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory and are reported as a reduction of advertising revenue. Advertising revenue includes advertising sold in exchange for goods or services (barter) recorded at fair value. Revenue from barter transactions is recognized when the advertising is broadcast and goods or services exchanged are received. Goods or services received are charged to expense when received and/or used. Barter transactions are not significant to our unaudited consolidated financial statements. We pay certain third parties a percentage of advertising revenue. Advertising revenue is recorded gross of such revenue share payments in accordance with EITF No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," as we are the primary obligor in the transaction. Advertising revenue share is recorded in the period the advertising is broadcast.

Equipment revenue from the direct sale of SIRIUS radios and accessories is recognized upon shipment. Shipping and handling costs billed to customers are recorded as revenue. Shipping and handling costs associated with shipping goods to customers are recorded to cost of equipment.

EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," provides guidance on how and when to recognize revenues for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables are required to be divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. Arrangement consideration must be allocated among the separate units of accounting based on their relative fair values.

We determined that the sale of our service through our direct to consumer channel with accompanying equipment constitutes a revenue arrangement with multiple deliverables. In these types of arrangements, amounts received for equipment are recognized as equipment revenue; amounts received for service are recognized as subscription revenue; and amounts received for the non-refundable, up-front activation fee that are not contingent on the delivery of the service are allocated to equipment revenue. Activation fees are recorded to equipment revenue only to the extent that the aggregate equipment and activation fee proceeds do not exceed the fair value of the equipment. Any activation fees not allocated to the equipment are deferred upon activation and recognized as subscriber revenue on a straight-line basis over the estimated term of a subscriber relationship.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollar amounts in thousands, unless otherwise stated)
(Unaudited)

Stock-Based Compensation

Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), using the modified prospective transition method. The stock-based compensation cost recognized beginning January 1, 2006 includes compensation cost for all stock-based awards granted to employees and members of our board of directors (i) prior to, but not vested as of, January 1, 2006 based on the grant date fair value originally estimated in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and (ii) subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R.

Compensation cost under SFAS No. 123R is recognized ratably using the straight-line attribution method over the expected vesting period.

SFAS No. 123R requires forfeitures to be estimated on the grant date and revised in subsequent periods if actual forfeitures differ from those estimates. Prior to the adoption of SFAS No. 123R we accounted for forfeitures as they occurred. As of January 1, 2006, the cumulative effect of adopting the estimated forfeiture method was not significant.

Pursuant to SFAS No. 123R, we recognized \$16,935 and \$21,950 of compensation cost for stock-based awards granted to employees and members of our board of directors for the three months ended March 31, 2007 and 2006, respectively. Total unrecognized compensation related to unvested stock-based awards granted to employees and members of our board of directors at March 31, 2007, net of estimated forfeitures, is \$114,259 and is expected to be recognized over a weighted-average period of three years.

Effective January 1, 2006, we account for stock-based awards granted to non-employees, other than non-employee members of our board of directors, at fair value in accordance with SFAS No. 123R and SEC guidance contained in Staff Accounting Bulletin ("SAB") No. 107. The fair value of equity instruments granted to non-employees is measured in accordance with EITF No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." The final measurement date of equity instruments with performance criteria is the date that each performance commitment for such equity instrument is satisfied or there is a significant disincentive for non-performance.

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

We estimate the fair value of stock-based awards using the Black-Scholes option valuation model ("Black-Scholes"). Black-Scholes was developed to estimate the fair market value of traded options, which have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions. Because our stock-based awards have characteristics significantly different from those of traded options and because changes in the subjective assumptions can materially affect the fair market value estimate, the existing option valuation models do not necessarily provide a reliable single measure of the fair value of our stock-based awards.

Fair value determined using Black-Scholes varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. For stock-based awards granted prior to 2006, we used historical volatility of our stock over a period equal to the expected life of such awards to estimate their fair value. We estimated the fair value of awards granted since January 1, 2006 using the implied volatility of actively traded options on our stock. We believe that implied volatility is more representative of future stock price trends than historical volatility. The expected life assumption represents the weighted-average period stock-based awards are expected to remain outstanding. These expected life assumptions are established through a review of historical exercise behavior of stock-based award grants with similar vesting periods. Where historical patterns do not exist contractual terms are used. The risk-free interest rate represents the daily treasury yield curve rate at the reporting date based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term. Our assumptions may change in future periods.

The following table summarizes the weighted-average assumptions used to compute reported stock-based compensation to employees and members of our board of directors for the periods set forth below:

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollar amounts in thousands, unless otherwise stated)
(Unaudited)

	For the Three Months Ended March 31,	
	2007	2006
	Risk-free interest rate	4.8%
Expected life of options - years	4.45	4.45%
Expected stock price volatility	60%	60%
Expected dividend yield	N/A	N/A

The following table summarizes the range of assumptions used to compute reported stock-based compensation to third parties, other than non-employee members of our board of directors, for the periods set forth below:

	For the Three Months Ended March 31,	
	2007	2006
	Risk-free interest rate	4.5 - 4.9%
Expected life of options - years	2.50 - 8.91	1.67 - 10.00
Expected stock price volatility	60%	60%
Expected dividend yield	N/A	N/A

SFAS No. 123R changes the presentation of realized excess tax benefits associated with the exercise of stock options in the statements of cash flows. Excess tax benefits are realized tax benefits from tax deductions for the exercise of stock options in excess of the deferred tax asset attributable to stock-based compensation expense for such options. Prior to the adoption of SFAS No. 123R, such realized tax benefits were required to be presented as operating cash flows. SFAS No. 123R requires such realized tax benefits to be presented as part of cash flows from financing activities. No income tax benefits have been realized from stock option exercises during the three months ended March 31, 2007 and 2006 because a valuation allowance was maintained for all net deferred tax assets.

Subscriber Acquisition Costs

Subscriber acquisition costs include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a SIRIUS radio and a prepaid subscription to our service in the sale or lease price of a new vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; commissions paid to retailers and automakers as incentives to purchase, install and activate SIRIUS radios; product warranty obligations; provisions for inventory allowance; and compensation costs associated with stock-based awards granted in connection with certain distribution agreements. The majority of subscriber acquisition costs are incurred in advance of acquiring a subscriber. Subscriber acquisition costs do not include advertising, loyalty payments to distributors and dealers of SIRIUS radios and revenue share payments to automakers and retailers of SIRIUS radios. Subscriber acquisition costs also do not include amounts capitalized in connection with our agreement with Hertz, as we retain ownership of certain SIRIUS radios used by Hertz.

Subsidies paid to radio manufacturers and automakers are expensed upon shipment or installation. Commissions paid to retailers and automakers are expensed either upon activation or sale of the SIRIUS radio. Chip sets that are shipped to radio manufacturers and held on consignment are recorded as inventory and expensed as subscriber acquisition costs when placed into production by radio manufacturers. Costs for chip sets not held on consignment are expensed as subscriber acquisition costs when the chip sets are shipped to radio manufacturers.

We record product warranty obligations in accordance with Financial Accounting Standards Board Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34." FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. We warrant that certain products sold through our retail and direct to consumer distribution channels will perform in all material respects in accordance with specifications in effect at the time of the purchase of the products by the customer. We provide a 12-month warranty on our products from purchase date for repair or replacement of components and/or products that

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contain defects of material or workmanship. Customers may exchange products directly to the retailer within 30 days of purchase. We record a liability for an estimate of costs that we expect to incur under our warranty when the product is shipped from the manufacturer. Factors affecting our warranty liability include the number of units sold and historical and anticipated rates of claims and costs per claim. We periodically assess the adequacy of our warranty liability based on changes in these factors.

The following table reconciles the beginning and ending aggregate product warranty liability:

	Product Warranty Liability
Balance, December 31, 2006	\$ 5,041
Accrual for warranties issued during the period	433
Settlements during the period	(3,110)
Balance, March 31, 2007	\$ 2,364

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs for the three months ended March 31, 2007 and 2006 were \$10,050 and \$14,428, respectively. These costs are included in engineering, design and development expenses in our accompanying unaudited consolidated statements of operations.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" and FIN No. 48, "Accounting for Uncertainty in Income Taxes." Deferred income taxes are recognized for the tax consequences related to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established when necessary based on the weight of available evidence, if it is considered more likely than not, that all or some portion of the deferred tax assets will not be realized. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

Net (Loss) Income Per Share

We compute net (loss) income per share in accordance with SFAS No. 128, "Earnings Per Share." Basic net (loss) income per share is calculated using the weighted average common shares outstanding during each reporting period. Diluted net (loss) income per share adjusts the weighted average common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt, warrants, stock options and restricted stock units) were exercised or converted into common stock. Common stock equivalents of approximately 167,000,000 and 210,000,000 for the three months ended March 31, 2007 and 2006, respectively, were not considered in the calculation of diluted net loss per share as the effect would have been anti-dilutive.

Comprehensive (Loss) Income

We report comprehensive (loss) income in accordance with SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 established a standard for reporting and displaying other comprehensive (loss) income and its components within financial statements. Net income (loss) and unrealized gains and losses on available-for-sale securities are the only components of our other comprehensive loss. Comprehensive loss for the three months ended March 31, 2007 and 2006 was \$144,745 and \$458,544, respectively.

Inventory

Inventory consists of finished goods, chip sets and other raw material components used in manufacturing radios. Included in our finished goods inventory are certain new products not shipped by our distributor to its customers within 90 days of receipt of goods. Such products are subsequently repurchased by our distributor upon receipt of a customer order.

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Inventory is stated at the lower of cost, determined on a first-in, first-out basis, or market. We record an estimated allowance for inventory that is considered slow moving and obsolete or whose carrying value is in excess of net realizable value. The allowance provision related to product purchased for our direct to consumer distribution channel is recorded to cost of equipment in our unaudited consolidated statements of operations. The remaining allowance provision is recorded to subscriber acquisition costs in our unaudited consolidated statements of operations. The total allowance for inventory was \$11,158 and \$2,851 as of March 31, 2007 and December 31, 2006, respectively.

At times we provide equipment to existing subscribers free of charge as part of retention efforts. The cost of the equipment is charged to cost of equipment in our unaudited consolidated statements of operations.

Inventory consists of the following:

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Raw materials	\$ 15,600	\$ 16,459
Finished goods	19,375	18,043
Total inventory	<u>\$ 34,975</u>	<u>\$ 34,502</u>

Investments

Our investments consist of the following:

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Marketable securities	\$ 4,650	\$ 15,500
Restricted investments	78,160	77,850
Investment, stated at cost	5,000	5,000
Total investments	<u>\$ 87,810</u>	<u>\$ 98,350</u>

Marketable Securities

We account for marketable securities in accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Marketable securities consist of certificates of deposit and auction rate securities. As of March 31, 2007 and December 31, 2006, certificates of deposit were \$4,650 for both periods, and auction rate securities were \$0 and \$10,850, respectively. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield. We classify our marketable securities as available-for-sale securities. Available-for-sale securities are carried at fair market value. Unrealized gains and losses are included in accumulated other comprehensive (loss) income as a separate component of stockholders' equity. Realized gains and losses, dividends and interest income, including amortization of the premium and discount arising at purchase, are included in interest and investment income. The specific-identification method is used to determine the cost of all securities and the basis by which amounts are reclassified from accumulated comprehensive (loss) income into earnings. While the underlying securities of auction rate securities have contractual maturities of more than 20 years, the interest rates on such securities reset at intervals of 28 or 35 days. Auction rate securities are priced and trade as short-term investments because of such interest rate reset feature.

We received proceeds from the sale or maturity of marketable securities of \$10,850, and \$104,450 for the three months ended March 31, 2007 and 2006, respectively. There were no unrealized holding gains or losses on marketable securities as of March 31, 2007 and December 31, 2006.

Restricted Investments

As of March 31, 2007 and December 31, 2006, short-term restricted investments of \$25,310 and \$25,000, respectively, primarily included certificates of deposit placed in escrow for the benefit of a third party pursuant to a programming agreement.

As of March 31, 2007 and December 31, 2006, long-term restricted investments of \$52,850 primarily included certificates of deposit and money market funds deposited in escrow for the benefit of third parties pursuant

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to programming agreements and certificates of deposit placed in escrow to secure our reimbursement obligations under letters of credit issued for the benefit of lessors of office space.

Cost Method Investment

In September 2006, we invested in a third party for strategic purposes. We account for this investment under the cost method. The carrying value of our investment was \$5,000 at March 31, 2007 and December 31, 2006 and is included in other long-term assets in our accompanying unaudited consolidated balance sheet.

Equity Method Investment

We have a 49.9% economic interest in SIRIUS Canada. Our investment in SIRIUS Canada is recorded using the equity method since we have significant influence, but less than a controlling voting interest. Under this method, our investment in SIRIUS Canada, originally recorded at cost, is adjusted to recognize our share of net earnings or losses as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments to fund SIRIUS Canada. Our share of net earnings or losses of SIRIUS Canada is recorded to equity in net loss of affiliate in our accompanying unaudited consolidated statements of operations. We recorded \$0 and \$4,445 for the three months ended March 31, 2007 and 2006, respectively, for our share of SIRIUS Canada's net loss.

Merger Costs

We have incurred approximately \$4.6 million in direct costs for the three months ended March 31, 2007 in connection with our pending merger with XM Radio. In accordance with SFAS No. 141, "Business Combinations," which specifies that the cost of an entity acquired in a business combination include the direct costs of the business combination, we have capitalized and included such costs in other long-term assets in our accompanying unaudited consolidated balance sheet.

Reclassifications

Certain amounts in the prior period unaudited consolidated financial statements have been reclassified to conform to the current period presentation. Specifically, we reclassified both broadcast and webstreaming royalties from programming and content expenses and revenue share from programming and content expenses and sales and marketing expenses to a separate line item, revenue share and royalties. In addition, we reclassified bad debt expense from general and administrative expenses to customer service and billing expenses.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. We are currently evaluating the impact of the adoption, if any, that SFAS No. 157 will have on our consolidated results of operations and financial position.

In September 2006, the FASB issued EITF No. 06-01, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider." The EITF concluded that if consideration given by a service provider to a third-party manufacturer or reseller that is not the service provider's customer can be linked contractually to the benefit received by the service provider's customer, a service provider should account for the consideration in accordance with EITF No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer." EITF No. 06-01 is effective for annual reporting periods beginning after June 15, 2007. We are currently evaluating the effects that EITF No. 06-01 will have on our consolidated results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS No. 159 is to provide entities a method to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS

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No. 159 is effective for annual reporting periods beginning after November 15, 2007. We are currently evaluating the effects that SFAS No. 159 will have on our consolidated results of operations and financial position.

4. Subscriber Revenue

Subscriber revenue consists of subscription fees, revenue derived from our agreement with Hertz, non-refundable activation fees and the effects of mail-in rebates. Revenues received from automakers for prepaid subscriptions included in the sale or lease price of a new vehicle are also included in subscriber revenue over the service period upon activation and sale to the customer.

Subscriber revenue consists of the following:

	For the Three Months Ended March 31,	
	2007	2006
Subscription fees	\$ 189,969	\$ 117,991
Activation fees	5,319	3,724
Effects of mail-in rebates	(4,492)	(6,534)
Total subscriber revenue	\$ 190,796	\$ 115,181

5. Interest Costs

We capitalize a portion of the interest on funds borrowed to finance the construction and launch of our new satellite. The following is a summary of our interest cost:

	For the Three Months Ended March 31,	
	2007	2006
Interest costs charged to expense	\$ 15,192	\$ 17,124
Interest costs capitalized	1,814	-
Total interest costs incurred	\$ 17,006	\$ 17,124

6. Related Party Transactions

In 2005, we entered into a license and services agreement with SIRIUS Canada. Pursuant to such agreement, we are reimbursed for certain costs incurred by us to provide SIRIUS Canada service, including certain costs we incur for the production and distribution of radios used by its subscribers as well as information technology support costs. In consideration for the rights granted pursuant to the license and services agreement, SIRIUS Canada Inc. pays us a royalty based on a percentage of its annual gross revenues. Additionally, the initial financing we provided to SIRIUS Canada is by way of subscription to non-voting shares which carry an 8% cumulative dividend.

Total costs reimbursed by SIRIUS Canada for the three months ended March 31, 2007 and 2006 were \$1,877 and \$2,566, respectively. We recorded \$516 and \$103 in royalty income for the three months ended March 31, 2007 and 2006, respectively. Such royalty income was recorded to other income in our accompanying unaudited consolidated statements of operations. We also recorded dividend income of \$206 and \$0 for the three months ended March 31, 2007 and 2006, respectively, which was included in interest and investment income in our accompanying unaudited consolidated statements of operations.

Amounts due from SIRIUS Canada at March 31, 2007 were \$3,755, of which \$1,379 and \$2,376 are included in other current assets and other long-term assets, respectively, on our accompanying unaudited consolidated balance sheets. Amounts due from SIRIUS Canada at December 31, 2006 were \$4,157, of which \$2,502 and \$1,655 are included in other current assets and other long-term assets, respectively, on our accompanying consolidated balance sheets. Amounts payable to SIRIUS Canada at March 31, 2007 and December 31, 2006 to fund

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its remaining capital requirements were \$1,148 and are included in accounts payable and accrued expenses in the accompanying unaudited consolidated balance sheets.

7. Long-Term Debt

Long-term debt consists of the following:

	Conversion Price (per share)	As of	
		March 31, 2007	December 31, 2006
9 ⁵ / ₈ % Senior Notes due 2013	N/A	\$ 500,000	\$ 500,000
3 ¹ / ₄ % Convertible Notes due 2011	\$ 5.30	230,000	230,000
2 ¹ / ₂ % Convertible Notes due 2009	4.41	299,998	300,000
3 ¹ / ₂ % Convertible Notes due 2008	1.38	35,597	36,505
8 ³ / ₄ % Convertible Subordinated Notes due 2009	28.4625	1,744	1,744
Total long-term debt		<u>\$ 1,067,339</u>	<u>\$ 1,068,249</u>

9⁵/₈% Senior Notes due 2013

In August 2005, we issued \$500,000 in aggregate principal amount of our 9⁵/₈% Senior Notes due 2013 resulting in net proceeds of \$493,005. Our 9⁵/₈% Senior Notes due 2013 mature on August 1, 2013 and interest is payable semi-annually on February 1 and August 1 of each year. The obligations under our 9⁵/₈% Senior Notes due 2013 are not secured by any of our assets.

3¹/₄% Convertible Notes due 2011

In October 2004, we issued \$230,000 in aggregate principal amount of our 3¹/₄% Convertible Notes due 2011 resulting in net proceeds of \$224,813. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 188.6792 shares of common stock for each \$1,000.00 principal amount, or \$5.30 per share of common stock, subject to certain adjustments. Our 3¹/₄% Convertible Notes due 2011 mature on October 15, 2011 and interest is payable semi-annually on April 15 and October 15 of each year. The obligations under our 3¹/₄% Convertible Notes due 2011 are not secured by any of our assets.

2¹/₂% Convertible Notes due 2009

In February 2004, we issued \$250,000 in aggregate principal amount of our 2¹/₂% Convertible Notes due 2009 resulting in net proceeds of \$244,625. In March 2004, we issued an additional \$50,000 in aggregate principal amount of our 2¹/₂% Convertible Notes due 2009 pursuant to an option granted in connection with the initial offering of the notes, resulting in net proceeds of \$48,975. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 226.7574 shares of common stock for each \$1,000.00 principal amount, or \$4.41 per share of common stock, subject to certain adjustments. Our 2¹/₂% Convertible Notes due 2009 mature on February 15, 2009 and interest is payable semi-annually on February 15 and August 15 of each year. The obligations under our 2¹/₂% Convertible Notes due 2009 are not secured by any of our assets.

During the three months ended March 31, 2007, holders of \$2 in aggregate principal amount of our 2¹/₂% Convertible Notes due 2009 presented such notes for conversion in accordance with the terms of the indenture. We issued 453 shares of our common stock upon conversion of these notes.

3¹/₂% Convertible Notes due 2008

In May 2003, we issued \$201,250 in aggregate principal amount of our 3¹/₂% Convertible Notes due 2008 resulting in net proceeds of \$194,224. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 724.6377 shares of common stock for each \$1,000.00 principal amount, or \$1.38 per share of common stock, subject to certain adjustments. Our 3¹/₂% Convertible Notes due 2008 mature on June 1, 2008 and interest is payable semi-annually on June 1 and December 1 of each year. The obligations under our 3¹/₂% Convertible Notes due 2008 are not secured by any of our assets.

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During the three months ended March 31, 2007, holders of \$908 in aggregate principal amount of our 3½% Convertible Notes due 2008 presented such notes for conversion in accordance with the terms of the indenture. We issued 657,970 shares of our common stock upon conversion of these notes. During the three months ended March 31, 2006, holders of \$508 in aggregate principal amount of our 3½% Convertible Notes due 2008 presented such notes for conversion in accordance with the terms of the indenture. We issued 368,115 shares of our common stock upon conversion of these notes.

Space Systems/Loral Credit Agreement

In June 2006, we entered into a Credit Agreement with Space Systems/Loral (the "Credit Agreement"). Under the Credit Agreement, Space Systems/Loral has agreed to make loans to us in an aggregate principal amount of up to \$100,000 to finance the purchase of our new satellite. Loans made under the Credit Agreement will be secured by our rights under the Satellite Purchase Agreement with Space Systems/Loral, including our rights to the new satellite. The loans are also entitled to the benefits of a subsidiary guarantee from Satellite CD Radio, Inc., our subsidiary that holds our FCC license, and any future material subsidiary that may be formed by us. The maturity date of the loans is the earliest to occur of (i) April 6, 2009, (ii) 90 days after the new satellite becomes available for shipment and (iii) 30 days prior to the scheduled launch of the new satellite. Any loans made under the Credit Agreement generally will bear interest at a variable rate equal to three-month LIBOR plus 4.75%. The daily unused balance bears interest at a rate per annum equal to 0.50%, payable quarterly on the last day of each March, June, September and December. The Credit Agreement permits us to prepay all or a portion of the loans outstanding without penalty. We have not borrowed under this Credit Agreement as of March 31, 2007.

Covenants and Restrictions

Our 9⁵/₈% Senior Notes due 2013 and our Credit Agreement with Space Systems/Loral require us to comply 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 as provided in the 9⁵/₈% Senior Notes due 2013 indenture and the Credit Agreement. If we fail to comply with these covenants, our 9⁵/₈% Senior Notes due 2013 and any loans outstanding under the Credit Agreement could become immediately payable and the Credit Agreement could be terminated. At March 31, 2007, we were in compliance with all such covenants.

8. Stockholders' Equity

Common Stock, par value \$0.001 per share

We are authorized to issue 2,500,000,000 shares of our common stock as of March 31, 2007. As of March 31, 2007, approximately 387,477,000 shares of our common stock were reserved for issuance in connection with outstanding convertible debt, warrants, incentive stock plans and common stock to be granted to third parties upon satisfaction of performance targets. During the three months ended March 31, 2007, employees exercised 286,202 stock options at exercise prices ranging from \$0.65 to \$3.30 per share, resulting in proceeds to us of \$356. Of this amount, \$335 was collected as of March 31, 2007. We also collected \$1,175 in 2007 related to stock option exercises that occurred in 2006.

In January 2007, Howard Stern and his agent were granted an aggregate of 22,058,824 shares of our common stock as a result of certain performance targets that were satisfied on December 31, 2006. We recognized expense associated with these shares of \$0 and \$20,625, respectively, during the three months ended March 31, 2007 and 2006.

In January 2006, Howard Stern and his agent were granted an aggregate of 34,375,000 shares of our common stock as a result of certain performance targets that were satisfied in January 2006. We recognized expense associated with these shares of \$224,813 during the three months ended March 31, 2006.

In January 2004, we signed a seven-year agreement with the NFL. We delivered to the NFL 15,173,070 shares of our common stock valued at \$40,967 upon execution of this agreement. These shares of common stock are subject to transfer restrictions which lapse over time. We recognized expense associated with these shares of \$1,641

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during each of the three months ended March 31, 2007 and 2006. Of the remaining \$23,336 in common stock value, \$5,852 and \$17,484 are included in other current assets and other long-term assets, respectively, on our accompanying unaudited consolidated balance sheets as of March 31, 2007.

Warrants

We have issued warrants to purchase shares of our common stock in connection with distribution and programming agreements and certain debt issuances. As of March 31, 2007, warrants to acquire 88,717,626 shares of our common stock with an average exercise price of \$3.34 were outstanding. These warrants vest over time or upon the achievement of milestones and expire at various times through June 2014. For the three months ended March 31, 2007 and 2006, we recognized expense of \$5,199 and \$14,371, respectively, in connection with these warrants.

9. Benefit Plans

Stock-Based Awards

In January 2003, our board of directors adopted the Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan (the "2003 Plan"), and on March 4, 2003 our stockholders approved this plan. On May 25, 2004, our stockholders approved an amendment to the 2003 Plan to include members of our board of directors as eligible participants. Employees, consultants and members of our board of directors are eligible to receive awards under the 2003 Plan. The 2003 Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate.

Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2003 Plan are generally subject to a vesting requirement that includes one or all of the following: (1) over time, generally three to five years from the date of grant; (2) on a specific date in future periods, with acceleration to earlier periods if performance criteria are satisfied; or (3) as certain performance targets set at the time of grant are achieved. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of our common stock upon vesting.

As of March 31, 2007, approximately 86,213,000 stock options, shares of restricted stock and restricted stock units were outstanding. As of March 31, 2007, approximately 74,235,000 shares of our common stock were available for grant under the 2003 Plan.

The following table summarizes stock option activity under our stock incentive plans for the three months ended March, 31 2007 (shares in thousands):

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Intrinsic Value</u>
Outstanding at December 31, 2006	71,793	\$ 5.56		
Granted	10,457	3.70		
Exercised	(286)	1.24		
Cancelled or expired	(92)	5.56		
Outstanding at March 31, 2007	<u>81,872</u>	5.33	7.09	\$ 17,101
Exercisable at March 31, 2007	<u>44,326</u>	5.96	6.05	\$ 16,183

The weighted average grant date fair value of options granted during the three months ended March 31, 2007 and 2006 was \$1.96 and \$3.08, respectively. The total intrinsic value of stock options exercised during the three months ended March 31, 2007 and 2006 was \$716 and \$3,884, respectively.

We recognized stock-compensation expense associated with stock options of \$10,694 and \$13,545 for the three months ended March 31, 2007 and 2006, respectively.

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The following table summarizes the non-vested restricted stock unit activity under our stock incentive plans for the three months ended March 31, 2007 (shares in thousands):

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding at December 31, 2006	4,086	\$ 4.64
Granted	1,913	3.70
Vested	(1,658)	5.19
Cancelled or expired	-	-
Outstanding at March 31, 2007	<u>4,341</u>	4.04

The weighted average grant date fair value of restricted stock units granted during the three months ended March 31, 2007 and 2006 was \$3.70 and \$5.73, respectively. The total intrinsic value of restricted stock units that vested during the three months ended March 31, 2007 and 2006 was \$5,864 and \$90,284, respectively.

We recognized stock compensation expense associated with restricted stock units and shares of restricted stock of \$3,698 and \$6,917 for the three months ended March 31, 2007 and 2006, respectively.

For the three months ended March 31, 2007, we also recognized stock compensation expense of \$1,178 for restricted stock units expected to be granted for services performed in 2007. For the three months ended March 31, 2006, we recognized stock compensation expense of \$21,581 for restricted stock units and common stock granted in 2007 for services performed in 2006 or upon the satisfaction of 2006 performance targets.

401(k) Savings Plan

We sponsor the Sirius Satellite Radio 401(k) Savings Plan (the "Plan") for eligible employees. The Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax salary subject to certain defined limits. Currently we match 50% of employee voluntary contributions, up to 6% of an employee's pre-tax salary, in the form of shares of our common stock. Our matching contribution vests at a rate of 33 1/3 % for each year of employment and is fully vested after three years of employment. Expense resulting from our matching contribution to the Plan was \$498 and \$412 for the three months ended March 31, 2007 and 2006, respectively.

We may also elect to contribute to the profit sharing portion of the Plan based upon the total compensation of all eligible participants. These additional contributions, referred to as profit-sharing contributions, are determined by the compensation committee of our board of directors. Employees are only eligible to receive profit-sharing contributions during any year in which they are employed on the last day of the year. Profit-sharing contribution expense was \$1,352 and \$1,306 for the three months ended March 31, 2007 and 2006, respectively.

10. Income Taxes

We recorded income tax expense of \$555 and \$753 for the three months ended March 31, 2007 and 2006, respectively. Such expense represents the recognition of a deferred tax liability related to the difference in accounting for our FCC license, which is amortized over 15 years for tax purposes but not amortized for book purposes.

We adopted the provisions of FIN No. 48 on January 1, 2007. FIN No. 48 prescribes a recognition threshold and measurement attributes for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, as well as criteria on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of applying this interpretation did not result in any adjustment to retained earnings as of January 1, 2007.

We provide a valuation allowance for all of our deferred tax assets. Accordingly, unrecognized federal or state income tax positions should not impact the face of our financial statements, but instead would reduce the gross tax benefit. As of March 31, 2007 and January 1, 2007, we did not have any unrecognized tax benefits.

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We have elected to record interest accrued related to unrecognized tax benefits as interest expense and penalties as operating expense. As of March 31, 2007, we recorded no interest expense or penalties related to unrecognized tax benefits. As of March 31, 2007, we are subject to examination in the United States federal and various state tax jurisdictions for the 2003 to 2006 tax years.

11. Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of March 31, 2007:

	Remaining						Total
	2007	2008	2009	2010	2011	Thereafter	
Long-term debt obligations	\$ -	\$ 35,597	\$ 301,742	\$ -	\$ 230,000	\$ 500,000	\$ 1,067,339
Cash interest payments	36,985	64,375	59,856	55,600	55,559	97,320	369,695
Lease obligations	7,131	11,852	12,006	11,594	10,782	22,805	76,170
Satellite and transmission	35,352	92,053	39,869	2,010	1,720	6,617	177,621
Programming and content	94,542	132,256	153,668	151,310	41,707	28,806	602,289
Customer service and billing	1,456	45	-	-	-	-	1,501
Marketing and distribution	75,208	31,690	22,743	26,153	18,173	5,500	179,467
Chip set development and production	7,315	-	-	-	-	-	7,315
Other	4,779	12,921	17	-	-	-	17,717
Total contractual cash commitments	<u>\$ 262,768</u>	<u>\$ 380,789</u>	<u>\$ 589,901</u>	<u>\$ 246,667</u>	<u>\$ 357,941</u>	<u>\$ 661,048</u>	<u>\$ 2,499,114</u>

Long-Term Debt Obligations. Long-term debt obligations include principal payments on our outstanding debt.

Cash Interest Payments. Cash interest payments include interest due on our outstanding debt through maturity.

Lease Obligations. We have entered into operating leases related to our studios, office space, terrestrial repeaters and equipment.

Satellite and Transmission. We have entered into agreements with third parties to operate and maintain our off-site satellite telemetry, tracking and control facilities and certain components of our terrestrial repeater network. We have also entered into an agreement with Space Systems/Loral to design and construct a new satellite. Construction of this satellite is expected to be completed in the fourth quarter of 2008. We plan to launch this satellite on a Proton rocket under our contract with International Launch Services.

Programming and Content. We have entered into agreements with licensors of programming and other content providers and, in certain instances, are obligated to pay license fees and guarantee minimum advertising revenue share. In addition, we have agreements with various rights organizations pursuant to which we pay royalties for public performances of music.

Customer Service and Billing. We have entered into agreements with third parties to provide billing and subscriber management services.

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

Chip Set Development and Production. We have entered into agreements with third parties to develop, produce and supply chip sets; to develop products; and in certain instances to license intellectual property related to chip sets.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollar amounts in thousands, unless otherwise stated)
(Unaudited)

Other. We have entered into various agreements with third parties for general operating and strategic purposes.

In addition to the contractual cash commitments described above, we have entered into agreements with automakers, radio manufacturers and others that include per-radio, per-subscriber, per-show and other variable cost arrangements. These future costs are dependent upon many factors including our subscriber growth and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar provisions.

Under the terms of a joint development agreement with XM Radio, the other holder of a FCC satellite radio license, each party is obligated to fund one half of the development cost for a unified standard for satellite radios. The costs related to the joint development agreement are being expensed as incurred to engineering, design and development expense in the accompanying unaudited consolidated statements of operations. We are currently unable to determine the expenditures necessary to complete this process, but we do not expect that these expenditures will be material.

We are required under the terms of certain agreements to provide letters of credit and deposit monies in escrow, which place restrictions on our cash and cash equivalents. As of March 31, 2007 and December 31, 2006, \$78,160 was classified as restricted investments as a result of our reimbursement obligations under these letters of credit and escrow deposits.

As of March 31, 2007, we have not entered into any off-balance sheet arrangements or transactions.

Legal Proceedings

FCC Inquiry. In April 2006, we learned that XM Radio and two manufacturers of SIRIUS radios had received inquiries from the Federal Communications Commission as to whether the FM transmitters in their products complied with the FCC's emissions and frequency rules. We promptly began an internal review of the compliance of the FM transmitters in a number of our radios. In June 2006, we learned that a third manufacturer of SIRIUS radios had received an inquiry from the Federal Communications Commission as to whether the FM transmitters in its products complied with the FCC's emissions and frequency rules. In June 2006, we received a letter from the FCC making similar inquiries. In July 2006, we responded to the letter from the FCC in respect of the preliminary results of our review. In August 2006, we received a follow-up letter of inquiry from the FCC and responded to the FCC's further inquiry. We continue to cooperate with the FCC's inquiry.

During our internal review, we determined that certain of our radios with FM transmitters were not compliant with FCC rules. We have taken a series of actions to correct the problem.

In connection with our internal review, we discovered that certain SIRIUS personnel requested manufacturers to produce SIRIUS radios that were not consistent with the FCC's rules. As a result of this review, we are taking significant steps to ensure that this situation does not happen again, including the adoption of a compliance plan, approved by our board of directors, to ensure that in the future our products comply with all applicable FCC rules.

The FCC's laboratory has tested a number of our products and found them to be compliant with the FCC's rules. We believe our radios that are currently in production comply with applicable FCC's rules. No health or safety issues are involved with these SIRIUS radios and radios which are factory-installed in new vehicles are not affected.

We have retained the services of an engineering compliance officer to report to our Vice President of Internal Audit, who reports to our Audit Committee.

In October 2006, we ceased operating 11 of our terrestrial repeaters which we discovered had been operating at variance to the specifications and applied to the FCC for new authority to resume operating these repeaters.

Copyright Royalty Board Proceeding. We are a party to a proceeding before the Copyright Royalty Board of the Library of Congress to establish the royalty rate and terms for the sound recordings we use on our satellite radio service for the period for 2007 through 2012. In October 2006, we and XM Radio filed our direct case in this proceeding with the Copyright Royalty Board and proposed a royalty rate of 0.88% of our satellite radio subscription revenue. SoundExchange, the organization that collects and distributes royalties from various digital

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollar amounts in thousands, unless otherwise stated)
(Unaudited)

music services on behalf of artists and music labels, simultaneously submitted its direct case in this proceeding and proposed an increasing royalty rate, beginning at 10% of our gross revenues in the first year and culminating at 23% of our gross revenues in the sixth year. This submission of direct cases is the beginning of a twelve to eighteen month process which, absent an agreement among the parties, will result in a determination by the Copyright Royalty Board of an applicable royalty rate. Discovery in this matter is ongoing.

The Copyright Royalty Board must set a rate that is calculated to achieve four statutory objectives:

- to maximize the availability of creative works to the public;
- to afford the copyright owner a fair return for his creative work and the copyright user a fair income under existing economic conditions;
- to reflect the relative roles of the copyright owner and the copyright user in the product made available to the public with respect to relative creative contribution, technological contribution, capital investment, cost, risk and contribution to the opening of new markets for creative expression and media for their communication; and
- to minimize any disruptive impact on the structure of the industries involved and on generally prevailing industry practices.

We believe that the fee we proposed achieves these objectives and is consistent in principle with the fee established under the same standard for digital cable audio.

U.S. Electronics Arbitration. U.S. Electronics Inc., a licensed distributor and a former licensed manufacturer of SIRIUS radios, has commenced an arbitration proceeding against us. U.S. Electronics alleges that we breached our contract; failed to pay monies owed under the contract; tortiously interfered with U.S. Electronics' relationships with retailers and manufacturers; withheld information relating to the FCC's inquiring into SIRIUS radios that include FM modulators; and otherwise acted in bad faith. U.S. Electronics is seeking at least \$48 million in damages. We believe that a substantial portion of these damages are barred by the limitation of liability provisions contained in the contract between us and U.S. Electronics. U.S. Electronics contends, and will be permitted to try to prove in the arbitration, that these provisions do not bar its damages because of, among other reasons, our alleged bad faith and tortious conduct. We are vigorously defending this action.

Other Matters. In the ordinary course of business, we are a defendant in various lawsuits and arbitration proceedings, including actions filed by former employees, parties to contracts or leases and owners of patents, trademarks, copyrights or other intellectual property. None of these actions are, in our opinion, likely to have a material adverse effect on our business or financial results.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(All dollar amounts are in thousands, unless otherwise stated)

Special Note Regarding Forward-Looking Statements

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this Quarterly Report on Form 10-Q and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "intend," "plan," "projection" and "outlook." Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout our Annual Report on Form 10-K for the year ended December 31, 2006 (the "Form 10-K") and in other reports and documents published by us from time to time, particularly the risk factors described under "Business—Risk Factors" in Item 1A of the Form 10-K.

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

- our pending merger with XM Satellite Radio Holdings Inc. ("XM Radio"), including related uncertainties and risks and the impact on our business if the merger is not completed;
- the useful life of our satellites, which have experienced circuit failures on their solar arrays and other component failures and are not insured;
- our dependence upon third parties, including manufacturers of SIRIUS radios, retailers, automakers and programming providers; and
- our competitive position versus other forms of audio and video entertainment, including terrestrial radio, HD radio, internet radio, mobile phones, XM Radio and emerging next generation networks and technologies.

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. 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

On February 19, 2007, we and XM Radio entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which we and XM Radio will combine our businesses through a merger of XM Radio and a newly formed, wholly owned subsidiary of us (the "Merger"). Our Board of Directors and the Board of Directors of XM Radio have approved the Merger and the Merger Agreement.

The completion of the Merger is subject to various closing conditions, including obtaining the approval of our stockholders and XM Radio's stockholders and receiving certain regulatory and antitrust approvals (including from the Federal Communications Commission and under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended). The information presented in this Quarterly Report on Form 10-Q does not give effect to the Merger.

We are a satellite radio provider in the United States. We currently broadcast over 130 channels of programming to listeners across the country. We offer 69 channels of 100% commercial-free music and feature 65 channels of sports, news, talk, entertainment, traffic and weather for a monthly subscription fee of \$12.95.

We broadcast through our proprietary satellite radio system, which currently consists of three orbiting satellites, 127 terrestrial repeaters that receive and retransmit our signal, a satellite uplink facility and our studios. Subscribers receive our service through SIRIUS radios, which are sold by automakers, consumer electronics retailers and mobile audio dealers and through our website. Subscribers can also receive our music channels and certain other channels over the Internet.

Our music channels are available to DISH satellite television subscribers and certain of our music channels are offered to Sprint subscribers over multi-media handsets. We also offer traffic and weather data services for a separate fee. Subscribers to DISH satellite television, Sprint and our traffic and weather data services are not included in our subscriber count.

In 2005, SIRIUS Canada Inc., a Canadian corporation owned by us, Canadian Broadcasting Corporation and Standard Broadcasting Corporation, received a license from the Canadian Radio-television and Telecommunications Commission to offer a satellite radio service in Canada. SIRIUS Canada offers 110 channels of commercial-free music and news, sports, talk and entertainment programming, including 11 channels of Canadian content. Subscribers to the SIRIUS Canada service are not included in our subscriber count.

SIRIUS radios are primarily distributed through retailers; automakers, or OEMs; and through our website. SIRIUS radios can be purchased at major retailers, including Best Buy; Circuit City; Crutchfield; Costco; Target; Wal-Mart; and on an exclusive basis through RadioShack. On March 31, 2007, SIRIUS radios were available at more than 25,000 retail locations. We have exclusive agreements with DaimlerChrysler, Ford, Kia, Mitsubishi, BMW, Rolls-Royce, Volkswagen and Bentley to offer SIRIUS radios as factory or dealer-installed equipment. We also have relationships with Nissan, Infiniti, Toyota, Lexus, Scion and Subaru to offer SIRIUS radios as factory or dealer-installed equipment. As of March 31, 2007, SIRIUS radios were available as a factory-installed option in 119 vehicle models and as a dealer-installed option in 31 vehicle models. SIRIUS radios are also offered to renters of Hertz vehicles at airport locations nationwide.

As of March 31, 2007, we had 6,581,045 subscribers compared with 6,024,555 subscribers as of December 31, 2006 and 4,077,747 subscribers as of March 31, 2006. Our subscriber totals include subscribers under our regular pricing plans; subscribers that have prepaid, including payments received from automakers for prepaid subscriptions included in the sale or lease price of a new vehicle; active SIRIUS radios under our agreement with Hertz; and subscribers to SIRIUS Internet Radio, our Internet service.

We believe our ability to attract and retain subscribers depends in large part on creating and sustaining distribution channels for SIRIUS radios, the strength of the SIRIUS brand, and on the quality and entertainment value of our programming. We expect to concentrate our future efforts on enhancing and refining our programming, whether through additional agreements with third parties or our own creative efforts; introducing SIRIUS radios with new features and functions; and expanding the distribution of SIRIUS radios through arrangements with automakers and through additional retail points-of-sale.

Our primary source of revenue is subscription fees, with most of our customers subscribing to SIRIUS on either an annual or a monthly basis. We offer discounts for prepaid and long-term subscriptions as well as discounts for multiple subscriptions. Currently we receive an average of approximately eight months of prepaid revenue per subscriber upon activation. We also derive revenue from activation fees, the sale of advertising on our non-music channels and the direct sale of SIRIUS radios and accessories.

In certain cases, automakers include a subscription to our radio service in the sale or lease price of vehicles. The length of these prepaid subscriptions varies, but is typically six months to one year. In many cases, we receive subscription payments from automakers in advance of the activation of our service. We also reimburse various automakers for certain costs associated with SIRIUS radios installed in their vehicles.

Costs associated with acquiring subscribers are generally incurred and expensed in advance of acquiring a subscriber and are recognized as subscriber acquisition costs, or SAC. A disproportionate percentage of our annual gross subscriber additions are acquired in the fourth quarter in connection with holiday sales. As a result, our SAC, as adjusted, per gross subscriber addition, a key operating metric for our business, is generally higher in the first three quarters of our fiscal year and declines in the fourth quarter as we experience higher activation rates.

Pending Merger with XM Radio

On February 19, 2007, we entered into an Agreement and Plan of Merger with XM Radio Holdings Inc. Pursuant to the Merger Agreement, we and XM Radio will combine our businesses through a merger of XM Radio and a newly formed, wholly owned subsidiary of ours.

Each of SIRIUS and XM has made customary representations and warranties and covenants in the Merger Agreement. The completion of the Merger is subject to various closing conditions, including obtaining approvals of certain of our and XM Radio's stockholders and receiving certain regulatory and antitrust approvals (including from the Federal Communications Commission and under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended). The Merger is intended to qualify as a reorganization for federal income tax purposes.

At the effective time of the Merger (the "Effective Time"), by virtue of the Merger and without any action on the part of any stockholder, each share of common stock of XM Radio (the "XM Common Stock") issued and outstanding immediately prior to the Effective Time will generally be converted into the right to receive 4.6 shares of our common stock. Each share of Series A Convertible Preferred Stock of XM Radio issued and outstanding immediately prior to the Effective Time will be similarly converted at the Effective Time into the right to receive 4.6 shares of a newly-designated series of our preferred stock having substantially the same powers, designations, preferences, rights and qualifications, limitations and restrictions as the stock so converted.

Mel Karmazin, currently our chief executive officer, will become chief executive officer of the combined company and Gary M. Parsons, currently chairman of the board of directors of XM Radio, will become chairman of the board of directors of the combined company. The combined company's board of directors will consist of 12 directors, including Messrs. Karmazin and Parsons, four independent members designated by each of SIRIUS and XM Radio, as well as one representative of each of General Motors and American Honda.

The Merger Agreement contains certain termination rights for both us and XM Radio. If the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement, we or XM Radio, as the case may be, will be required to pay the other a termination fee of \$175,000.

Our Board of Directors and the Board of Directors of XM Radio have approved the Merger and the Merger Agreement.

This description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, which is filed as Exhibit 2.1 to the Current Report on Form 8-K dated February 21, 2007.

Results of Operations

Our discussion of our results of operations, along with the selected financial information in the tables that follow, includes the following non-GAAP financial measures: average monthly churn; average monthly revenue per subscriber, or ARPU; SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; free cash flow; and adjusted loss from operations. We believe these non-GAAP financial measures provide meaningful supplemental information regarding our operating performance and are used for internal management purposes, when publicly providing the business outlook, and as a means to evaluate period-to-period comparisons. Please refer to the footnotes following our discussion of results of operations for the definitions and further discussion of usefulness of such non-GAAP financial measures.

Certain amounts in the prior period unaudited consolidated financial statements have been reclassified to conform to the current period presentation. Specifically, we reclassified both broadcast and webstreaming royalties from

programming and content expenses and revenue share from programming and content expenses and sales and marketing expenses to a separate line item, revenue share and royalties. In addition, we reclassified bad debt expense from general and administrative expenses to customer service and billing expenses.

Subscribers and Key Operating Metrics:

The following table contains a breakdown of our subscribers for the past five quarters:

	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Beginning subscribers	6,024,555	5,119,308	4,678,207	4,077,747	3,316,560
Net additions	556,490	905,247	441,101	600,460	761,187
Ending subscribers	<u>6,581,045</u>	<u>6,024,555</u>	<u>5,119,308</u>	<u>4,678,207</u>	<u>4,077,747</u>
Retail	4,234,804	4,041,826	3,482,514	3,276,615	3,000,321
OEM	2,323,683	1,959,009	1,610,074	1,373,610	1,049,036
Hertz	22,558	23,720	26,720	27,982	28,390
Ending subscribers	<u>6,581,045</u>	<u>6,024,555</u>	<u>5,119,308</u>	<u>4,678,207</u>	<u>4,077,747</u>
Retail	192,978	559,312	205,899	276,294	534,958
OEM	364,674	348,935	236,464	324,574	225,343
Hertz	(1,162)	(3,000)	(1,262)	(408)	886
Net additions	<u>556,490</u>	<u>905,247</u>	<u>441,101</u>	<u>600,460</u>	<u>761,187</u>

Subscribers. We ended the first quarter of 2007 with 6,581,045 subscribers, an increase of 9% since December 31, 2006 and 61% from the 4,077,747 subscribers as of March 31, 2006. Since March 31, 2006, we added 1,234,483 net subscribers from our retail channel and 1,274,647 net subscribers from our OEM channel, resulting in a 41% and 122% increase in our retail and OEM subscriber base, respectively.

The following table presents our key operating metrics for the past five quarters:

	For the Three Months Ended				
	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Gross subscriber additions	988,458	1,234,576	732,406	830,571	960,610
Deactivated subscribers	431,968	329,329	291,305	230,111	199,423
Average monthly churn ⁽¹⁾⁽⁶⁾	2.3%	2.0%	2.0%	1.8%	1.8%
ARPU ⁽²⁾⁽⁶⁾	\$ 10.46	\$ 10.92	\$ 11.17	\$ 11.16	\$ 10.80
SAC, as adjusted, per gross subscriber addition ⁽³⁾⁽⁶⁾	\$ 104	\$ 103	\$ 114	\$ 131	\$ 113
Customer service and billing expenses, as adjusted, per average subscriber ⁽⁴⁾⁽⁶⁾	\$ 1.15	\$ 1.60	\$ 1.14	\$ 1.20	\$ 1.55
Total revenue	\$ 204,037	\$ 193,380	\$ 167,113	\$ 150,078	\$ 126,664
Free cash flow ⁽⁵⁾⁽⁶⁾	\$ (146,715)	\$ 30,409	\$ (232,356)	\$ (133,231)	\$ (165,537)
Adjusted loss from operations ⁽⁷⁾	\$ (83,999)	\$ (166,809)	\$ (83,153)	\$ (126,528)	\$ (136,650)
Net loss	\$ (144,745)	\$ (245,597)	\$ (162,898)	\$ (237,828)	\$ (458,544)

ARPU. Total ARPU for the three months ended March 31, 2007 was \$10.46 compared to \$10.80 for the three months ended March 31, 2006. The decrease was primarily driven by the decline in net advertising revenue per average subscriber and the impact of plan mix due in part to the increase in subscribers under multi-unit subscription plans, offset by the effects of mail-in rebates resulting from lower eligible activations and activation period requirements. At March 31, 2007, approximately two thirds of our subscribers were on an annual or longer subscription plan and approximately 16% were paying \$6.99 per month under a multi-unit subscriber plan.

We expect ARPU to fluctuate based on the growth of our subscriber base, promotions, mail-in rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices, advertising sales and the identification of additional revenue streams from subscribers.

SAC, As Adjusted, Per Gross Subscriber Addition. SAC, as adjusted, per gross subscriber addition was \$104 and \$113 for the three months ended March 31, 2007 and 2006, respectively. The decline was primarily attributable to lower average commission rates and decreased average subsidy rates as we continued to reduce manufacturing and chip set costs.

We expect SAC, as adjusted, per gross subscriber addition to decline as the costs of subsidized components of SIRIUS radios decrease in the future. If competitive forces and changes in retailer promotional strategies, including the elimination of mail-in rebates by certain consumer electronics retailers, require us to increase hardware subsidies or promotions, SAC, as adjusted, per gross subscriber addition may increase. Our SAC, as adjusted, per gross subscriber addition is generally higher in the first three quarters of our fiscal year and declines in the fourth quarter as we experience higher activation rates.

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber Per Month. Customer service and billing expenses, as adjusted, per average subscriber per month declined 26% to \$1.15 for the first quarter of 2007 compared with \$1.55 for the first quarter of 2006.

We expect our customer service and billing expenses, as adjusted, per average subscriber to decrease on an annual basis as our subscriber base grows due to scale efficiencies in call center and other customer care and billing operations. Our customer service and billing expenses, as adjusted, per average subscriber are generally lower in the first three quarters of our fiscal year and increase in the fourth quarter due to the holiday selling season.

Adjusted Loss from Operations. For the three months ended March 31, 2007 and 2006, adjusted loss from operations was \$83,999 and \$136,650, respectively, a decrease of \$52,651. The decrease was primarily driven by an increase in total revenue of \$77,373 as a result of a 61% increase in our subscriber base, which more than offset increases in operating expenses of \$24,722.

Net Loss. For the three months ended March 31, 2007 and 2006, net loss was \$144,745 and \$458,544, respectively, a decrease of \$313,799. The decrease was primarily driven by an increase in total revenue of \$77,373 as a result of a 61% increase in our subscriber base and a decrease in stock-based compensation as a result of certain performance targets satisfied in January 2006.

Three Months Ended March 31, 2007 Compared with Three Months Ended March 31, 2006

Total Revenue

Subscriber Revenue. Subscriber revenue includes subscription fees, activation fees and the effects of mail-in rebates.

For the three months ended March 31, 2007 and 2006, subscriber revenue was \$190,796 and \$115,181, respectively, an increase of 66% or \$75,615. The increase was attributable to the growth of subscribers to our service.

The following table contains a breakdown of our subscriber revenue for the periods presented:

	For the Three Months Ended March 31,	
	2007	2006
Subscription fees	\$ 189,969	\$ 117,991
Activation fees	5,319	3,724
Effects of mail-in rebates	(4,492)	(6,534)
Total subscriber revenue	<u>\$ 190,796</u>	<u>\$ 115,181</u>

Future subscriber revenue will be dependent upon, among other things, the growth of our subscriber base, promotions, mail-in rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices and the identification of additional revenue streams from subscribers.

Advertising Revenue. Advertising revenue includes the sale of advertising on our non-music channels, net of agency fees. Agency fees are based on a stated percentage per the advertising agreements applied to gross billing revenue.

For the three months ended March 31, 2007 and 2006, net advertising revenue was \$6,721 and \$7,338, respectively, a decrease of \$617.

We expect advertising revenue to grow as our subscribers increase, as we continue to improve brand awareness and content, and as we increase the size and effectiveness of our advertising sales force. Advertising revenue is also subject to fluctuation based on the overall radio advertising environment, as well as the mix of businesses advertising their goods and services.

Equipment Revenue. Equipment revenue includes revenue from the direct sale of SIRIUS radios and accessories through our direct to consumer distribution channel.

For the three months ended March 31, 2007 and 2006, equipment revenue was \$4,671 and \$3,692, respectively, an increase of \$979. The increase was the result of higher sales through our direct to consumer distribution channel, offset by the effects of promotional discounts.

We expect equipment revenue to increase as we continue to introduce new products and as sales grow through our direct to consumer distribution channel.

Operating Expenses

Satellite and Transmission. Satellite and transmission expenses consist of costs associated with the operation and maintenance of our satellites; satellite telemetry, tracking and control system; terrestrial repeater network; satellite uplink facility; and broadcast studios.

For the three months ended March 31, 2007 and 2006, satellite and transmission expenses were \$7,986 and \$8,203, respectively, a decrease of \$217. Excluding stock-based compensation of \$656 and \$902 for the three months ended March 31, 2007 and 2006, respectively, satellite and transmission expenses increased \$29 from \$7,301 to \$7,330. As of March 31, 2007 and 2006, we had 127 and 139 terrestrial repeaters, respectively, in operation.

Future increases in satellite and transmission expenses will primarily be attributable to the launch of new satellites, the addition of new terrestrial repeaters and maintenance costs of existing terrestrial repeaters. We expect to deploy additional terrestrial repeaters in 2007 and 2008 subject to obtaining necessary regulatory approvals. Such expenses may also increase in future periods if we decide to reinstate our in-orbit satellite insurance.

Programming and Content. Programming and content expenses include costs to acquire, create and produce content and on-air talent costs. We have entered into various agreements with third parties for music and non-music programming. These agreements require us to pay license fees, share advertising revenue, purchase advertising on media properties owned or controlled by the licensor and pay other guaranteed amounts. Purchased advertising is recorded as a sales and marketing expense in the period the advertising is broadcast. Advertising revenue share is recorded to revenue share and royalties also in the period the advertising is broadcast.

For the three months ended March 31, 2007 and 2006, programming and content expenses were \$59,998 and \$299,734, respectively, a decrease of \$239,736. Excluding stock-based compensation of \$2,935 and \$249,800 for the three months ended March 31, 2007 and 2006, respectively, programming and content expenses increased \$7,129 from \$49,934, to \$57,063. This increase of \$7,129 was primarily attributable to license fees associated with new programming and compensation related costs for additions to headcount. Stock-based compensation decreased \$246,865 primarily due to expense associated with shares of our common stock delivered to Howard Stern and his agent in January 2006 upon the satisfaction of performance targets in 2006.

Our programming and content expenses, excluding stock-based compensation expense, will increase as we continue to develop and enhance our channels. We regularly evaluate programming opportunities and may choose to acquire and develop new content or renew current programming agreements in the future at substantial costs.

Future expense associated with stock-based compensation is contingent upon a number of factors, including the number of stock-based awards granted, the price of our common stock, assumptions used in estimating the fair value of stock-based awards, estimates for forfeitures, vesting provisions and the timing as to when certain performance criteria are met, and could materially change.

Revenue Share and Royalties. Revenue share and royalties include distribution and content partner revenue share, residuals and broadcast and webstreaming royalties. Residuals are monthly fees paid based upon the number of subscribers using a SIRIUS radio purchased from a retailer.

For the three months ended March 31, 2007 and 2006, revenue share and royalties were \$27,134 and \$13,527, respectively, an increase of \$13,607. This increase was primarily attributable to increased revenue share as a result of increased revenue from OEM subscriptions and broadcast royalties as a result of higher total revenues.

We expect revenue share to increase as we continue to experience revenue growth and expand our distribution of SIRIUS radios through automakers. In addition, we expect broadcast and webstreaming royalties, which are typically variable in nature, to increase as our subscriber base grows. We are currently a party to a proceeding before the Copyright Royalty Board of the Library of Congress to establish the royalty rate and terms for the sound recordings we use on our satellite radio service for the period 2007 through 2012.

Customer Service and Billing. Customer service and billing expenses include costs associated with the operation of our customer service centers and subscriber management system as well as bad debt expense.

For the three months ended March 31, 2007 and 2006, customer service and billing expenses were \$21,853 and \$17,862, respectively, an increase of \$3,991. Excluding stock-based compensation of \$199 and \$244 for the three months ended March 31, 2007 and 2006, respectively, customer service and billing expenses increased \$4,036 from \$17,618 to \$21,654. This increase of \$4,036 was primarily due to increased call center operating costs necessary to accommodate our subscriber base and transaction fees due to the addition of new subscribers. Customer service and billing expenses, excluding stock-based compensation, increased 23% compared with an increase in subscribers of 61% year over year.

We expect our customer care and billing expenses, excluding stock-based compensation expense, to increase as our subscriber base grows due to increased call center operating costs, transaction fees necessary to serve a larger subscriber base and bad debt expense.

Cost of Equipment. Cost of equipment includes costs for SIRIUS radios and accessories sold through our direct to consumer distribution channel.

For the three months ended March 31, 2007 and 2006, cost of equipment was \$9,292 and \$3,465, respectively, an increase of \$5,827. The increase was primarily attributable to higher sales volume, offset by a decline in per unit costs. In addition, we recorded \$2,782 for the three months ended March 31, 2007 to the inventory allowance primarily as a result of lower of cost or market adjustments and reserves for slow moving inventory.

We expect cost of equipment to increase in the future as we introduce new products and as sales through our direct to consumer distribution channel grow.

Sales and Marketing. Sales and marketing expenses include costs for advertising, media and production, including promotional events and sponsorships; cooperative marketing; customer retention and compensation. Cooperative marketing costs include fixed and variable payments to reimburse retailers and automakers for the cost of advertising and other product awareness activities.

For the three months ended March 31, 2007 and 2006, sales and marketing expenses were \$38,162 and \$34,481, respectively, an increase of \$3,681. Excluding stock-based compensation of \$5,644 and \$2,202 for the three months ended March 31, 2007 and 2006, respectively, sales and marketing expenses increased \$239 from \$32,279 to \$32,518. Sales and marketing expenses were relatively consistent for the first quarter of 2007 as compared to the first quarter of 2006, despite a 61% increase in total revenue.

We expect sales and marketing expenses, excluding stock-based compensation expense, to increase as we continue to build brand awareness through national advertising and promotional activities and expand our subscriber retention efforts.

Future expense associated with stock-based compensation is contingent upon a number of factors, including the number of stock-based awards granted, the price of our common stock, assumptions used in estimating the fair value of stock-based awards, estimates for forfeitures, vesting provisions and the timing as to when certain performance criteria are met, and could materially change.

Subscriber Acquisition Costs. Subscriber acquisition costs include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a SIRIUS radio and a prepaid subscription to our service in the sale or lease price of a new vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; commissions paid to retailers and automakers as incentives to purchase, install and activate SIRIUS radios; product warranty obligations; provisions for inventory allowance; and compensation costs associated with stock-based awards granted in connection with certain distribution agreements. The majority of subscriber acquisition costs are incurred and expensed in advance of acquiring a subscriber. Subscriber acquisition costs do not include advertising, loyalty payments to distributors and dealers of SIRIUS radios and revenue share payments to automakers and retailers of SIRIUS radios. Subscriber acquisition costs also do not include amounts capitalized in connection with our agreement with Hertz, as we retain ownership of certain SIRIUS radios used by Hertz.

For the three months ended March 31, 2007 and 2006, subscriber acquisition costs were \$100,117 and \$119,043, respectively, a decrease of 16% or \$18,926. Excluding stock-based compensation of \$1,880 and \$9,899 for the three months ended March 31, 2007 and 2006, respectively, subscriber acquisition costs decreased 10%, or \$10,907, from \$109,144 to \$98,237. This decrease of \$10,907 was primarily attributable to lower commissions and decreased aftermarket subsidies, as we continued to reduce manufacturing and chip set costs, offset by increased OEM hardware subsidies due to higher production volume and provisions for inventory allowance. Stock-based compensation decreased \$8,019 primarily due to the timing of third parties achieving milestones and changes in the fair market value of such awards.

We expect total subscriber acquisition costs, excluding stock-based compensation expense, to decrease as increases in our gross subscriber additions are offset by continuing declines in the costs of subsidized components of SIRIUS radios. We intend to continue to offer subsidies, commissions and other incentives to acquire subscribers.

Future expense associated with stock-based compensation is contingent upon a number of factors, including the number of stock-based awards granted, the price of our common stock, assumptions used in estimating the fair value of stock-based awards, estimates for forfeitures, vesting provisions and the timing as to when certain performance criteria are met, and could materially change.

General and Administrative. General and administrative expenses include rent and occupancy, finance, legal, human resources, information technology and investor relations costs.

For the three months ended March 31, 2007 and 2006, general and administrative expenses were \$35,343 and \$31,873, respectively, an increase of \$3,470. Excluding stock-based compensation of \$11,940 and \$14,506 for the three months ended March 31, 2007 and 2006, respectively, general and administrative expenses increased \$6,036 from \$17,367 to \$23,403. This increase of \$6,036 was primarily a result of legal fees and employment related and information technology costs to support the growth of our business. Stock-based compensation decreased \$2,566 primarily as a result of restricted stock units that vested in the first quarter of 2006.

We expect our general and administrative expenses, excluding stock-based compensation expense, to increase in future periods as a result of higher personnel, information technology, and facilities costs, as well as increased legal fees to support the growth of our business.

Future expense associated with stock-based compensation is contingent upon a number of factors, including the number of stock-based awards granted, the price of our common stock, assumptions used in estimating the fair value of stock-based awards, estimates for forfeitures, vesting provisions and the timing as to when certain performance criteria are met, and could materially change.

Engineering, Design and Development. Engineering, design and development expenses include costs to develop our future generation of chip sets and new products and costs associated with the incorporation of SIRIUS radios into vehicles manufactured by automakers.

For the three months ended March 31, 2007 and 2006, engineering, design and development expenses were \$12,411 and \$19,712, respectively, a decrease of \$7,301. Excluding stock-based compensation of \$1,006 and \$7,033 for the three months ended March 31, 2007 and 2006, respectively, engineering, design and development expenses

decreased \$1,274 from \$12,679 to \$11,405. This decrease of \$1,274 was primarily attributable to a decrease in costs associated with the manufacturing of SIRIUS radios and OEM tooling and manufacturing upgrades, offset by increases in employment related costs. Stock-based compensation decreased \$6,027 primarily due to the timing of third parties achieving certain production milestones.

We expect engineering, design and development expenses, excluding stock-based compensation expense, to decrease, as the work required to incorporate SIRIUS radios and accessories in a significant number of vehicle models was completed in 2006.

Other Income (Expense)

Interest and Investment Income. Interest and investment income includes realized gains and losses, dividends and interest income, including amortization of the premium and discount arising at purchase.

For the three months ended March 31, 2007 and 2006, interest and investment income was \$6,042 and \$9,937, respectively, a decrease of \$3,895. The decrease was attributable to a lower average cash balance.

Interest Expense. Interest expense includes interest on outstanding debt, reduced by interest capitalized in connection with the construction of our new satellite and launch vehicle.

For the three months ended March 31, 2007 and 2006, interest expense was \$15,192 and \$17,124, respectively, a decrease of \$1,932. The decrease was primarily the result of capitalized interest in 2007 associated with satellite construction and the related launch vehicle.

Equity in Net Loss of Affiliate. Equity in net loss of affiliate includes our share of SIRIUS Canada's net loss.

We recorded \$0 and \$4,445 for the three months ended March 31, 2007 and 2006, respectively, for our share of SIRIUS Canada's net loss.

As of March 31, 2007, our investment in SIRIUS Canada was \$0 as we fully recognized our share of SIRIUS Canada's net loss to the extent we have funded it. We do not expect to recognize future net losses unless we commit to additional funding.

Income Taxes

Income Tax Expense. Income tax expense represents the recognition of a deferred tax liability related to the difference in accounting for our FCC license, which is amortized over 15 years for tax purposes but not amortized for book purposes in accordance with U.S. generally accepted accounting principles.

We recorded income tax expense of \$555 and \$753 for the three months ended March 31, 2007 and 2006, respectively.

Footnotes to Results of Operations

- (1) Average monthly churn represents the number of deactivated subscribers divided by average quarterly subscribers.
- (2) ARPU is derived from total earned subscriber revenue and net advertising revenue divided by the daily weighted average number of subscribers for the period. ARPU is calculated as follows:

	For the Three Months Ended				
	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Subscriber revenue	\$ 190,796	\$ 167,210	\$ 155,373	\$ 137,640	\$ 115,181
Net advertising revenue	6,721	8,451	7,130	8,125	7,338
Total subscriber and net advertising revenue	\$ 197,517	\$ 175,661	\$ 162,503	\$ 145,765	\$ 122,519
Daily weighted average number of subscribers	6,295,282	5,361,322	4,848,293	4,354,447	3,782,543
ARPU	\$ 10.46	\$ 10.92	\$ 11.17	\$ 11.16	\$ 10.80

- (3) SAC, as adjusted, per gross subscriber addition is derived from subscriber acquisition costs, excluding stock-based compensation, and margins from the direct sale of SIRIUS radios and accessories divided by the number of gross subscriber additions for the period. SAC, as adjusted, per gross subscriber addition is calculated as follows:

	For the Three Months Ended				
	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Subscriber acquisition costs	\$ 100,117	\$ 122,196	\$ 79,812	\$ 130,563	\$ 119,043
Less: stock-based compensation	(1,880)	(1,150)	1,051	(21,900)	(9,899)
Add: margin from direct sale of SIRIUS radios and accessories	4,621	5,674	2,617	371	(227)
SAC, as adjusted	\$ 102,858	\$ 126,720	\$ 83,480	\$ 109,034	\$ 108,917
Gross subscriber additions	988,458	1,234,576	732,406	830,571	960,610
SAC, as adjusted, per gross subscriber addition	\$ 104	\$ 103	\$ 114	\$ 131	\$ 113

- (4) Customer service and billing expenses, as adjusted, per average subscriber is derived from total customer service and billing expenses, excluding stock-based compensation, divided by the daily weighted average number of subscribers for the period. Customer service and billing expenses, as adjusted, per average subscriber is calculated as follows:

	For the Three Months Ended				
	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Customer service and billing expenses	\$ 21,853	\$ 25,912	\$ 16,822	\$ 15,866	\$ 17,862
Less: stock-based compensation	(199)	(167)	(197)	(204)	(244)
Customer service and billing expenses, as adjusted	\$ 21,654	\$ 25,745	\$ 16,625	\$ 15,662	\$ 17,618
Daily weighted average number of subscribers	6,295,282	5,361,322	4,848,293	4,354,447	3,782,543
Customer service and billing expenses, as adjusted, per average subscriber	\$ 1.15	\$ 1.60	\$ 1.14	\$ 1.20	\$ 1.55

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

	For the Three Months Ended				
	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Net cash (used in) provided by operating activities	\$ (133,947)	\$ 34,868	\$ (183,330)	\$ (108,915)	\$ (157,172)
Additions to property and equipment	(12,458)	(5,459)	(66,588)	(22,284)	(5,496)
Restricted and other investment activity	(310)	1,000	17,562	(2,032)	(2,869)
Free cash flow	\$ (146,715)	\$ 30,409	\$ (232,356)	\$ (133,231)	\$ (165,537)

- (6) Average monthly churn; ARPU; SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; and free cash flow are not measures of financial performance under U.S. generally accepted accounting principles ("GAAP"). We believe these non-GAAP financial measures provide meaningful supplemental information regarding our operating performance and are used by us for budgetary and planning purposes; when publicly providing our business outlook; as a means to evaluate period-to-period comparisons; and to compare our performance to that of our competitors. We also believe that investors also use our current and projected metrics to monitor the performance of our business and make investment decisions.

We believe the exclusion of stock-based compensation expense in our calculations of SAC, as adjusted, per gross subscriber addition and customer service and billing expenses, as adjusted, per average subscriber is useful given the significant variation in expense that can result from changes in the fair market value of our common stock, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our subscriber acquisition costs and customer service and billing expenses. Specifically, the exclusion of stock-based compensation expense in our calculation of SAC, as adjusted, per gross subscriber addition is critical in being able to understand the economic impact of the direct costs incurred to acquire a subscriber and the effect over time as economies of scale are reached.

These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. These non-GAAP financial measures 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.

- (7) We refer to net loss before taxes; other income (expense)-including interest and investment income, interest expense, loss from redemption of debt and equity in net loss of affiliate; depreciation; impairment charges; and stock-based compensation expense as adjusted loss from operations. Adjusted loss from operations is not a measure of financial performance under U.S. GAAP. We believe adjusted loss from operations is a useful measure of our operating performance. We use adjusted loss from operations for budgetary and planning purposes; to assess the relative profitability and on-going performance of our consolidated operations; to compare our performance from period to period; and to compare our performance to that of our competitors. We also believe adjusted loss from operations is useful to investors to compare our operating performance to the performance of other communications, entertainment and media companies. We believe that investors use current and projected adjusted loss from operations to estimate our current or prospective enterprise value and make investment decisions.

Because we fund and build-out our satellite radio system through the periodic raising and expenditure of large amounts of capital, our results of operations reflect significant charges for interest and depreciation expense. We believe adjusted loss from operations provides useful information about the operating performance of our business apart from the costs associated with our capital structure and physical plant. The exclusion of interest and depreciation expense is useful given fluctuations in interest rates and significant variation in depreciation expense that can result from the amount and timing of capital expenditures and potential variations in estimated useful lives, all of which can vary widely across different industries or among companies within the same industry. We believe the exclusion of taxes is appropriate for comparability purposes as the tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the various jurisdictions in which they operate. We also believe the exclusion of stock-based compensation expense is useful given the significant variation in expense that can result from changes in the fair market value of our common stock. Finally, we believe that the exclusion of our equity in net loss of affiliate (SIRIUS Canada Inc.) is useful to assess the performance of our core consolidated operations in the continental United States. To compensate for the exclusion of taxes, other income (expense), depreciation, impairment charges and stock-based compensation expense, we separately measure and budget for these items.

There are material limitations associated with the use of adjusted loss from operations in evaluating our company compared with net loss, which reflects overall financial performance, including the effects of taxes, other income (expense), depreciation, impairment charges and stock-based compensation expense. We use adjusted loss from operations to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to net loss as disclosed in our unaudited consolidated statements of operations. Since adjusted loss from operations is a non-GAAP financial measure, our calculation of adjusted loss from operations 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.

Adjusted loss from operations is calculated as follows:

	For the Three Months Ended				
	March 31,	December 31,	September 30,	June 30,	March 31.
	2007	2006	2006	2006	2006
Net loss	\$ (144,745)	\$ (245,597)	\$ (162,898)	\$ (237,828)	\$ (458,544)
Impairment loss				10,917	
Depreciation	26,786	27,495	27,583	25,738	24,933
Stock-based compensation	24,260	42,625	43,418	67,289	284,586
Other expense	9,145	8,512	8,166	6,778	11,622
Income tax expense	555	156	578	578	753
Adjusted loss from operations	<u>\$ (83,999)</u>	<u>\$ (166,809)</u>	<u>\$ (83,153)</u>	<u>\$ (126,528)</u>	<u>\$ (136,650)</u>

Liquidity and Capital Resources

Cash Flows for the Three Months Ended March 31, 2007 Compared with the Three Months Ended March 31, 2006

As of March 31, 2007, we had \$259,162 in cash and cash equivalents compared with \$630,831 as of March 31, 2006 and \$393,421 as of December 31, 2006.

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

	For the Three Months Ended March 31,		Variance
	2007	2006	
Net cash used in operating activities	\$ (133,947)	\$ (157,172)	\$ 23,225
Net cash (used in) provided by investing activities	(1,822)	24,537	(26,359)
Net cash provided by financing activities	1,510	1,459	51
Net decrease in cash and cash equivalents	(134,259)	(131,176)	(3,083)
Cash and cash equivalents at beginning of period	393,421	762,007	(368,586)
Cash and cash equivalents at end of period	\$ 259,162	\$ 630,831	\$ (371,669)

Net Cash Used in Operating Activities

Net cash used in operating activities decreased \$23,225 to \$133,947 for the three months ended March 31, 2007 from \$157,172 for the three months ended March 31, 2006. Such decrease in the net outflows of cash was attributable to an increase in the cash collected for subscribers electing annual and other prepaid subscription programs, offset by payments for increased operating expenses and higher purchases of inventory to support production of SIRIUS radios and higher sales volumes through our direct to consumer distribution channel.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$1,822 for the three months ended March 31, 2007 compared with net cash provided by investing activities of \$24,537 for the three months ended March 31, 2006. The \$26,359 increase was primarily a result of higher net sales activity of available-for-sale securities in the first quarter of 2006, offset by an increase in capital expenditures of \$6,962 primarily as a result of costs associated with our satellite construction and launch vehicle.

We will incur significant capital expenditures to construct and launch our new satellite and to improve our terrestrial repeater network and broadcast and administrative infrastructure. These capital expenditures will support our growth and the resiliency of our operations, and will also support the delivery of future new revenue streams.

Net Cash Provided by Financing Activities

Net cash provided by financing activities increased \$51 to \$1,510 for the three months ended March 31, 2007 from \$1,459 for the three months ended March 31, 2006. The increase was a result of increased proceeds from the exercise of stock options.

Financings and Capital Requirements

We have historically financed our operations through the sale of debt and equity securities. For the first three months ended March 31, 2007 and 2006, we did not enter into any new debt or equity financing transactions.

Future Liquidity and Capital Resource Requirements

Based upon our current plans, we believe that our cash, cash equivalents and marketable securities will be sufficient to cover our estimated funding needs through cash flow breakeven, the point at which our revenues are sufficient to fund expected operating expenses, capital expenditures, working capital requirements, interest and principal payments and taxes. In light of our pending merger with XM Radio, and the uncertainty surrounding the timing and financial impact, we are no longer currently providing cash flow guidance for the year ending December 31, 2007. Our financial projections are based on assumptions, which we believe are reasonable but contain significant uncertainties.

Our business is in its early stages, and we regularly evaluate our plans and strategy. These evaluations often result in changes to our plans and strategy, some of which may be material and significantly change our cash requirements or cause us to achieve cash flow breakeven at a later date. These changes in our plans or strategy may include: the acquisition of unique or compelling programming; the introduction of new features or services; significant new or enhanced distribution arrangements; investments in infrastructure, such as satellites, equipment or radio spectrum; and acquisitions of third parties that own programming, distribution, infrastructure, assets, or any combination of the foregoing.

In June 2006, we entered into a Credit Agreement with Space Systems/Loral (the "Credit Agreement"). Under the Credit Agreement, Space Systems/Loral has agreed to make loans to us in an aggregate principal amount of up to \$100,000 to finance the purchase of our new satellite. Loans made under the Credit Agreement will be secured by our rights under the Satellite Purchase Agreement with Space Systems/Loral, including our rights to the new satellite. The loans are also entitled to the benefits of a subsidiary guarantee from Satellite CD Radio, Inc., our subsidiary that holds our FCC license, and any future material subsidiary that may be formed by us. The maturity date of the loans is the earliest to occur of (i) April 6, 2009, (ii) 90 days after the new satellite becomes available for shipment, and (iii) 30 days prior to the scheduled launch of the new satellite. Any loans made under the Credit Agreement generally will bear interest at a variable rate equal to three-month LIBOR plus 4.75%. The Credit Agreement permits us to prepay all or a portion of the loans outstanding without penalty. We have no current plans to draw under this Credit Agreement.

To fund incremental cash requirements, or as market opportunities arise, we may choose to raise additional funds through the sale of additional debt securities, equity securities or a combination of debt and equity securities. The incurrence of additional indebtedness would result in increased fiscal obligations and could contain restrictive covenants. The sale of additional equity or convertible debt securities may result in dilution to our stockholders. These additional sources of funds may not be available or, if available, may not be available on terms favorable to us. Our merger agreement with XM Radio restricts our ability to incur additional debt financing beyond our existing credit facility (or equivalent funding) and limits the amount of new equity we can issue, in each case without approval from XM Radio.

2003 Long-Term Stock Incentive Plan

In January 2003, our board of directors adopted the Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan (the "2003 Plan"), and on March 4, 2003 our stockholders approved this plan. On May 25, 2004, our stockholders approved an amendment to the 2003 Plan to include members of our board of directors as eligible participants. Employees, consultants and members of our board of directors are eligible to receive awards under the 2003 Plan. The 2003 Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate.

Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2003 Plan are generally subject to a vesting requirement that includes one or all of the following: (1) over time, generally three to five years from the date of grant; (2) on a specific date in future periods, with acceleration to earlier periods if performance criteria are satisfied; or (3) as certain performance targets set at the time of grant are achieved. Stock-based awards generally expire ten years from date of grant. Each restricted stock unit entitles the holder to receive one share of our common stock upon vesting.

As of March 31, 2007, approximately 86,213,000 stock options, shares of restricted stock and restricted stock units were outstanding. As of March 31, 2007, approximately 74,235,000 shares of our common stock were available for grant under the 2003 Plan. During the three months ended March 31, 2007, employees exercised 286,202 stock options at exercise prices ranging from \$0.65 to \$3.30 per share, resulting in proceeds to us of \$356. The exercise of the remaining outstanding, vested options could result in an inflow of cash in future periods.

Contractual Cash Commitments

For a discussion of our "Contractual Cash Commitments" refer to Note 11 to the unaudited consolidated financial statements, Commitments and Contingencies, of this Form 10-Q.

Critical Accounting Policies

For a description of our Critical Accounting Policies refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" within our Annual Report on Form 10-K for the year ended

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of March 31, 2007, we did not have any derivative financial instruments and we do not intend to use derivatives. We do not hold or issue any free-standing derivatives. We hold investments in marketable securities, which consist of certificates of deposit and auction rate securities. We classify our marketable securities as available-for-sale. These securities are consistent with the investment objectives contained within our investment policy. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield. Despite the underlying long-term maturity of auction rate securities, from the investor's perspective, such securities are priced and trade as short-term investments because of the interest rate reset feature. Interest rates are reset through an auction process at predetermined periods of 28 or 35 days. Failed auctions rarely occur. As of March 31, 2007, we did not hold any auction rate securities.

Our long-term debt includes fixed interest rates and the fair market value of the debt is sensitive to changes in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations.

Item 4. Controls and Procedures

As of March 31, 2007, an evaluation was performed under the supervision and with the participation of our management, including Mel Karmazin, our Chief Executive Officer, and David J. Frear, our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2007. There have been no significant changes in our internal control over financial reporting or in other factors that could materially affect, or is reasonably likely to materially affect, our internal control over financial reporting for the three months ended March 31, 2007.

Part II

Other Information

Item 1. Legal Proceedings

FCC Inquiry. In April 2006, we learned that XM Radio and two manufacturers of SIRIUS radios had received inquiries from the Federal Communications Commission as to whether the FM transmitters in their products complied with the FCC's emissions and frequency rules. We promptly began an internal review of the compliance of the FM transmitters in a number of our radios. In June 2006, we learned that a third manufacturer of SIRIUS radios had received an inquiry from the Federal Communications Commission as to whether the FM transmitters in its products complied with the FCC's emissions and frequency rules. In June 2006, we received a letter from the FCC making similar inquiries. In July 2006, we responded to the letter from the FCC in respect of the preliminary results of our review. In August 2006, we received a follow-up letter of inquiry from the FCC and responded to the FCC's further inquiry. We continue to cooperate with the FCC's inquiry.

During our internal review, we determined that certain of our radios with FM transmitters were not compliant with FCC rules. We have taken a series of actions to correct the problem.

In connection with our internal review, we discovered that certain SIRIUS personnel requested manufacturers to produce SIRIUS radios that were not consistent with the FCC's rules. As a result of this review, we are taking significant steps to ensure that this situation does not happen again, including the adoption of a compliance plan, approved by our board of directors, to ensure that in the future our products comply with all applicable FCC rules.

The FCC's laboratory has tested a number of our products and found them to be compliant with the FCC's rules. We believe our radios that are currently in production comply with applicable FCC's rules. No health or safety issues are involved with these SIRIUS radios and radios which are factory-installed in new vehicles are not affected.

We have retained the services of an engineering compliance officer to report to our Vice President of Internal Audit, who reports to our Audit Committee.

In October 2006, we ceased operating 11 of our terrestrial repeaters which we discovered had been operating at variance to the specifications and applied to the FCC for new authority to resume operating these repeaters.

Copyright Royalty Board Proceeding. We are a party to a proceeding before the Copyright Royalty Board of the Library of Congress to establish the royalty rate and terms for the sound recordings we use on our satellite radio service for the period for 2007 through 2012. In October 2006, we and XM Radio filed our direct case in this proceeding with the Copyright Royalty Board and proposed a royalty rate of 0.88% of our satellite radio subscription revenue. SoundExchange, the organization that collects and distributes royalties from various digital music services on behalf of artists and music labels, simultaneously submitted its direct case in this proceeding and proposed an increasing royalty rate, beginning at 10% of our gross revenues in the first year and culminating at 23% of our gross revenues in the sixth year. This submission of direct cases is the beginning of a twelve to eighteen month process which, absent an agreement among the parties, will result in a determination by the Copyright Royalty Board of an applicable royalty rate. Discovery in this matter is ongoing.

The Copyright Royalty Board must set a rate that is calculated to achieve four statutory objectives:

- to maximize the availability of creative works to the public;
- to afford the copyright owner a fair return for his creative work and the copyright user a fair income under existing economic conditions;
- to reflect the relative roles of the copyright owner and the copyright user in the product made available to the public with respect to relative creative contribution, technological contribution, capital investment, cost, risk and contribution to the opening of new markets for creative expression and media for their communication; and

- to minimize any disruptive impact on the structure of the industries involved and on generally prevailing industry practices.

We believe that the fee we proposed achieves these objectives and is consistent in principle with the fee established under the same standard for digital cable audio.

U.S. Electronics Arbitration. U.S. Electronics Inc., a licensed distributor and a former licensed manufacturer of SIRIUS radios, has commenced an arbitration proceeding against us. U.S. Electronics alleges that we breached our contract; failed to pay monies owed under the contract; tortiously interfered with U.S. Electronics' relationships with retailers and manufacturers; withheld information relating to the FCC's inquiring into SIRIUS radios that include FM modulators; and otherwise acted in bad faith. U.S. Electronics is seeking at least \$48 million in damages. We believe that a substantial portion of these damages are barred by the limitation of liability provisions contained in the contract between us and U.S. Electronics. U.S. Electronics contends, and will be permitted to try to prove in the arbitration, that these provisions do not bar its damages because of, among other reasons, our alleged bad faith and tortious conduct. We are vigorously defending this action.

Other Matters. In the ordinary course of business, we are a defendant in various lawsuits and arbitration proceedings, including actions filed by former employees, parties to contracts or leases and owners of patents, trademarks, copyrights or other intellectual property. None of these actions are, in our opinion, likely to have a material adverse effect on our business or financial results.

Item 1A. Risk Factors

Reference is made to the Risk Factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006. The Risk Factors remain applicable from our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

See Exhibit Index attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIRIUS SATELLITE RADIO INC.

By: /s/ DAVID J. FREAR

David J. Frear
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

May 10, 2007

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
2.1	—Agreement and Plan of Merger, dated as of February 19, 2007, by and among the Company, Vernon Merger Corporation and XM Satellite Radio Holdings Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated February 21, 2007).
3.1	—Amended and Restated Certificate of Incorporation dated March 4, 2003 (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
3.2	—Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
4.1	—Form of certificate for shares of Common Stock (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-1 (File No. 33-74782)).
4.2	—Warrant Agreement, dated as of May 15, 1999, between the Company and United States Trust Company of New York, as warrant agent (incorporated by reference to Exhibit 4.4.4 to the Company's Registration Statement on Form S-4 (File No. 333-82303)).
4.3	—Indenture, dated as of September 29, 1999, between the Company and United States Trust Company of Texas, N.A., as trustee, relating to the Company's 8¾% Convertible Subordinated Notes due 2009 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 13, 1999).
4.4	—First Supplemental Indenture, dated as of September 29, 1999, between the Company and United States Trust Company of Texas, N.A., as trustee, relating to the Company's 8¾% Convertible Subordinated Notes due 2009 (incorporated by reference to Exhibit 4.01 to the Company's Current Report on Form 8-K filed on October 1, 1999).
4.5	—Second Supplemental Indenture, dated as of March 4, 2003, among the Company, The Bank of New York (as successor to United States Trust Company of Texas, N.A.), as resigning trustee, and HSBC Bank USA, as successor trustee, relating to the Company's 8¾% Convertible Subordinated Notes due 2009 (incorporated by reference to Exhibit 4.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
4.6	—Third Supplemental Indenture, dated as of March 7, 2003, between the Company and HSBC Bank USA, as trustee, relating to the Company's 8¾% Convertible Subordinated Notes due 2009 (incorporated by reference to Exhibit 4.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
4.7	—Form of 8¾% Convertible Subordinated Note due 2009 (incorporated by reference to Article VII of Exhibit 4.01 to the Company's Current Report on Form 8-K filed on October 1, 1999).
4.8	—Indenture, dated as of May 23, 2003, between the Company and The Bank of New York, as trustee (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K dated May 30, 2003).
4.9	—First Supplemental Indenture, dated as of May 23, 2003, between the Company and The Bank of New York, as trustee, relating to the Company's 3½% Convertible Notes due 2008 (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K dated May 30, 2003).
4.10	—Second Supplemental Indenture, dated as of February 20, 2004, between the Company and The Bank of New York, as trustee, relating to the Company's 2½% Convertible Notes due 2009 (incorporated by reference to Exhibit 4.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

<u>Exhibit</u>	<u>Description</u>
4.11	—Third Supplemental Indenture, dated as of October 13, 2004, between the Company and The Bank of New York, as trustee, relating to the Company's 3¼% Convertible Notes due 2011 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 13, 2004).
4.12	—Indenture, dated as of August 9, 2005, between the Company and The Bank of New York, as trustee relating to the Company's 9 ⁵ / ₈ % Senior Notes due 2013 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 12, 2005).
4.13	—Common Stock Purchase Warrant granted by the Company to DaimlerChrysler AG dated October 4, 2005 (incorporated by reference to Exhibit 4.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
4.14	—Common Stock Purchase Warrant granted by the Company to Ford Motor Company dated October 7, 2002 (incorporated by reference to Exhibit 4.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
4.15	—Form of Media-Based Incentive Warrant dated February 3, 2004 issued by the Company to NFL Enterprises LLC (incorporated by reference to Exhibit 4.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
4.16	—Bounty-Based Incentive Warrant dated February 3, 2004 issued by the Company to NFL Enterprises LLC (incorporated by reference to Exhibit 4.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
4.17	—Amended and Restated Warrant Agreement, dated as of December 27, 2000, between the Company and United States Trust Company of New York, as warrant agent and escrow agent (incorporated by reference to Exhibit 4.27 to the Company's Registration Statement on Form S-3 (File No. 333-65602)).
4.18	—Customer Credit Agreement, dated as of May 31, 2006, between the Company and Space Systems/Loral, Inc. (incorporated by reference to Exhibit 4.18 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
10.1.1	—Lease Agreement, dated as of March 31, 1998, between Rock-McGraw, Inc. and the Company (incorporated by reference to Exhibit 10.1.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
10.1.2	—Supplemental Indenture, dated as of March 22, 2000, between Rock-McGraw, Inc. and the Company (incorporated by reference to Exhibit 10.1.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).
*10.2	—Employment Agreement dated November 18, 2004 between the Company and Mel Karmazin (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.3	—Employment Agreement, dated as of June 3, 2003, between the Company and David J. Frear (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
*10.4	—First Amendment, dated as of August 10, 2005, to the Employment Agreement, dated as of June 3, 2003, between the Company and David Frear (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 12, 2005).
*10.5	—Employment Agreement, dated as of May 5, 2004, between the Company and Scott A. Greenstein (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).

<u>Exhibit</u>	<u>Description</u>
*10.6	—First Amendment, dated as of August 8, 2005, to the Employment Agreement, dated as of May 5, 2004, between the Company and Scott Greenstein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 12, 2005).
* 10.7	—Restricted Stock Unit Agreement, dated as of August 9, 2005, between the Company and James E. Meyer (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated August 12, 2005).
*10.8	—CD Radio Inc. 401(k) Savings Plan (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 (File No. 333-65473)).
* 10.9	—Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
*10.10	—Form of Option Agreement, dated as of December 29, 1997, between the Company and each Optionee (incorporated by reference to Exhibit 10.16.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
† 10.11	—Joint Development Agreement, dated as of February 16, 2000, between the Company and XM Satellite Radio Inc. (incorporated by reference to Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).
31.1	—Certificate of Mel Karmazin, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	—Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	—Certificate of Mel Karmazin, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	—Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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

Portions of this exhibit have been omitted pursuant to Applications for Confidential treatment filed by the Company with the Securities and Exchange Commission.+

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Mel Karmazin, the Chief Executive Officer of Sirius Satellite Radio Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sirius Satellite Radio Inc. for the period ended March 31, 2007;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ MEL K. ARMAZIN

Mel Karmazin
Chief Executive Officer
(Principal Executive Officer)

May 10, 2007

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, the Executive Vice President and Chief Financial Officer of Sirius Satellite Radio Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sirius Satellite Radio Inc. for the period ended March 31, 2007;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ DAVID J. FREAR

David J. Frear
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

May 10, 2007

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius Satellite Radio Inc. (the "Company") on Form 10-Q for the period ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mel Karmazin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ MEL K ARMAZIN

Mel Karmazin
Chief Executive Officer
(Principal Executive Officer)

May 10, 2007

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002

In connection with the Quarterly Report of Sirius Satellite Radio Inc. (the "Company") on Form 10-Q for the period ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID J. FREAR

David J. Frear
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

May 10, 2007

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

SIR EX.58

**THIS EXHIBIT CONTAINS
RESTRICTED INFORMATION
PURSUANT TO THE DECEMBER 20,
2006 PROTECTIVE ORDER AND
THEREFORE WAS OMITTED FROM
THIS PUBLIC VERSION**

SIR EX. 59

**THIS EXHIBIT CONTAINS
RESTRICTED INFORMATION
PURSUANT TO THE DECEMBER 20,
2006 PROTECTIVE ORDER AND
THEREFORE WAS OMITTED FROM
THIS PUBLIC VERSION**

SIR Ex. 60

**THIS EXHIBIT CONTAINS
RESTRICTED INFORMATION
PURSUANT TO THE DECEMBER 20,
2006 PROTECTIVE ORDER AND
THEREFORE WAS OMITTED FROM
THIS PUBLIC VERSION**

CERTIFICATE OF SERVICE

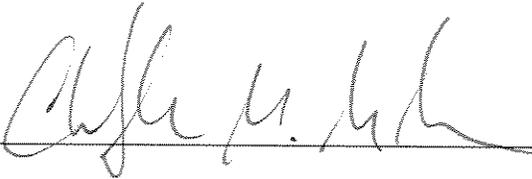
I hereby certify that the Public Written Rebuttal Statement of Sirius Satellite Radio Inc. was served on July 27, 2007 via email without exhibits and via courier with exhibits on the following parties:

Michael DeSanctis
Jenner & Block LLP
601 Thirteenth Street, N.W.
Suite 1200 South
Washington, D.C. 20005
mdesanctis@jenner.com

Counsel for SoundExchange, Inc.

R. Bruce Rich
Weil, Gotshal & Manges LLP
767 Fifth Avenue
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r.bruce.rich@weil.com

Counsel for XM Satellite Radio Inc.



A handwritten signature in black ink, appearing to read "R. Bruce Rich", is written over a horizontal line.