

# SIRIUS SATELLITE RADIO INC

## FORM 10-Q (Quarterly Report)

Filed 11/8/2005 For Period Ending 9/30/2005

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

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**F O R M 10-Q**

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

Commission file number 0-24710

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**SIRIUS SATELLITE RADIO INC.**

(Exact name of registrant as specified in its charter)

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**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 S No

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

Yes S 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)

1,331,477,962 shares  
(Outstanding as of November 4, 2005)

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**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenue:				
Subscriber revenue, including effects of mail-in rebates	\$ 64,273	\$ 18,025	\$ 155,799	\$ 40,177
Advertising revenue, net of agency fees	1,508	249	3,094	399
Equipment revenue	1,030	823	3,300	1,013
Other revenue	20	19	48	48
<b>Total revenue</b>	<b>66,831</b>	<b>19,116</b>	<b>162,241</b>	<b>41,637</b>
Operating expenses:				
Cost of services (excludes depreciation shown separately below):				
Satellite and transmission	7,228	7,620	20,709	24,215
Programming and content	23,542	18,732	63,589	37,550
Customer service and billing	9,416	5,329	26,646	13,718
Cost of equipment	1,453	1,146	4,381	1,615
Sales and marketing	38,181	42,645	107,543	103,670
Subscriber acquisition costs	68,675	47,066	204,461	108,758
General and administrative	13,966	11,808	42,918	31,009
Engineering, design and development	9,784	10,444	33,232	22,090
Depreciation	24,559	23,811	73,640	71,082
Equity granted to third parties and employees <sup>(1)</sup>	36,946	17,752	116,882	47,660
<b>Total operating expenses</b>	<b>233,750</b>	<b>186,353</b>	<b>694,001</b>	<b>461,367</b>
Loss from operations	(166,919)	(167,237)	(531,760)	(419,730)
Other income (expense):				
Interest and investment income	7,645	2,291	16,922	5,906
Interest expense	(13,693)	(5,267)	(28,219)	(34,235)
Loss from redemption of debt	(6,214)	—	(6,214)	—
Income (expense) from affiliate	(739)	—	(739)	—
Other income	30	1,340	82	1,411
<b>Total other income (expense)</b>	<b>(12,971)</b>	<b>(1,636)</b>	<b>(18,168)</b>	<b>(26,918)</b>
Loss before income taxes	(179,890)	(168,873)	(549,928)	(446,648)
Income tax expense	(560)	(560)	(1,680)	(3,641)
<b>Net loss</b>	<b>\$ (180,450)</b>	<b>\$ (169,433)</b>	<b>\$ (551,608)</b>	<b>\$ (450,289)</b>
Net loss per share (basic and diluted)	\$ (0.14)	\$ (0.14)	\$ (0.42)	\$ (0.37)
Weighted average common shares outstanding (basic and diluted)	1,328,458	1,236,845	1,322,399	1,230,149

(1) Allocation of equity granted to third parties and employees to other operating expenses:

Satellite and transmission	\$ 467	\$ 202	\$ 1,455	\$ 797
Programming and content	4,855	5,520	14,793	8,397
Customer service and billing	140	53	405	185
Sales and marketing	9,642	6,246	30,348	21,629
Subscriber acquisition costs	12,354	3,030	31,115	7,097
General and administrative	6,137	2,159	21,746	7,415
Engineering, design and development	3,351	542	17,020	2,140
<b>Total equity granted to third parties and employees</b>	<b>\$ 36,946</b>	<b>\$ 17,752</b>	<b>\$ 116,882</b>	<b>\$ 47,660</b>

See Notes to Unaudited Consolidated Financial Statements.



**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share amounts)

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
	(Unaudited)	
<b>A S S E T S</b>		
Current assets:		
Cash and cash equivalents	\$ 810,333	\$ 753,891
Marketable securities	124,050	5,277
Prepaid expenses	20,546	12,956
Restricted investments	25,165	4,706
Other current assets	52,799	34,210
	<hr/>	<hr/>
Total current assets	1,032,893	811,040
Property and equipment, net	822,004	881,280
FCC license	83,654	83,654
Restricted investments, net of current portion	67,450	92,615
Deferred financing fees	17,333	13,140
Other long-term assets	69,055	75,884
	<hr/>	<hr/>
Total assets	\$ 2,092,389	\$ 1,957,613
	<hr/>	<hr/>
<b>L I A B I L I T I E S A N D S T O C K H O L D E R S ' E Q U I T Y</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 218,420	\$ 182,933
Accrued interest	12,075	5,758
Deferred revenue	149,896	80,823
	<hr/>	<hr/>
Total current liabilities	380,391	269,514
Long-term debt	1,096,789	656,274
Deferred revenue, net of current portion	28,541	15,691
Other long-term liabilities	11,862	15,501
	<hr/>	<hr/>
Total liabilities	1,517,583	956,980
Stockholders' equity:		
Common stock, \$0.001 par value: 2,500,000,000 shares authorized, 1,330,777,459 and 1,276,922,634 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	1,331	1,277
Additional paid-in capital	3,025,800	2,916,199
Deferred compensation	(34,861)	(50,963)
Accumulated other comprehensive loss	—	(24)
Accumulated deficit	(2,417,464)	(1,865,856)
	<hr/>	<hr/>
Total stockholders' equity	574,806	1,000,633
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 2,092,389	\$ 1,957,613
	<hr/>	<hr/>

See Notes to Unaudited Consolidated Financial Statements.

**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(In thousands, except share and per share amounts)  
(Unaudited)

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount					
Balances, December 31, 2004	1,276,922,634	\$ 1,277	\$ 2,916,199	\$ (50,963)	\$ (24)	\$ (1,865,856)	\$ 1,000,633
Net loss	—	—	—	—	—	(551,608)	(551,608)
Change in unrealized gain on available-for-sale securities	—	—	—	—	24	—	24
Total comprehensive loss							\$ (551,584)
Issuance of common stock to employees and employee benefit plans	2,740,297	3	3,151	—	—	—	3,154
Issuance of common stock to third parties	38,580	—	360	—	—	—	360
Compensation in connection with the issuance of stock-based awards	—	—	1,354	—	—	—	1,354
Issuance of stock-based awards	—	—	17,706	(17,706)	—	—	—
Cancellation of stock-based awards	—	—	(818)	818	—	—	—
Amortization of deferred compensation	—	—	—	32,990	—	—	32,990
Equity granted to third parties	—	—	74,604	—	—	—	74,604
Exercise of options, \$0.67 to \$5.17 per share	8,088,194	8	11,110	—	—	—	11,118
Exchange of 3½% Convertible Notes due 2008, including accrued interest	1,597,826	2	2,175	—	—	—	2,177
Exercise of warrants, \$0.92 to \$2.392 per share	41,389,928	41	(41)	—	—	—	—
Balances, September 30, 2005	1,330,777,459	\$ 1,331	\$ 3,025,800	\$ (34,861)	\$ —	\$ (2,417,464)	\$ 574,806

See Notes to Unaudited Consolidated Financial Statements.

**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	For the Nine Months Ended September 30,	
	2005	2004
<b>Cash flows from operating activities:</b>		
Net loss	\$ (551,608)	\$ (450,289)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	73,640	71,082
Non-cash interest expense	2,365	21,168
Non-cash loss from redemption of debt	712	—
Loss on disposal of property and equipment	286	19
Equity granted to third parties and employees	116,882	47,660
Deferred income taxes	1,680	3,641
Changes in operating assets and liabilities:		
Marketable securities	16	(92)
Prepaid expenses and other current assets	(26,187)	(7,869)
Other long-term assets	3,131	(3,406)
Accrued interest	6,341	3,848
Accounts payable and accrued expenses	36,213	44,721
Deferred revenue	81,923	33,306
Other long-term liabilities	(3,522)	691
<b>Net cash used in operating activities</b>	<b>(258,128)</b>	<b>(235,520)</b>
<b>Cash flows from investing activities:</b>		
Additions to property and equipment	(17,949)	(22,316)
Sales of property and equipment	65	237
Purchases of restricted investments	(6,291)	(90,104)
Release of restricted investments	10,997	—
Purchases of available-for-sale securities	(128,700)	—
Sales of available-for-sale securities	5,100	—
Maturities of available-for-sale securities	4,835	25,000
<b>Net cash used in investing activities</b>	<b>(131,943)</b>	<b>(87,183)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt, net	493,005	293,600
Redemption of debt	(57,609)	—
Proceeds from exercise of stock options	11,125	6,004
Proceeds from exercise of warrants	—	19,850
Other	(8)	(99)
<b>Net cash provided by financing activities</b>	<b>446,513</b>	<b>319,355</b>
Net increase (decrease) in cash and cash equivalents	56,442	(3,348)
Cash and cash equivalents at the beginning of period	753,891	520,979
<b>Cash and cash equivalents at the end of period</b>	<b>\$ 810,333</b>	<b>\$ 517,631</b>

See Notes to Unaudited Consolidated Financial Statements.



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

**1. Business**

We are a provider of satellite radio service in the United States. We currently offer more than 120 channels-65 channels of commercial-free music and over 55 channels of sports, news, talk, entertainment, traffic and weather programming for a monthly subscription fee of \$12.95. We offer discounts for pre-paid, long-term and multiple subscriptions.

Since inception, we have used substantial resources to develop our satellite radio system. Our satellite radio system consists of our FCC license, satellites, national broadcast studio, terrestrial repeater network, satellite uplink facility and satellite telemetry, tracking and control facilities. On July 1, 2002, we launched our service nationwide.

As of September 30, 2005, we had 2,173,920 subscribers as compared with 1,143,258 subscribers as of December 31, 2004 and 662,289 subscribers as of September 30, 2004. Our subscriber totals include subscribers under our regular pricing plans, as well as subscribers currently in promotional periods; subscribers that have prepaid, including payments from automakers for prepaid bundled subscriptions included in the sale or lease price of a new vehicle; and active SIRIUS radios under our agreement with Hertz.

Our primary source of revenue is subscription fees. We also derive revenues from activation fees, the sale of advertising on our non-music channels and the direct sale of SIRIUS radios and accessories.

**2. Principles of Consolidation and Basis of Presentation**

The accompanying unaudited consolidated financial statements of Sirius Satellite Radio Inc. and its subsidiary 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 September 30, 2005 and December 31, 2004, and for the three and nine months ended September 30, 2005 and 2004, have been recorded. The results of operations for the three and nine months ended September 30, 2005 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, 2004.

**3. Summary of Significant Accounting Policies**

*Stock-Based Compensation*

We have adopted the disclosure provisions of Statement of Financial Accounting Standards (“SFAS”) No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123.” The measure of fair value most often employed under SFAS No. 123, “Accounting for Stock-Based Compensation,” and used by us, is the Black-Scholes option valuation model (“Black-Scholes”). Black-Scholes was developed for use in estimating 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, including the expected stock price volatility. 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, in our opinion, the existing option valuation models do not necessarily provide a reliable single measure of the fair value of our stock-based awards.

**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Dollar amounts in thousands, unless otherwise stated)**  
**(Unaudited)**

The following table illustrates the effect on net loss and net loss per share had stock-based compensation for employees been recorded based on the fair value method under SFAS No. 123:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Net loss—as reported	\$ (180,450)	\$ (169,433)	\$ (551,608)	\$ (450,289)
Stock-based compensation to employees— included in equity granted to third parties and employees	11,027	4,967	38,331	17,828
Stock-based compensation to employees—pro forma	(22,066)	(9,821)	(72,617)	(41,697)
Net loss—pro forma	\$ (191,489)	\$ (174,287)	\$ (585,894)	\$ (474,158)
Net loss per share:				
Basic and diluted—as reported	\$ (0.14)	\$ (0.14)	\$ (0.42)	\$ (0.37)
Basic and diluted—pro forma	\$ (0.14)	\$ (0.14)	\$ (0.44)	\$ (0.39)

The pro forma stock-based compensation to employees was estimated using Black-Scholes with the following assumptions for each period:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Risk-free interest rate	4.12%	4.12%	4.05%	3.83%
Expected life of options—years	5.59	6.49	5.54	5.77
Expected stock price volatility	112%	110%	112%	112%
Expected dividend yield	N/A	N/A	N/A	N/A

***Research and Development Costs***

Research and development costs are expensed as incurred. Research and development costs for the three months ended September 30, 2005 and 2004 were \$6,291 and \$5,661, respectively, and \$22,119 and \$15,702 for the nine months ended September 30, 2005 and 2004, respectively. These costs are included in engineering, design and development expenses in our accompanying unaudited consolidated statements of operations.

***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 239,000,000 and 235,000,000 for the three and nine months ended September 30, 2005, respectively, and 175,000,000 and 172,000,000 for the three and nine months ended September 30, 2004, 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. Unrealized gains and losses on available-for-sale securities are the only component of our other comprehensive loss. Comprehensive loss for the three months ended September 30, 2005 and 2004 was \$180,450 and \$169,432, respectively, and \$551,584 and \$450,340 for the nine months ended September 30, 2005 and 2004, respectively.



**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Dollar amounts in thousands, unless otherwise stated)**  
**(Unaudited)**

***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 United States government notes, certificates of deposit and auction rate securities. 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 as a 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. 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. Therefore, these auction rate securities are priced and subsequently trade as short-term investments because of such interest rate reset feature.

We received proceeds from sales and/or maturities of marketable securities of \$9,935 and \$25,000 for the nine months ended September 30, 2005 and 2004, respectively. There were no unrealized holding gains or losses on marketable securities as of September 30, 2005. We had unrealized holding losses on marketable securities of \$24 as of December 31, 2004.

***Restricted Investments***

Restricted investments consist of United States government notes, certificates of deposit and money market funds. As of September 30, 2005 and December 31, 2004, long-term restricted investments were \$67,450 and \$92,615, respectively, and short-term restricted investments were \$25,165 and \$4,706, respectively. Long-term restricted investments for both periods primarily included certificates of deposit for the escrow fund in connection with our National Football League ("NFL") agreement which are invested under our direction and will be drawn by the NFL to pay the rights fees due for certain NFL seasons and certificates of deposits for amounts pledged to secure our reimbursement obligations under letters of credit issued for the benefit of the lessor of our headquarters. As of September 30, 2005, short-term restricted investments included certificates of deposit to pay the rights fees due for the 2006-2007 NFL season. As of December 31, 2004, short-term restricted investments included monies deposited in escrow to secure our obligation to reimburse Ford for certain costs incurred in connection with the introduction of SIRIUS radios as a factory option. This escrow for Ford was terminated in June 2005.

***Recently Issued Accounting Pronouncements***

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R revises SFAS No. 123 and supersedes Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." In April 2005, the SEC announced SFAS No. 123R would be effective no later than the first fiscal year beginning after June 15, 2005. We will adopt the provisions of SFAS No. 123R effective January 1, 2006.

SFAS No. 123R requires all share-based payments to employees to be recognized in the financial statements based on fair value. We currently account for share-based payments to employees using APB No. 25's intrinsic value method. We will be required to follow a fair value approach, such as the Black-Scholes or lattice option valuation models, at the date of a stock-based award grant. SFAS No. 123R permits one of two methods of adoption: (1) modified prospective method or (2) modified retrospective method. We plan to adopt SFAS No. 123R using the modified prospective method. This method requires that we recognize compensation expense for all share-based payments granted on or after January 1, 2006 and for all awards granted to employees prior to January 1, 2006 that remain unvested on January 1, 2006. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107. SAB No. 107 provides guidance related to the valuation of share-based payment arrangements for public companies, including guidance related to share-based payment transactions with non-employees, expected volatility, expected term and the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R.

The adoption of SFAS No. 123R is expected to have a material impact on our equity granted to third parties and employees expense included in our consolidated statements of operations in future periods. The actual impact will depend on levels and terms of future share-based

**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(Dollar amounts in thousands, unless otherwise stated)  
(Unaudited)

payments granted, as well as other variables. Had we adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net loss and net loss per share in Note 3 to our unaudited consolidated financial statements.

**Reclassifications**

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation.

**4. 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.

Subscriber revenue consists of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Subscription fees	\$ 63,920	\$ 17,550	\$ 154,575	\$ 40,475
Activation fees	1,858	571	4,742	1,302
Effect of mail-in rebates	(1,505)	(96)	(3,518)	(1,600)
<b>Total subscriber revenue</b>	<b>\$ 64,273</b>	<b>\$ 18,025</b>	<b>\$ 155,799</b>	<b>\$ 40,177</b>

**5. Supplemental Cash Flow Disclosures**

The following represents supplemental cash flow information:

	For the Nine Months Ended September 30,	
	2005	2004
Cash paid for interest	\$ 19,511	\$ 9,359
Supplemental non-cash operating activities:		
Common stock issued in satisfaction of accrued compensation	2,557	913
Supplemental non-cash investing and financing activities:		
Common stock issued to the NFL	—	40,967
Common stock issued in exchange of 3½% Convertible Notes due 2008, including accrued interest	2,177	86,568

**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(Dollar amounts in thousands, unless otherwise stated)  
(Unaudited)

**6. Long-Term Debt**

Our long-term debt consists of the following:

	Conversion Price (per share)	As of	
		September 30, 2005	December 31, 2004
9 5/8 % Senior Notes due 2013	\$ N/A	\$ 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	65,045	67,250
8 3/4% Convertible Subordinated Notes due 2009	28.4625	1,744	1,744
14 1/2% Senior Secured Notes due 2009	N/A	—	28,080
15% Senior Secured Discount Notes due 2007	N/A	—	29,200
<b>Total long-term debt</b>		<b>\$ 1,096,789</b>	<b>\$ 656,274</b>

**9 5/8 % Senior Notes due 2013**

In August 2005, we issued \$500,000 in aggregate principal amount of our 9 5/8 % Senior Notes due 2013 resulting in net proceeds of \$493,005. Our 9 5/8 % 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 9 5/8 % Senior Notes due 2013 are not secured by any of our assets.

In September 2005, we redeemed our outstanding 15% Senior Secured Discount Notes due 2007 and our 14 1/2% 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 14 1/2% 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.

**3 1/4% Convertible Notes due 2011**

In October 2004, we issued \$230,000 in aggregate principal amount of our 3 1/4% 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 3 1/4% 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 3 1/4% Convertible Notes due 2011 are not secured by any of our assets.

**2 1/2% Convertible Notes due 2009**

In February 2004, we issued \$250,000 in aggregate principal amount of our 2 1/2% 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 2 1/2% 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 2 1/2% 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 2 1/2% Convertible Notes due 2009 are not secured by any of our assets.

**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
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**(Unaudited)**

*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 nine months ended September 30, 2005, we issued 1,597,826 shares of our common stock in exchange for \$2,177 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 recorded debt conversion costs of \$19,592 for the nine months ended September 30, 2004. No debt conversion costs were recognized for the three and nine months ended September 30, 2005.

## **7. 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 September 30, 2005, approximately 500,946,000 shares of our common stock were reserved for issuance in connection with outstanding convertible debt, warrants and incentive stock plans.

During the nine months ended September 30, 2005, employees exercised 8,088,194 stock options at exercise prices ranging from \$0.67 to \$5.17 per share, resulting in proceeds to us of \$11,118.

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 during each of the three months ended September 30, 2005 and 2004, and \$3,501 and \$1,933 during the nine months ended September 30, 2005 and 2004, respectively. Of the remaining \$33,181 in common stock value, \$5,852 and \$27,329 are included in other current assets and other long-term assets, respectively, on our accompanying unaudited consolidated balance sheet as of September 30, 2005.

### *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 vest based on the achievement of various performance milestones, including the volume thresholds contained in our agreement with DaimlerChrysler. 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. Two million of these warrants vested upon issuance. The balance of these warrants vest over time and upon achievement of certain milestones by the Penske companies. During the nine months ended September 30, 2005, Penske exercised 2,700,000 vested warrants in a series of cashless exercises. In connection with these transactions, we issued 1,851,423 shares of our common stock.

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 SUBSIDIARY**  
**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.

In March 2003, we issued warrants to purchase 45,416,690 shares of our common stock in exchange for all of our outstanding 9.2% Series A Junior Cumulative Convertible Preferred Stock and 9.2% Series B Junior Cumulative Convertible Preferred Stock held by affiliates of Apollo Management, L.P. (“Apollo”). Apollo exercised all of these warrants prior to their expiration on March 7, 2005 in a series of cashless exercises. In connection with these transactions, we issued 39,538,505 shares of our common stock.

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	
			September 30, 2005	December 31, 2004
NFL	\$ 2.50	March 2008–March 2010	50,000	50,000
Apollo	0.99	March 2005	—	45,417
Penske companies	2.392	July 2009	35,300	38,000
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	3.16	January 2008—June 2014	9,133	9,363
Other	20.33	June 2005—April 2011	4,533	6,333
<b>Total</b>	<b>\$ 3.08</b>		<b>134,466</b>	<b>184,613</b>

We recognized expense of \$22,763 and \$7,960 in connection with warrants for the three months ended September 30, 2005 and 2004, respectively, and \$68,787 and \$23,339 for the nine months ended September 30, 2005 and 2004, respectively.

## 8. Benefit Plans

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 September 30, 2005, approximately 113,134,000 stock options, shares of restricted stock and restricted stock units were outstanding. As of September 30, 2005, approximately 94,221,000 shares of our common stock were available for grant under the 2003 Plan.

### *Stock Options*

During the nine months ended September 30, 2005, we granted 3,245,817 non-qualified stock options at fair market value on the date of grant with an average exercise price of \$6.20 per share.



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We recorded additional deferred compensation of \$207 during the nine months ended September 30, 2005 in connection with stock options granted. As of September 30, 2005 and December 31, 2004, we had \$3,164 and \$7,363, respectively, of deferred compensation in connection with stock options granted to employees below fair market value at the date of grant and stock options granted to members of our board of directors. Such deferred compensation is being amortized to expense over the vesting period. 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 \$2,589 and \$4,734 for the three months ended September 30, 2005 and 2004, respectively, and \$11,297 and \$12,048 for the nine months ended September 30, 2005 and 2004, respectively. Stock compensation expense associated with stock options for the nine months ended September 30, 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. Expense associated with stock options is recorded as a component of equity granted to third parties and employees in our accompanying unaudited consolidated statements of operations.

***Restricted Stock Units and Restricted Stock***

During the nine months ended September 30, 2005, we granted 1,870,875 restricted stock units with a grant date fair value of \$6.32 per share.

In November 2004, we granted 3,000,000 shares of restricted common stock. The restrictions applicable to these shares lapse in equal installments on November 18 of each of the next five years beginning on November 18, 2005.

We recorded additional deferred compensation of \$17,499 during the nine months ended September 30, 2005 in connection with restricted stock units granted. As of September 30, 2005 and December 31, 2004, we had \$31,697 and \$43,600, respectively, of deferred compensation associated with restricted stock and restricted stock units. Such deferred compensation is being amortized to expense over the vesting period and is recorded as a component of equity granted to third parties and employees in our accompanying unaudited consolidated statements of operations. We recognized stock compensation expense associated with these restricted stock units and shares of restricted stock of \$7,862 and \$3,231 for the three months ended September 30, 2005 and 2004, respectively, and \$26,958 and \$9,790 for the nine months ended September 30, 2005 and 2004, respectively. For the three and nine months ended September 30, 2005, we also recognized stock compensation expense of \$811 and \$2,422, respectively, for restricted stock units expected to be granted in February 2006 for services performed in 2005.

***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 \$162 and \$186 for the three months ended September 30, 2005 and 2004, respectively, and \$710 and \$550 for the nine months ended September 30, 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 receive profit-sharing contributions during any year in which they are employed on the last day of the year. Profit-sharing contribution expense was \$1,118 and \$3,207 for the three and nine months ended September 30, 2005, respectively.

**9. Income Taxes**

We recorded income tax expense of \$560 for each of the three months ended September 30, 2005 and 2004 and \$1,680 and \$3,641 for the nine months ended September 30, 2005 and 2004, respectively. Such expense

**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**

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

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.

**10. Commitments and Contingencies**

We have entered into various contracts, which have resulted in significant cash obligations in future periods. The following table summarizes our expected contractual cash commitments as of September 30, 2005:

	<u>Remaining 2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>	<u>Total</u>
Lease obligations	\$ 2,092	\$ 8,488	\$ 7,764	\$ 7,569	\$ 7,527	\$ 33,258	\$ 66,698
Satellite and transmission	855	3,335	3,155	3,155	3,155	15,027	28,682
Programming and content	14,939	129,252	99,050	100,207	127,002	149,951	620,401
Customer service and billing	660	5,674	3,138	—	—	—	9,472
Marketing and distribution	33,902	63,060	21,959	9,470	13,750	22,875	165,016
Chip set development and production	22,020	9,281	3,000	—	—	—	34,301
<b>Total contractual cash commitments</b>	<b>\$ 74,468</b>	<b>\$ 219,090</b>	<b>\$ 138,066</b>	<b>\$ 120,401</b>	<b>\$ 151,434</b>	<b>\$ 221,111</b>	<b>\$ 924,570</b>

***Lease Obligations***

We have entered into operating leases related to our national broadcast studio, 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.

***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 customer service, 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 have also agreed to 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, and in certain instances to license intellectual property related to such chip sets. Certain of these agreements require that we purchase a minimum quantity of chip sets.



**SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY**  
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*Joint Development Agreement*

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 our accompanying unaudited consolidated statements of operations. We are currently unable to determine the expenditures necessary to complete this process, but they may be significant.

*Other Commitments*

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

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 September 30, 2005 and December 31, 2004, \$92,615 and \$97,321, respectively, were classified as restricted investments as a result of our reimbursement obligations under these letters of credit and escrow arrangements.

As of September 30, 2005, we have not entered into any off-balance sheet arrangements or transactions.

In September 2005, SIRIUS Canada Inc., our Canadian affiliate, received notice that Canada's Federal Cabinet had declined to reverse a decision to issue SIRIUS Canada a license to broadcast in Canada. This decision affirmed the earlier licensing ruling of the Canadian Radio-television and Telecommunications Commission (the "CRTC") that authorized SIRIUS Canada to offer a satellite radio service in Canada. SIRIUS Canada is a Canadian corporation owned by Canadian Broadcasting Corporation, Standard Radio Inc. and us. SIRIUS Canada anticipates offering a satellite radio service in Canada in late 2005. For the nine months ended September 30, 2005, we recorded \$739 for our share of SIRIUS Canada's net loss.

**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," "intends," "plans," "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, 2004 (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 Part I 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:

- 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 partners; and
- our competitive position versus XM Radio, the other satellite radio service provider in the United States, which has substantially more subscribers than we do and may have certain competitive advantages, and versus other forms of audio and video entertainment.

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**

We currently broadcast more than 120 channels of programming to listeners across the country. We offer 65 channels of 100% commercial-free music and feature over 55 channels of sports, news, talk, entertainment, traffic and weather for a monthly subscription fee of \$12.95. We offer discounts for pre-paid, long-term and multiple subscriptions.

Since inception, we have used substantial resources to develop our satellite radio system. Our satellite radio system consists of our FCC license, satellites, national broadcast studio, terrestrial repeater network, satellite uplink facility and satellite telemetry, tracking and control facilities. On July 1, 2002, we launched our service nationwide.

Our primary source of revenue is subscription fees. We also derive revenue from activation fees, the sale of advertising on our non-music channels and from the direct sale of SIRIUS radios and accessories. Currently we receive an average of approximately nine months of prepaid revenue per subscriber upon activation.

Our cost of services includes expenses for satellite and transmission, programming and content, customer service and billing, and costs associated with the sale of equipment. Satellite and transmission expenses consist of costs associated with the operation and maintenance of our satellite telemetry, tracking and control system, terrestrial repeater network, satellite uplink facility and national broadcast studio. Programming and content expenses include costs to acquire, create and produce content, on-air talent costs and broadcast royalties. Customer

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

As of September 30, 2005, we had 2,173,920 subscribers compared with 1,143,258 subscribers as of December 31, 2004 and 662,289 subscribers as of September 30, 2004. Our subscriber totals include subscribers under our regular pricing plans, as well as subscribers currently in promotional periods; subscribers that have prepaid, including payments from automakers for prepaid subscriptions included in the sale or lease price of a new vehicle; and active SIRIUS radios under our agreement with Hertz.

The following tables contain a breakdown of our subscribers and other metrics which we use to measure our operating performance:

**Subscribers :**

	As of				
	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004
Retail	1,564,718	1,354,798	1,109,813	911,255	534,871
OEM	581,988	432,988	311,324	203,469	100,261
Hertz	27,214	26,840	27,558	28,534	27,157
<b>Total subscribers</b>	<b>2,173,920</b>	<b>1,814,626</b>	<b>1,448,695</b>	<b>1,143,258</b>	<b>662,289</b>

**Metrics:**

	For the Three Months Ended				
	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004
Gross subscriber additions—including					
Hertz subscribers	465,228	432,687	354,708	521,479	207,181
Deactivated subscribers	105,934	66,756	49,271	40,510	25,233
Average monthly churn <sup>(1)(5)</sup>	1.8%	1.4%	1.3%	1.5%	1.5%
ARPU <sup>(2)(5)</sup>	\$ 11.15	\$ 10.50	\$ 10.72	\$ 9.57	\$ 10.84
Subscriber acquisition costs per gross					
subscriber addition <sup>(3)(5)</sup>	\$ 149	\$ 160	\$ 190	\$ 124	\$ 229
Loss from operations, as reported	\$ (166,919)	\$ (174,582)	\$ (190,259)	\$ (258,574)	\$ (167,237)
Depreciation	24,559	24,580	24,501	24,288	23,811
Equity granted to third parties and employees	36,946	41,230	38,706	79,065	17,752
<b>Adjusted loss from operations <sup>(4)(5)</sup></b>	<b>\$ (105,414)</b>	<b>\$ (108,772)</b>	<b>\$ (127,052)</b>	<b>\$ (155,221)</b>	<b>\$ (125,674)</b>

(1) Average monthly churn represents the number of deactivated subscribers divided by average quarterly subscribers.

(2) Average monthly revenue per subscriber, or ARPU, is derived from total earned subscriber revenue and net advertising revenue divided by the daily weighted average number of subscribers for the period.

(3) Subscriber acquisition costs per gross subscriber addition is derived from total subscriber acquisition costs and negative margins from the direct sale of SIRIUS radios and accessories divided by the number of gross subscriber additions for the period. Figures are rounded to the nearest whole dollar.

(4) Adjusted loss from operations represents the loss from operations before depreciation and equity granted to third parties and employees. We believe adjusted loss from operations is useful because it represents operating expenses excluding the effects of non-cash items. This measure most closely resembles EBITDA, defined as net loss before interest income, interest expense, income taxes, depreciation and amortization. EBITDA is a common financial measure used in analyzing the performance of companies.

(5) Average monthly churn, ARPU, subscriber acquisition costs per gross subscriber addition and adjusted loss from operations are not measures of financial performance under U.S. generally accepted accounting principles and are used by us as a measure of operating performance. As a result, these metrics 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 or as a substitute for measures of financial performance prepared in accordance with U.S. generally accepted accounting principles.

Costs associated with acquiring subscribers are generally incurred and expensed in advance of acquiring a subscriber and are recognized as subscriber acquisition costs. We acquire a large percentage of our annual gross subscriber additions in the fourth quarter of our fiscal year in connection with holiday sales. As a result, our subscriber acquisition costs per gross subscriber addition are generally higher in the first three quarters of our fiscal year and decline in the fourth quarter as we experience higher activation rates.

SIRIUS radios are primarily distributed through retailers and automakers. SIRIUS radios can be purchased at major retailers, including Best Buy, Circuit City, Crutchfield, Costco, RadioShack, Sam's Club, Target and Wal-Mart. Sirius is also available at heavy truck dealer, truck stops and travel centers nationwide. On September 30, 2005, SIRIUS radios were available at over 25,000 retail locations. We also have agreements with Ford Motor Company ("Ford"), DaimlerChrysler Corporation ("DaimlerChrysler"), Mitsubishi Motors North America, BMW of North America, LLC, Nissan North America, Inc., Volkswagen of America, Inc. and Porsche Cars North America, Inc. that contemplate the manufacture and sale of vehicles that include SIRIUS radios. We recently extended each of our exclusive agreements with Ford, DaimlerChrysler and BMW. In October 2005, we extended our exclusive agreement with DaimlerChrysler to September 2012. This agreement includes all Chrysler Group and Mercedes-Benz vehicles as well as Freightliner trucks. In September 2005, we extended our exclusive relationship with BMW through August 2008. All BMW models are covered by the agreement. During the second quarter of 2005, we also extended our agreement with Ford through September 2011. All Ford brands in the U.S. are covered by the agreement. SIRIUS radios are also offered to renters of Hertz vehicles at many airport locations nationwide.

We believe our ability to attract and retain subscribers depends in large part on creating and sustaining distribution channels for SIRIUS radios 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.

In September 2005, SIRIUS Canada Inc., our Canadian affiliate, received notice that Canada's Federal Cabinet had declined to reverse a decision to issue SIRIUS Canada a license to broadcast in Canada. This decision affirmed the earlier licensing ruling of the Canadian Radio-television and Telecommunications Commission (the "CRTC") that authorized SIRIUS Canada to offer a satellite radio service in Canada. SIRIUS Canada is a Canadian corporation owned by Canadian Broadcasting Corporation, Standard Radio Inc. and us. SIRIUS Canada anticipates offering a satellite radio service in Canada in late 2005.

We have principally funded our operations through the sale of debt and equity securities. 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 2004, we raised net proceeds of \$614,438 through the offering of 25,000,000 shares of our common stock, \$230,000 in aggregate principal amount of our 3 1/4% Convertible Notes due 2011 and \$300,000 in aggregate principal amount of our 2 1/2% Convertible Notes due 2009.

## Results of Operations

### Three Months Ended September 30, 2005 Compared with the Three Months Ended September 30, 2004

#### Total Revenue

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

As of September 30, 2005, we had 2,173,920 subscribers compared with 1,143,258 subscribers at December 31, 2004 and 662,289 subscribers as of September 30, 2004. Our subscriber totals include subscribers under our regular pricing plans, as well as subscribers currently in promotional periods; subscribers that have prepaid, including payments from automakers for subscriptions included in the sale or lease price of a new vehicle; and active SIRIUS radios under our agreement with Hertz.

Subscriber revenue increased \$46,248 to \$64,273 for the three months ended September 30, 2005 from \$18,025 for the three months ended September 30, 2004. The increase in subscriber revenue was attributable to the growth of subscribers to our service. We added 1,511,631 net new subscribers since September 30, 2004.

The following table contains a breakdown of our subscriber revenue:

	For the Three Months Ended September 30,		
	2005	2004	Variance
Subscription fees	\$ 63,920	\$ 17,550	\$ 46,370
Activation fees	1,858	571	1,287
Effects of mail-in rebates	(1,505)	(96)	(1,409)
Total subscriber revenue	\$ 64,273	\$ 18,025	\$ 46,248

Future subscriber revenue will be dependent upon, among other things, the growth of our subscriber base, promotions and mail-in rebates offered to subscribers 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 our advertising inventory.

Advertising revenue increased \$1,259 to \$1,508 for the three months ended September 30, 2005 from \$249 for the three months ended September 30, 2004. The increase was a result of an increase in rates per spot, more spots due to new and more attractive programming and increased advertiser interest as we continue to build brand awareness.

We expect advertising revenue to grow as our subscribers increase and we continue to improve brand awareness and content.

*ARPU.* Average monthly revenue per subscriber, or ARPU, is derived from total earned subscriber revenue and net advertising revenue divided by the daily weighted average number of subscribers for the period. Set forth below is a table showing the calculation of ARPU:

	For the Three Months Ended September 30,	
	2005	2004
Average monthly subscriber revenue per subscriber before effects of Hertz subscribers and mail-in rebates	\$ 11.08	\$ 10.92
Effects of Hertz subscribers	0.06	(0.18)
Effects of mail-in rebates	(0.25)	(0.05)
Average monthly subscriber revenue per subscriber	10.89	10.69



Average monthly net advertising revenue per subscriber	0.26	0.15
ARPU	\$ 11.15	\$ 10.84

The increase in ARPU to \$11.15 for the three months ended September 30, 2005 from \$10.84 for the three months ended September 30, 2004 was primarily attributable to the effects of improvement in our Hertz program, increased advertising revenue and promotional activity in the third quarter of 2004 that provided an effective first year price of \$9.99 per month for new subscribers, offset by the dilutive effects of mail-in rebates and the timing of commencement of revenue recognition for prepaid subscriptions.

Future ARPU will be dependent upon the amount and timing of promotions, mail-in rebates offered to subscribers, the identification of additional revenue streams from subscribers and the sale of advertising on our non-music channels.

*Equipment Revenue.* Equipment revenue includes revenue from the direct sale of SIRIUS radios and accessories.

Equipment revenue increased \$207 to \$1,030 for the three months ended September 30, 2005 from \$823 for the three months ended September 30, 2004. The increase was the result of increased sales through our direct to consumer distribution channel.

We expect equipment revenue to increase in the future 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 in-orbit satellite insurance and costs associated with the operation and maintenance of our satellite telemetry, tracking and control system, terrestrial repeater network, satellite uplink facility and national broadcast studio.

Satellite and transmission expenses decreased \$392 to \$7,228 for the three months ended September 30, 2005 from \$7,620 for the three months ended September 30, 2004. The decrease was primarily attributable to a \$737 reduction in satellite insurance costs. Effective August 2004, we discontinued our in-orbit satellite insurance. This decision was made after 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. Such decrease was offset by increased costs associated with additions to our personnel. As of September 30, 2005, we had 140 terrestrial repeaters in operation as compared with 135 terrestrial repeaters as of September 30, 2004.

Future increases in satellite and transmission expenses will primarily be attributable to the addition of new terrestrial repeaters and maintenance costs of existing terrestrial repeaters. In addition, such expenses may also increase in future periods if we decide to reinstate our in-orbit satellite insurance or launch new satellites.

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

Programming and content expenses increased \$4,810 to \$23,542 for the three months ended September 30, 2005 from \$18,732 for the three months ended September 30, 2004. The increase was primarily attributable to license fees associated with new content agreements; compensation related costs for additions to headcount; additional on-air talent costs due to the expansion of the programming lineup; and broadcast royalties as a result of the increase in our subscriber base.

Our programming and content expenses will increase as we continue to develop and enhance our channels. Our agreements with Howard Stern and NASCAR beginning in 2006 and 2007, respectively, will significantly 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 cost.

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

Customer service and billing expenses increased \$4,087 to \$9,416 for the three months ended September 30, 2005 from \$5,329 for the three months ended September 30, 2004. The increase was primarily due to increased customer service representative costs and credit card fees necessary to support the growth of our subscriber base and telecommunications charges as a result of the expansion and growth of our call centers to accommodate our subscriber base. Customer service and billing expenses increased 77% compared with an increase in our end of period subscribers of 228%. Customer service and billing expenses per average subscriber per month declined 50% to \$1.59 for the three months ended September 30, 2005 from \$3.16 for the three months ended September 30, 2004.

We expect our customer care and billing expenses to increase and our costs per subscriber to decrease on an annual basis as our subscriber base grows.

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

Cost of equipment increased \$307 to \$1,453 for the three months ended September 30, 2005 from \$1,146 for the three months ended September 30, 2004. The increase was attributable to higher sales from our direct to consumer distribution channel, offset by reductions in the per unit costs of SIRIUS radios and accessories.

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 advertising media and production costs and distribution costs. Advertising media and production costs primarily include promotional events, sponsorships, media, advertising production and market research. Distribution costs primarily include the costs of residuals, market development funds, revenue share and in-store merchandising. Residuals are monthly fees paid based upon the number of subscribers using a SIRIUS radio purchased from a retailer. Market development funds are fixed and variable payments to reimburse retailers and radio manufacturers for the cost of advertising and other product awareness activities.

Sales and marketing expenses decreased \$4,464 to \$38,181 for the three months ended September 30, 2005 from \$42,645 for the three months ended September 30, 2004. The decrease was primarily attributable to lower advertising media and production costs as a result of the expiration of certain sponsorships and higher costs incurred in 2004 for our NFL marketing campaign. Distribution costs in total remained relatively consistent, decreasing as a result of costs associated with the rollout of our sales efforts with RadioShack in the third quarter of 2004, offset by increased retail residuals and OEM revenue share in the third quarter of 2005.

We expect sales and marketing expenses to increase as we continue to build brand awareness through national advertising and promotional activities and expand the distribution of SIRIUS radios. Beginning in 2007, our agreement with NASCAR will increase our sponsorship costs included in sales and marketing expense.

*Subscriber Acquisition Costs.* Subscriber acquisition costs include hardware subsidies paid to radio manufacturers 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 to chip set manufacturers; and commissions paid to retailers and automakers as incentives to purchase, install and activate SIRIUS radios. 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 the SIRIUS radios used by Hertz.

Subscriber acquisition costs increased \$21,609 to \$68,675 for the three months ended September 30, 2005 from \$47,066 for the three months ended September 30, 2004, an increase of 46%. Over the same period, gross subscriber additions increased 125% from 207,181 for the three months ended September 30, 2004 to 465,228 for the three months ended September 30, 2005. The increase in subscriber acquisition costs was attributable to subsidies for higher shipments of SIRIUS radios and chip sets to accommodate the growth of our subscriber base and commissions resulting from the increase in gross subscriber additions, offset by decreases in our average hardware and chip set subsidy rates.

Subscriber acquisition costs per gross subscriber addition were \$149 and \$229 for the three months ended September 30, 2005 and 2004, respectively. The decline was primarily attributable to the reduction in subsidy rates as we continued to reduce manufacturing and chip set costs.

We expect total subscriber acquisition costs to increase in the future as our gross subscriber additions increase and we continue to offer subsidies, commissions and other incentives to acquire subscribers. However, we anticipate that the costs of certain subsidized components of SIRIUS radios will decrease in the future as manufacturers experience economies of scale in production and we secure additional manufacturers of these components. We expect subscriber acquisition costs per gross subscriber addition to decline in the fourth quarter of 2005, reflecting the effects of reductions in hardware subsidy rates for future generation product and the impact of inventory sell-through for holiday sales. If competitive forces require us to increase hardware subsidies or promotions, subscriber acquisition costs per gross subscriber addition could increase.

*General and Administrative.* General and administrative expenses include rent and occupancy, accounting, legal, human resources, information technology and investor relations costs.

General and administrative expenses increased \$2,158 to \$13,966 for the three months ended September 30, 2005 from \$11,808 for the three months ended September 30, 2004. The increase was primarily attributable to additional personnel-related costs to support the growth of our business and bad debt expense. The increase was offset in part by a decrease in consulting fees.

We expect our general and administrative expenses to increase in future periods for personnel-related, services and facility costs to support our growth.

*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.

Engineering, design and development expenses decreased \$660 to \$9,784 for the three months ended September 30, 2005 from \$10,444 for the three months ended September 30, 2004. The decline was primarily attributable to decreased chip set development costs, offset by product development costs for our next generation of radios.

We expect our engineering, design and development expenses to increase in future periods as automakers continue their efforts to incorporate SIRIUS radios across a broader range of their vehicles and as we develop future generations of chip sets and new products and services.

*Equity Granted to Third Parties and Employees.* Equity granted to third parties and employees expense includes the costs associated with warrants, stock options, restricted stock, restricted stock units and other stock-based awards granted to third parties pursuant to programming, sales and marketing and distribution agreements; employees; members of our board of directors; consultants; and employee benefit plans.

Equity granted to third parties and employees expense for warrants increased \$14,803 to \$22,763 for the three months ended September 30, 2005 from \$7,960 for the three months ended September 30, 2004. This increase was primarily attributable to expense accrued based on certain distribution partners' performance toward achieving eligible vehicle, subscriber activation and delivery milestones and as a result of increases in the fair market value of our stock. Expense associated with warrants that have not yet vested may change in future periods as a result of price changes in our common stock.

Equity granted to third parties and employees expense for stock options, restricted stock, restricted stock units and other stock-based awards increased \$4,391 to \$12,542 for the three months ended September 30, 2005 from \$8,151 for the three months ended September 30, 2004. The increase was primarily attributable to expense associated with restricted stock units which accelerate to earlier periods as performance targets for fiscal periods are met, new grants of restricted stock units and modifications of existing stock-based awards. The remaining increase was primarily related to expense accrued for 2005 profit sharing and restricted stock units granted, or that we expect to grant, for services performed in 2004 and 2005, respectively.

Equity granted to third parties and employees expense for the three months ended September 30, 2005 and 2004 also included \$1,641 of expense associated with the 15,173,070 shares of our common stock granted to the NFL.

Future expense associated with equity granted to third parties and employees is contingent upon a number of factors, including the amount of stock-based awards granted, the price of our common stock, valuation assumptions, vesting provisions and the timing as to when certain performance criteria are met, and could materially change. Beginning January 1, 2006, we are required to adopt Statement of Financial Accounting Standard (“SFAS”) No. 123R, “Share-Based Payment.” We plan to adopt SFAS No. 123R using the modified prospective method. This method requires that we recognize compensation expense for all share-based payments granted on or after January 1, 2006 and for all awards granted to employees prior to January 1, 2006 that remain unvested on January 1, 2006. The adoption of SFAS No. 123R is expected to have a material impact on our equity granted to third parties and employees expense included in our consolidated statements of operations, although such impact cannot be quantified at this time because it will depend on share-based payments granted in the future.

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

*Interest and Investment Income.* Interest and investment income includes interest on our cash and cash equivalents, marketable securities, and restricted investments and net gains or losses on the sale of marketable securities.

Interest and investment income increased \$5,354 to \$7,645 for the three months ended September 30, 2005 from \$2,291 for the three months ended September 30, 2004. The increase was primarily attributable to the increase in our average cash, cash equivalents and marketable securities balance resulting from funds raised through offerings of debt securities and an increase in the average interest rate.

*Interest Expense.* Interest expense includes interest on outstanding debt and debt conversion costs. Debt conversion costs represent the loss associated with debt exchanged and are calculated as the difference between the fair market value of additional shares issued in excess of the fair market value of the amount of shares that would have been issued under original conversion ratios.

Interest expense increased \$8,426 to \$13,693 for the three months ended September 30, 2005 from \$5,267 for the three months ended September 30, 2004. The increase was primarily due to the issuance of our 9 5/8 % Senior Notes due 2013 in August 2005 and our 3¼% Convertible Notes due 2011 in October 2004.

*Loss from Redemption of Debt.* For the three months ended September 30, 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.

*Income (Expense) from Affiliate .* For the three months ended September 30, 2005, we recorded \$739 for our share of SIRIUS Canada Inc.’s net loss.

*Other Income.* Other income for the three months ended September 30, 2004 was primarily related to a legal settlement in our favor of \$1,333.

### ***Income Taxes***

*Income Tax Expense.* We recorded income tax expense of \$560 for the three months ended September 30, 2005 and 2004. This 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 under U.S. generally accepted accounting principles.

### ***Nine Months Ended September 30, 2005 Compared with the Nine Months Ended September 30, 2004***

#### ***Total Revenue***

*Subscriber Revenue.* Subscriber revenue increased \$115,622 to \$155,799 for the nine months ended September 30, 2005 from \$40,177 for the nine months ended September 30, 2004. The increase in subscriber revenue was attributable to the growth of subscribers to our service. We added 1,511,631 net new subscribers since September 30, 2004.

The following table contains a breakdown of our subscriber revenue:

	For the Nine Months Ended September 30,		
	2005	2004	Variance
Subscription fees	\$ 154,575	\$ 40,475	\$ 114,100
Activation fees	4,742	1,302	3,440
Effects of mail-in rebates	(3,518)	(1,600)	(1,918)
<b>Total subscriber revenue</b>	<b>\$ 155,799</b>	<b>\$ 40,177</b>	<b>\$ 115,622</b>

*Advertising Revenue.* Advertising revenue increased \$2,695 to \$3,094 for the nine months ended September 30, 2005 from \$399 for the nine months ended September 30, 2004. The increase was a result of an increase in rates per spot, more spots due to new and more attractive programming and increased advertiser interest as we continue to build brand awareness.

*ARPU.* Set forth below is a table showing the calculation of ARPU:

	For the Nine Months Ended September 30,	
	2005	2004
Average monthly subscriber revenue per subscriber before effects of Hertz subscribers and mail-in rebates	\$ 10.78	\$ 11.15
Effects of Hertz subscribers	0.04	(0.29)
Effects of mail-in rebates	(0.24)	(0.42)
Average monthly subscriber revenue per subscriber	10.58	10.44
Average monthly net advertising revenue per subscriber	0.21	0.10
<b>ARPU</b>	<b>\$ 10.79</b>	<b>\$ 10.54</b>

The increase in ARPU to \$10.79 for the nine months ended September 30, 2005 from \$10.54 for the nine months ended September 30, 2004 was primarily attributable to the reduced impact of mail-in rebates, which resulted from an increase in our average subscriber base and the reduction of our first and third quarter 2005 rebate offer to \$30 from \$50 per eligible activation; the effects of improvement in our Hertz program; the effects of plan mix; and increased advertising revenue. These positive trends were offset, in part, by the effects of the timing of the commencement of revenue recognition for prepaid subscriptions.

*Equipment Revenue.* Equipment revenue increased \$2,287 to \$3,300 for the nine months ended September 30, 2005 from \$1,013 for the nine months ended September 30, 2004. The increase was the result of increased sales through our direct to consumer distribution channel.

### **Operating Expenses**

*Satellite and Transmission.* Satellite and transmission expenses decreased \$3,506 to \$20,709 for the nine months ended September 30, 2005 from \$24,215 for the nine months ended September 30, 2004. The decrease was primarily attributable to a \$5,159 reduction in satellite insurance costs, offset by increased costs associated with the use of security software to prevent the theft of our service and additions to our personnel.

*Programming and Content.* Programming and content expenses increased \$26,039 to \$63,589 for the nine months ended September 30, 2005 from \$37,550 for the nine months ended September 30, 2004. The increase was primarily attributable to license fees associated with sports related programming; compensation related costs for additions to headcount; additional on-air talent costs due to the expansion of the programming lineup; and broadcast royalties as a result of the increase in our subscribers.

*Customer Service and Billing.* Customer service and billing expenses increased \$12,928 to \$26,646 for the nine months ended September 30, 2005 from \$13,718 for the nine months ended September 30, 2004. The increase was primarily due to increased customer service representative costs and credit card fees necessary to support the growth of our subscriber base, increased telecommunication charges as a result of the expansion and growth of our call centers to accommodate our subscriber base and increased operation and maintenance costs associated with our new billing system implemented in the fourth quarter of 2004. Customer service and billing expenses increased 94% compared with an increase in our end of period subscribers of 228%. Customer service and billing expenses per



average subscriber per month declined 49% to \$1.81 for the nine months ended September 30, 2005 from \$3.57 for the nine months ended September 30, 2004.

*Cost of Equipment.* Cost of equipment increased \$2,766 to \$4,381 for the nine months ended September 30, 2005 from \$1,615 for the nine months ended September 30, 2004. The increase was attributable to higher sales through our direct to consumer distribution channel, offset by reductions in the per unit costs of SIRIUS radios and accessories.

*Sales and Marketing.* Sales and marketing expenses increased \$3,873 to \$107,543 for the nine months ended September 30, 2005 from \$103,670 for the nine months ended September 30, 2004. Distribution costs increased primarily due to higher retail residuals and OEM revenue share as a result of the increase in subscribers, offset by decreased costs associated with our retail channel, partially as a result of sales efforts with the RadioShack rollout in 2004. In addition, personnel-related costs increased to support our growth. Such increases were offset by decreased advertising media and production costs primarily due to the expiration of certain sponsorships and higher costs incurred in 2004 for our NFL marketing campaign.

*Subscriber Acquisition Costs.* Subscriber acquisition costs increased \$95,703 to \$204,461 for the nine months ended September 30, 2005 from \$108,758 for the nine months ended September 30, 2004, an increase of 88%. Over the same period, gross subscriber additions increased 169% from 465,077 for the nine months ended September 30, 2004 to 1,252,623 for the nine months ended September 30, 2005. The increase in subscriber acquisition costs was attributable to subsidies for higher shipments of SIRIUS radios and chip sets to accommodate the growth of our subscriber base and increases in commissions resulting from the increase in gross subscriber additions, offset by reductions in hardware and chip set subsidy rates as we continued to reduce manufacturing and chip set costs.

Subscriber acquisition costs per gross subscriber addition were \$164 and \$235 for the nine months ended September 30, 2005 and 2004, respectively. The decline was primarily attributable to the reduction in hardware and chip set subsidy rates as we continued to reduce manufacturing and chip set costs.

*General and Administrative.* General and administrative expenses increased \$11,909 to \$42,918 for the nine months ended September 30, 2005 from \$31,009 for the nine months ended September 30, 2004. The increase was primarily a result of additional personnel-related costs and rent and occupancy costs to support the growth of our business and bad debt expense.

*Engineering, Design and Development.* Engineering, design and development expenses increased \$11,142 to \$33,232 for the nine months ended September 30, 2005 from \$22,090 for the nine months ended September 30, 2004. The increase was primarily attributable to additional personnel-related costs to support research and development efforts, costs associated with tooling and manufacturing upgrades at DaimlerChrysler and Ford to support factory installations of SIRIUS radios, and product development costs for our next generation of radios. These increases were offset by decreases in chip set development costs.

*Equity Granted to Third Parties and Employees.* Equity granted to third parties and employees expense for warrants increased \$45,448 to \$68,787 for the nine months ended September 30, 2005 from \$23,339 for the nine months ended September 30, 2004. This increase was primarily attributable to expense accrued based on certain distribution partners' performance toward achieving eligible vehicle, subscriber activation and delivery milestones and higher prices as a result of increases in the fair market value of our stock. In addition, we recognized approximately \$23,000 of higher expense based on the fair market value of our common stock on the final measurement date as a result of certain distribution partners' satisfaction of performance commitments.

Equity granted to third parties and employees expense for stock options, restricted stock, restricted stock units and other stock-based awards increased \$22,206 to \$44,594 for the nine months ended September 30, 2005 from \$22,388 for the nine months ended September 30, 2004. The increase was primarily attributable to expense associated with restricted stock units which accelerate to earlier periods as performance targets for fiscal periods are met, new grants of restricted stock units, and modifications of existing stock-based awards. The remaining increase was primarily related to expense accrued for 2005 profit sharing and restricted stock units we expect to grant for services performed in 2005. Such increases were offset in part by lower expense associated with performance options that vested in March 2005.

Equity granted to third parties and employees expense for the nine months ended September 30, 2005 and 2004 also included \$3,501 and \$1,933, respectively, of expense associated with the 15,173,070 shares of our common stock granted to the NFL.

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

*Interest and Investment Income.* Interest and investment income increased \$11,016 to \$16,922 for the nine months ended September 30, 2005 from \$5,906 for the nine months ended September 30, 2004. The increase was primarily attributable to the increase in our average cash, cash equivalents and marketable securities balance resulting from funds raised through offerings of debt securities and an increase in the average interest rate.

*Interest Expense.* Interest expense decreased \$6,016 to \$28,219 for the nine months ended September 30, 2005 from \$34,235 for the nine months ended September 30, 2004. The decrease was primarily due to debt conversion costs 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, in 2004. This decrease was offset by an increase in interest expense resulting from the issuance of our 9 5/8 % Senior Notes due 2013 in August 2005, our 3¼% Convertible Notes due 2011 in October 2004 and a full nine month impact of our 2½% Convertible Notes due 2009 issued in the first quarter of 2004.

*Loss from Redemption of Debt.* For the nine months ended September 30, 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.

*Income (Expense) from Affiliate.* For the nine months ended September 30, 2005, we recorded \$739 for our share of SIRIUS Canada Inc.'s net loss.

*Other Income.* Other income for the nine months ended September 30, 2004 was primarily related to a legal settlement in our favor of \$1,333.

### ***Income Taxes***

*Income Tax Expense.* We recorded income tax expense of \$1,680 and \$3,641 for the nine months ended September 30, 2005 and 2004, respectively. This 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 under U.S. generally accepted accounting principles.

## **Liquidity and Capital Resources**

### ***Cash Flows for the Nine Months Ended September 30, 2005 Compared with the Nine Months Ended September 30, 2004***

As of September 30, 2005, we had \$810,333 in cash and cash equivalents compared with \$517,631 as of September 30, 2004, an increase of \$292,702. Cash and cash equivalents increased \$56,442 during the nine months ended September 30, 2005. The increase was a result of net cash provided by financing activities of \$446,513 offset by net cash used in operating activities and investing activities of \$258,128 and \$131,943, respectively.

*Net Cash Used in Operating Activities.* The following table contains a breakdown of our net loss adjusted for non-cash items and our changes in operating assets and liabilities:

	<b>For the Nine Months Ended September 30,</b>		<b>Variance</b>
	<b>2005</b>	<b>2004</b>	
Net loss adjusted for non-cash items:			
Net loss	\$ (551,608)	\$ (450,289)	\$ (101,319)
Depreciation	73,640	71,082	2,558
Non-cash interest expense	2,365	21,168	(18,803)



Non-cash loss from redemption of debt	712	—	712
Loss on disposal of assets	286	19	267
Equity granted to third parties and employees	116,882	47,660	69,222
Deferred income taxes	1,680	3,641	(1,961)
	<u>          </u>	<u>          </u>	<u>          </u>
Total net loss adjusted for non-cash items	(356,043)	(306,719)	(49,324)
	<u>          </u>	<u>          </u>	<u>          </u>
Changes in operating assets and liabilities:			
Marketable securities	16	(92)	108
Prepaid expenses and other current assets	(26,187)	(7,869)	(18,318)
Other long-term assets	3,131	(3,406)	6,537
Accrued interest	6,341	3,848	2,493
Accounts payable and accrued expenses	36,213	44,721	(8,508)
Deferred revenue	81,923	33,306	48,617
Other long-term liabilities	(3,522)	691	(4,213)
	<u>          </u>	<u>          </u>	<u>          </u>
Total changes in operating assets and liabilities	97,915	71,199	26,716
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash used in operating activities	\$ (258,128)	\$ (235,520)	\$ (22,608)
	<u>          </u>	<u>          </u>	<u>          </u>

Net cash used in operating activities increased \$22,608 to \$258,128 for the nine months ended September 30, 2005 from \$235,520 for the nine months ended September 30, 2004. Such increase was attributable to the \$49,324 increase in the net loss adjusted for non-cash items, from \$306,719 for the nine months ended September 30, 2004 to \$356,043 for the nine months ended September 30, 2005, offset by an increase of \$26,716 for changes in operating assets and liabilities.

The increase in the net loss adjusted for non-cash items was primarily a result of an 88%, or \$95,703, increase in subscriber acquisition costs reflecting higher shipments of SIRIUS radios and chip sets and increased commissions to support a 169% increase in gross subscribers, offset by reductions in average subsidy rates as we continued to reduce manufacturing and chip set costs. Increases in other operating expenses were also required to support the 228% increase in our subscriber base; the growth of our operations; and to acquire content, primarily sports programming. Such increases were offset by a 288%, or \$115,622, increase in subscriber revenue.

The net inflow of cash from changes in operating assets and liabilities was primarily attributable to an increase of \$48,617 in deferred revenue for subscribers electing annual and other prepaid subscription programs. We currently receive an average of approximately nine months of prepaid revenue per subscriber upon activation. This increase was offset in part by the increase of \$18,318 in prepaid expenses and other current assets primarily for increases in accounts receivable and chip set inventory to support the growth of our business.

We expect to continue to have net outflows of cash for 2005 to fund the growth of our operations. These cash outflows will be partially offset by cash received from subscribers on prepaid subscription plans.

*Net Cash Used in Investing Activities.* Net cash used in investing activities increased \$44,760 to \$131,943 for the nine months ended September 30, 2005 from \$87,183 for the nine months ended September 30, 2004. For the nine months ended September 30, 2005, we purchased \$128,700 of auction rate securities with a portion of the proceeds from our offering of 9 5/8 % Senior Notes due 2013. Of this amount, we sold \$5,100 in September 2005. We also released funds which were originally placed in escrow to support our obligation to reimburse Ford for certain costs it incurs in connection with the introduction of SIRIUS radios as a factory option. Additional cash inflows of \$4,835 for the nine months ended September 30, 2005 were a result of the maturity of available-for-sale securities. During the nine months ended September 30, 2004, we deposited \$85,000 in escrow to fund the rights fees for the 2006-2007, 2007-2008 and 2008-2009 NFL seasons. These deposits were offset by cash inflows of \$25,000 as a result of the maturity of available-for-sale securities. Capital expenditures were \$17,949 and \$22,316 for the nine months ended September 30, 2005 and 2004, respectively.

*Net Cash Provided by Financing Activities.* Net cash provided by financing activities increased \$127,158 to \$446,513 for the nine months ended September 30, 2005 from \$319,355 for the nine months ended September 30, 2004. We raised net proceeds of \$493,005 during the nine months ended September 30, 2005 through the offering of \$500,000 in aggregate principal amount of our 9 5/8 % Senior Notes due 2013. We raised net proceeds of \$293,600 during the nine months ended September 30, 2004 through the offering of \$300,000 in aggregate principal amount of our 2½% Convertible Notes due 2009. We also received proceeds from the exercise of options of \$11,125 and

\$6,004 for the nine months ended September 30, 2005 and 2004, respectively, and proceeds from the exercise of warrants of \$19,850 for the nine months ended September 30, 2004.

### ***Financings and Capital Requirements***

We have financed our operations through the sale of debt and equity securities.

- 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.
- 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. We expect to generate positive free cash flow for the full year 2007, and our first quarter of positive free cash flow could be reached as early as 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.

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 September 30, 2005, approximately 113,134,000 stock options, shares of restricted stock and restricted stock units were outstanding. As of September 30, 2005, approximately 94,221,000 shares of our common stock were available for grant under the 2003 Plan. During the nine months ended September 30, 2005, employees exercised 8,088,194 stock options at exercise prices ranging from \$0.67 to \$5.17 per share, resulting in proceeds to us of \$11,118. The exercise of vested options could result in an inflow of cash in future periods.

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

We have entered into various contracts that have resulted in significant cash obligations in future periods. 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 September 30, 2005:

	<u>Remaining 2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>	<u>Total</u>
Long-term debt obligations	\$ 4,876	\$ 68,375	\$ 65,528	\$ 129,435	\$ 361,246	\$ 934,453	\$1,563,913
Lease obligations	2,092	8,488	7,764	7,569	7,527	33,258	66,698
Satellite and transmission	855	3,335	3,155	3,155	3,155	15,027	28,682
Programming and content	14,939	129,252	99,050	100,207	127,002	149,951	620,401
Customer service and billing	660	5,674	3,138	—	—	—	9,472
Marketing and distribution	33,902	63,060	21,959	9,470	13,750	22,875	165,016
Chip set development and production	22,020	9,281	3,000	—	—	—	34,301
<b>Total contractual cash commitments</b>	<b>\$ 79,344</b>	<b>\$ 287,465</b>	<b>\$ 203,594</b>	<b>\$ 249,836</b>	<b>\$ 512,680</b>	<b>\$1,155,564</b>	<b>\$2,488,483</b>

### ***Long-Term Debt Obligations***

Long-term debt obligations include principal and interest payments. As of September 30, 2005, we had \$1,096,789 in aggregate principal amount of outstanding debt.

### ***Lease Obligations***

We have entered into operating leases related to our national broadcast studio, 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.

### ***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 customer service, 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 have also agreed to 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, and in certain instances to license intellectual property related to such chip sets. Certain of these agreements require that we purchase a minimum quantity of chip sets.

### ***Joint Development Agreement***

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. We are currently unable to determine the expenditures necessary to complete this process, but they may be significant.

### ***Other Commitments***

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

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 September 30, 2005 and December 31, 2004, \$92,615 and \$97,321, respectively, were classified as restricted investments as a result of our reimbursement obligations under these letters of credit and escrow arrangements.

As of September 30, 2005, we have not entered into any off-balance sheet arrangements or transactions.

In September 2005, SIRIUS Canada Inc., our Canadian affiliate, received notice that Canada's Federal Cabinet had declined to reverse a decision to issue SIRIUS Canada a license to broadcast in Canada. This decision affirmed the earlier licensing ruling of the Canadian Radio-television and Telecommunications Commission (the "CRTC") that authorized SIRIUS Canada to offer a satellite radio service in Canada. SIRIUS Canada is a Canadian corporation owned by Canadian Broadcasting Corporation, Standard Radio Inc. and us. SIRIUS Canada anticipates offering a satellite radio service in Canada in late 2005.

### ***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 3 to the unaudited 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.

*Subscriber Revenue Recognition* . Revenue from subscribers consists of subscription fees, including revenues associated with prepaid subscriptions included in the sale or lease price of a new vehicle; revenue derived from our agreement with Hertz; and non-refundable activation fees.

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 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. We also reimburse the 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 similar to an agent. We believe this is the appropriate characterization of our relationship since we are responsible for providing services to our customers including being obligated to the customer if there were 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 subscriber revenue in the period the subscriber activates our service. We estimate the effects of mail-in rebates based on actual take-rates for rebate incentives offered in prior periods. In subsequent periods, estimates are adjusted when necessary.

*Stock-Based Compensation* . In accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," we use the intrinsic value method to measure the compensation costs of stock-based awards granted to employees and members of our board of directors. Accordingly, we record 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 is amortized to expense over the vesting period. These charges are recorded as a component of equity granted to third parties and employees in our accompanying unaudited consolidated statements of operations.

We account for modifications to stock-based awards in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44"). FIN No. 44 provides that when the modification of a stock-based award occurs, a new measurement date results because the modification may allow an employee to vest in an award that would have otherwise been forfeited pursuant to the original terms. A new measurement of potential compensation is measured as of the date of the modification. While measurement of the potential compensation is made as of that date, the recognition of the compensation expense depends on whether the employee ultimately retains the stock-based award that otherwise would have been forfeited under the award's original vesting terms.

We granted stock-based awards which vest July 1, 2008 with acceleration to earlier time periods as performance targets for fiscal periods are met. The performance targets are established annually and may be modified by our board of directors. As these targets are set new measurement dates result. We recognize expense resulting from a new measurement date only if such employees voluntarily resign or are terminated for cause and had exercised or exercise such stock-based awards during the period of the accelerated vest date through July 1, 2008, the original vest date. Under these conditions, employees are deemed to benefit from the accelerated vest date. Stock-based awards with new measurement dates could result in the recognition of additional stock compensation expense of up to \$23,372 through July 1, 2008 if during such period all of the affected employees were to voluntarily resign or were terminated for cause and had exercised or exercise such awards. Stock compensation expense associated with stock options for the nine months ended September 30, 2005 includes 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.

In accordance with FIN No. 44, we record compensation charges or benefits related to repriced stock options based on the market value of our common stock until the repriced stock options are exercised, forfeited or expire.

We account for stock-based awards granted to non-employees at fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." 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," we record expense based upon performance using the fair value of equity instruments issued to non-employees, other than non-employee members of our board of directors, at each reporting date. The final measurement date of equity instruments with performance criteria is the date that each performance commitment for such equity instrument is satisfied. Fair value is determined using the Black-Scholes option valuation model and varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. Since we do not have sufficient historical information regarding the life expectancy of stock-based awards granted to non-employees, we currently use an expected life based on the term of the stock-

based award as specified in each agreement. Expected stock price volatility is calculated over a period equal to the expected life and 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 as the life expectancy of the stock-based awards may shorten based on exercise activity. In addition, expected stock price volatility is subject to change based on fluctuations in our stock price. These costs are classified in our accompanying unaudited consolidated statements of operations as a component of equity granted to third parties and employees.

*Subscriber Acquisition Costs* . Subscriber acquisition costs include hardware subsidies paid to radio manufacturers 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 to chip set manufacturers; and commissions paid to retailers and automakers as incentives to purchase, install and activate SIRIUS radios. 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 the 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.

*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 will be measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. To determine fair value, we would employ an expected present value technique, which utilizes multiple cash flow scenarios that reflect the range of possible outcomes and an appropriate discount rate.

*Useful Life of Satellite System* . Our satellite system includes the cost of satellite construction, launch vehicles, launch insurance, capitalized interest, our spare satellite and our terrestrial repeater network. 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 in-orbit satellites are 15 years from the date they were placed into orbit. We are depreciating our three in-orbit satellites over their respective remaining useful lives beginning February 14, 2002 or, in the case of our spare satellite, from the date it was delivered to ground storage in April 2002. Our spare satellite is expected to operate effectively for 15 years from the date of launch. Space Systems/Loral, the manufacturer of our satellites, has identified circuit failures in solar arrays on satellites since 1997, including our satellites. We continue to monitor these failures, which we believe have not affected the expected useful lives 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* . We carry our FCC license at cost. Our FCC license has an indefinite life and is evaluated for impairment on an annual basis or more frequently if there are indicators of impairment. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we completed an impairment analysis of our FCC license as of December 31, 2004, and determined that there was no impairment. We use projections regarding estimated future cash flows and other factors in assessing the fair value of our FCC license. If these estimates or projections change in the future, we may be required to record an impairment charge related to our FCC license.

*Income Taxes* . We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Operating losses in prior periods 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 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.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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 September 30, 2005, we held approximately \$123,600 in auction rate securities.

### **Item 4. Controls and Procedures**

As of September 30, 2005, 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 September 30, 2005. There have been no significant changes in our internal control over financial reporting or in other factors that could significantly affect our internal control over financial reporting subsequent to September 30, 2005.

**Part II**

**Other Information**

**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)

November 8, 2005

## EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
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	—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 <sup>5</sup> / 8 % Senior Notes due 2013 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 12, 2005).
4.13	—Common Stock Purchase Warrant granted by the Company to DaimlerChrysler AG dated October 4, 2005 (filed herewith).
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).

<u>Exhibit</u>	<u>Description</u>
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)).
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	—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).
*10.9	—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).
*10.10	—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)).
*10.11	—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).
*10.12	—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).
†10.13	—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).

<u>Exhibit</u>	<u>Description</u>
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.

THIS WARRANT AND ANY SECURITIES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS AND NEITHER THIS WARRANT NOR SUCH SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS.

SIRIUS SATELLITE RADIO INC.

COMMON STOCK PURCHASE WARRANT

This certifies that, for good and valuable consideration, Sirius Satellite Radio Inc., a Delaware corporation (the “Company”), grants to DaimlerChrysler AG, a German corporation (“DCAG”), or registered assigns (together with DCAG, the “Warrantholder”), the right to subscribe for and purchase from the Company an aggregate of up to 21,500,000 validly issued, fully paid and nonassessable shares (the “Warrant Shares”) of the Company's common stock, par value \$0.001 per share (the “Common Stock”), at the purchase price per share of \$1.04 (the “Exercise Price”), at any time and from time to time, during the period from and including 9:00 AM, New York City time, on the date hereof until 5:00 PM, New York City time, on May 12, 2012 (the “Expiration Date”), all subject to the terms, conditions and adjustments herein set forth.

Certain capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in Section 10.

Certificate No. DCX-6

Number of Shares: 21,500,000

Name of Warrantholder: DaimlerChrysler AG, a German corporation

## 1. Duration and Exercise of Warrant; Limitations on Exercise; Payment of Taxes.

1.1 Excercisability of Warrant. Subject to the terms and conditions set forth herein, and so long as DaimlerChrysler is in compliance in all material respects with the terms and conditions of the Amended and Restated Agreement, dated as of May 13, 2002, among the Company, DaimlerChrysler Corporation (“DCC”), Mercedes-Benz USA, LLC (“Mercedes”) and Freightliner LLC (“Freightliner” and, together with DCC, Mercedes and their respective subsidiaries and designated affiliates, “DaimlerChrysler”), as amended, supplemented or otherwise modified from time to time (including pursuant to that certain letter agreement, dated as of April 5, 2004, between the Company and DCC), the right to exercise this Warrant shall vest, and this Warrant shall become exercisable as follows:

(a) with respect to 750,000 shares of Common Stock, on the earlier of (i) June 30, 2004, if DCC has included a one-year subscription to the Sirius Service as part of the sales price or leasing cost of every 2005 model year DCC Factory Enabled Vehicle or (ii) the date on which 250,000 Eligible Vehicles have been produced;

(b) with respect to 750,000 shares of Common Stock, on the earlier of (i) June 30, 2005, if DCC has included a one-year subscription to the Sirius Service as part of the sales price or leasing cost of every 2006 model year DCC Factory Enabled Vehicle or (ii) the date on which 250,000 Eligible Vehicles have been produced;

(c) with respect to 2,000,000 shares of Common Stock, on the earlier of (i) December 31, 2004, if on or before such date DCC has certified to the Company in writing (which certification shall include reasonable supporting documentation) that it has commenced factory installation of Sirius Receivers in production models of 12 of the following 13 vehicle lines: PT Cruiser, Durango, Ram, Dakota, 300 Series, Sebring/Stratus, Magnum, Grand Cherokee, Liberty, Wrangler, Caravan, Town & Country and Pacifica or (ii) the date on which 250,000 Eligible Vehicles have been produced;

(d) with respect to 2,500,000 shares of Common Stock, on the earlier of (i) August 31, 2005, if on or before such date DCC has delivered, or caused a supplier reasonably acceptable to the Company to deliver, to the Company an Integrated Head Unit suitable for commencement of DCC’s design verification, and such Integrated Head Unit has passed the Company’s reasonable type acceptance requirements; provided that if DCC fails to deliver, or fails to cause a supplier reasonably acceptable to the Company to deliver, such Integrated Head Unit on or prior to August 31, 2005 solely as a result of the failure of the Company (or a supplier to the Company) to deliver to DCC, on or prior to December 31, 2004, a Sirius Standard Module suitable for commencement of DCC’s design verification, then such August 31, 2005 date shall be extended by the number of days such delivery to DCC has been delayed, or (ii) the date on which 3,200,000 Eligible Vehicles have been produced;

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(e) with respect to 2,500,000 shares of Common Stock, on the earlier of (i) December 31, 2006, if on or before such date DCC has commenced, or caused a supplier reasonably acceptable to the Company to commence, production of commercial quantities of an Integrated Head Unit, and such Integrated Head Unit has passed the Company's reasonable type acceptance requirements; provided that if DCC fails to commence, or fails to cause a supplier reasonably acceptable to the Company to commence, such production on or prior to December 31, 2006 solely as a result of the failure of the Company (or a supplier to the Company) to deliver to DCC, on or prior to September 30, 2005, commercial quantities of the Sirius Standard Module, then such December 31, 2006 date shall be extended by the number of days such delivery to DCC has been delayed, or (ii) the date on which 3,200,000 Eligible Vehicles have been produced;

(f) with respect to 1,500,000 shares of Common Stock, on the earlier of (i) December 31, 2004, if on or prior to such date, DCC has shipped 100,000 Bundled DCC Factory Enabled Vehicles to its authorized dealers or DCC approved "ship-to-points" or (ii) the date on which 250,000 Eligible Vehicles have been produced;

(g) with respect to 2,500,000 shares of Common Stock, on the earlier of (i) December 31, 2005, if on or prior to such date DCC has shipped 400,000 Bundled DCC Factory Enabled Vehicles to its authorized dealers or DCC approved "ship-to-points" or (ii) the date on which 800,000 Eligible Vehicles have been produced;

(h) with respect to 2,500,000 shares of Common Stock, on the earlier of (i) December 31, 2006, if on or prior to such date DCC has shipped 700,000 Bundled DCC Factory Enabled Vehicles to its authorized dealers or DCC approved "ship-to-points" or (ii) the date on which 1,600,000 Eligible Vehicles have been produced;

(i) with respect to 5,000,000 shares of Common Stock, on the earlier of (i) December 31, 2007, if on or prior to such date DCC has shipped 1,000,000 Bundled DCC Factory Enabled Vehicles to its authorized dealers or DCC approved "ship-to-points" or (ii) the date on which 2,400,000 Eligible Vehicles have been produced; and

(j) with respect to 1,500,000 shares of Common Stock, upon execution and delivery of an agreement between the Company and Mitsubishi Motors North America, Inc., in form and substance acceptable to the Company, pursuant to which, among other things, Mitsubishi Motors North America, Inc. agrees to factory-install Sirius Receivers in its vehicles on an exclusive basis.

**1.2 Duration and Exercise of Warrant.** Subject to the terms and conditions set forth herein, including Section 1.1, this Warrant may be exercised, in whole or in part, by the Warrantholder by:

(a) the surrender of this Warrant to the Company, with a duly executed Exercise Form specifying the number of Warrant Shares to be purchased, during normal business hours on any Business Day prior to the Expiration Date; and

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(b) the delivery of payment to the Company, for the account of the Company, by cash, by certified or bank cashier's check or by wire transfer of immediately available funds in accordance with wire instructions that shall be provided by the Company upon request, of the Exercise Price for the number of Warrant Shares specified in the Exercise Form in lawful money of the United States of America.

The Company agrees that such Warrant Shares shall be deemed to be issued to the Warrantholder as the record holder of such Warrant Shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for the Warrant Shares as aforesaid.

1.3 Limitations on Exercise. Notwithstanding anything to the contrary herein, this Warrant may be exercised only upon (i) the delivery to the Company of any certificates, legal opinions, and other documents reasonably requested by the Company to satisfy the Company that the proposed exercise of this Warrant may be effected without registration under the Securities Act, (ii) receipt by the Company of FCC approval of the proposed exercise, if such approval is required (as determined by a written opinion of the Company's special FCC counsel, delivered to the Warrantholder) to maintain any license granted to the Company by the FCC, or to maintain the Company's eligibility for any FCC license for which it has applied, or reasonably expects to apply, for, (iii) in the event that the acquisition of the Warrant Shares is subject to the provisions of the HSR Act, any person or entity required to file a notification and report in compliance with the HSR Act shall have filed such form and the applicable waiting period with respect to such form (including any extension thereof by reason of a request for additional information) shall have expired or been terminated, and (iv) receipt by the Company of approval of any other applicable Governmental Authority of the proposed exercise. The Warrantholder shall not be entitled to exercise this Warrant, or any part thereof, unless and until such approvals, certificates, legal opinions or other documents are reasonably acceptable to the Company. The cost of such approvals, certificates, legal opinions and other documents, if required, shall be borne by the Warrantholder.

1.4 Warrant Shares Certificate. A stock certificate or certificates for the Warrant Shares specified in the Exercise Form shall be delivered to the Warrantholder within five Business Days after receipt of the Exercise Form and receipt of payment of the purchase price. If this Warrant shall have been exercised only in part, the Company shall, at the time of delivery of the stock certificate or certificates, deliver to the Warrantholder a new Warrant evidencing the rights to purchase the remaining Warrant Shares, which new Warrant shall in all other respects be identical with this Warrant.

1.5 Payment of Taxes. The issuance of certificates for Warrant Shares shall be made without charge to the Warrantholder for any documentary, stamp or similar stock transfer or other issuance tax in respect thereto; provided that the Warrantholder shall be required to pay any and all taxes which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the then Warrantholder as reflected upon the books of the Company.

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1.6 Divisibility of Warrant; Transfer of Warrant. (a) This Warrant may only be transferred by the Warrantholder with the prior written consent of the Company; provided that the Warrantholder shall have the right to transfer this Warrant to any wholly-owned subsidiary of the original Warrantholder. Except as set forth above, any transfer of this Warrant without the prior written consent of the Company shall be void and of no force and effect.

(b) Subject to the provisions of this Section, this Warrant may be divided into warrants of one thousand shares or multiples thereof, upon surrender at the office of the Company located at 1221 Avenue of the Americas, 36<sup>th</sup> Floor, New York, New York 10020, without charge to any Warrantholder. Subject to the provisions of this Section, upon such division, the Warrants may be transferred of record as the then Warrantholder may specify without charge to such Warrantholder (other than any applicable transfer taxes).

(c) Subject to the provisions of this Section 1.6, upon surrender of this Warrant to the Company with a duly executed Assignment Form and funds sufficient to pay any transfer tax, the Company shall, without charge, execute and deliver a new Warrant or Warrants of like tenor in the name of the assignee named in such Assignment Form, and this Warrant shall promptly be canceled. Prior to any proposed transfer (whether as the result of a division or otherwise) of this Warrant, the Warrantholder shall give written notice to the Company of the Warrantholder's intention to effect such transfer. Each such notice shall describe the manner and circumstances of the proposed transfer in sufficient detail, and, if requested by the Company, shall be accompanied by a written opinion of legal counsel, which opinion shall be addressed to the Company and be reasonably satisfactory in form and substance to the Company, to the effect that the proposed transfer of this Warrant may be effected without registration under the Securities Act. In addition to the restrictions contained in this Section, the Warrantholder shall not be entitled to transfer this Warrant, or any part thereof, if such legal opinion is not reasonably acceptable to the Company. The term "Warrant" as used in this Agreement shall be deemed to include any Warrants issued in substitution or exchange for this Warrant.

2. Restrictions on Transfer; Restrictive Legends. Except as otherwise permitted by this Section 2, each Warrant shall (and each Warrant issued upon direct or indirect transfer or in substitution for any Warrant pursuant to Section 1.6 or Section 4 shall) be stamped or otherwise imprinted with a legend in substantially the following form:

THIS WARRANT AND ANY SECURITIES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND NEITHER THIS WARRANT NOR SUCH SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS.

Except as otherwise permitted by this Section 2, each stock certificate for Warrant Shares issued upon the exercise of any Warrant and each stock certificate issued upon the direct or indirect

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transfer of any such Warrant Shares shall be stamped or otherwise imprinted with a legend in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS.

Notwithstanding the foregoing, the Warrantholder may require the Company to issue a Warrant or a stock certificate for Warrant Shares, in each case without a legend, if either (i) such Warrant or such Warrant Shares, as the case may be, have been registered for resale under the Securities Act or (ii) the Warrantholder has delivered to the Company an opinion of legal counsel, which opinion shall be addressed to the Company and be reasonably satisfactory in form and substance to the Company, to the effect that such registration is not required with respect to such Warrant or such Warrant Shares, as the case may be.

By acceptance of this Warrant, the Warrantholder expressly agrees that it will at all times comply with the restrictions contained in Rule 144(e) under the Securities Act (as in effect on the date hereof) when selling, transferring or otherwise disposing Warrant Shares, even if such restrictions would not then be applicable to the Warrantholder.

3. Reservation and Registration of Shares. The Company covenants and agrees as follows:

(a) all Warrant Shares which are issued upon the exercise of this Warrant will, upon issuance, be validly issued, fully paid, and nonassessable, not subject to any preemptive rights, and free from all taxes, liens, security interests, charges, and other encumbrances with respect to the issue thereof, other than taxes with respect to any transfer occurring contemporaneously with such issue;

(b) during the period within which this Warrant may be exercised, the Company will at all times have authorized and reserved, and keep available free from preemptive rights and any liens and encumbrances, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant; and

(c) it will, from time to time, take all such action as may be required to assure that the par value per share of the Warrant Shares is at all times equal to or less than the then effective Exercise Price.

4. Loss or Destruction of Warrant. Subject to the terms and conditions hereof, upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, of such bond or

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indemnification as the Company may reasonably require, and, in the case of such mutilation, upon surrender and cancellation of this Warrant, the Company will execute and deliver a new Warrant of like tenor.

5. Ownership of Warrant . The Company may deem and treat the Person in whose name this Warrant is registered as the holder and owner hereof (notwithstanding any notations of ownership or writing hereon made by anyone other than the Company) for all purposes and shall not be affected by any notice to the contrary, until presentation of this Warrant for registration of transfer.

6. Certain Adjustments .

6.1 The number of Warrant Shares purchasable upon the exercise of this Warrant and the Exercise Price shall be subject to adjustment as follows:

(a) Stock Dividends . If at any time after the date of the issuance of this Warrant (i) the Company shall fix a record date for the issuance of any stock dividend payable in shares of Common Stock; or (ii) the number of shares of Common Stock shall have been increased by a subdivision or split-up of shares of Common Stock, then, on the record date fixed for the determination of holders of Common Stock entitled to receive such dividend or immediately after the effective date of such subdivision or split-up, as the case may be, the number of shares to be delivered upon exercise of this Warrant shall be increased so that the Warrantholder shall be entitled to receive the number of shares of Common Stock that such Warrantholder would have owned immediately following such action had this Warrant been exercised immediately prior thereto, and the Exercise Price shall be adjusted as provided below in paragraph (g).

(b) Combination of Stock . If the number of shares of Common Stock outstanding at any time after the date of the issuance of this Warrant shall have been decreased by a combination of the outstanding shares of Common Stock, then, immediately after the effective date of such combination, the number of shares of Common Stock to be delivered upon exercise of this Warrant shall be decreased so that the Warrantholder thereafter shall be entitled to receive the number of shares of Common Stock that such Warrantholder would have owned immediately following such action had this Warrant been exercised immediately prior thereto, and the Exercise Price shall be adjusted as provided below in paragraph (g).

(c) Reorganization . If any capital reorganization of the Company, any reclassification of the Common Stock, any consolidation of the Company with or merger of the Company with or into any other Person, or any sale or lease or other transfer of all or substantially all of the assets of the Company to any other Person, shall be effected in such a way that the holders of Common Stock shall be entitled to receive stock, other securities or assets (whether such stock, other securities or assets are issued or distributed by the Company or another Person) with respect to or in exchange for Common Stock, then, upon exercise of this Warrant, the Warrantholder shall have the right to receive the

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kind and amount of stock, other securities or assets receivable upon such reorganization, reclassification, consolidation, merger or sale, lease or other transfer by a holder of the number of shares of Common Stock that such Warrantholder would have been entitled to receive upon exercise of this Warrant had this Warrant been exercised immediately before such reorganization, reclassification, consolidation, merger or sale, lease or other transfer, subject to adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 6. The Company shall not effect any such consolidation, merger or sale, lease or other transfer, unless prior to, or simultaneously with, the consummation thereof, the successor Person (if other than the Company) resulting from such consolidation or merger, or such Person purchasing, leasing or otherwise acquiring such assets, shall assume, by written instrument, the obligation to deliver to the Warrantholder the shares of stock, securities or assets to which, in accordance with the foregoing provisions, the Warrantholder may be entitled and all other obligations of the Company under this Warrant. The provisions of this paragraph (c) shall apply to successive reorganizations, reclassifications, consolidations, mergers, sales, leasing transactions and other transfers.

(d) Distributions to all Holders of Common Stock. If the Company shall, at any time after the date of issuance of this Warrant, fix a record date to distribute to all holders of its Common Stock any shares of capital stock of the Company (other than Common Stock) or evidences of its indebtedness or assets (not including regular quarterly cash dividends and distributions paid from retained earnings of the Company) or rights or warrants to subscribe for or purchase any of its securities, then the Warrantholder shall be entitled to receive, upon exercise of this Warrant, that portion of such distribution to which it would have been entitled had the Warrantholder exercised its Warrant immediately prior to the date of such distribution. At the time it fixes the record date for such distribution, the Company shall allocate sufficient reserves to ensure the timely and full performance of the provisions of this Subsection. The Company shall promptly (but in any case no later than five Business Days prior to the record date of such distribution) give notice to the Warrantholder that such distribution will take place.

(e) Fractional Shares. No fractional shares of Common Stock or scrip shall be issued to any Warrantholder in connection with the exercise of this Warrant. Instead of any fractional shares of Common Stock that would otherwise be issuable to such Warrantholder, the Company shall pay to such Warrantholder a cash adjustment in respect of such fractional interest in an amount equal to that fractional interest of the then current Fair Market Value per share of Common Stock.

(f) Carryover. Notwithstanding any other provision of this Section 6, no adjustment shall be made to the number of shares of Common Stock to be delivered to the Warrantholder (or to the Exercise Price) if such adjustment represents less than 1% of the number of shares to be so delivered, but any lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which together with any adjustments so carried forward shall amount to 1% or more of the number of shares to be so delivered.

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(g) Exercise Price Adjustment . Whenever the number of Warrant Shares purchasable upon the exercise of this Warrant is adjusted, as herein provided, the Exercise Price payable upon the exercise of this Warrant shall be adjusted by multiplying such Exercise Price immediately prior to such adjustment by a fraction, of which the numerator shall be the number of Warrant Shares purchasable upon the exercise of the Warrant immediately prior to such adjustment, and of which the denominator shall be the number of Warrant Shares purchasable immediately thereafter.

6.2 Rights Offering . In the event the Company shall effect an offering of Common Stock or preferred stock among its stockholders, the Warranholder shall be entitled to elect to participate in each and every such offering as if this Warrant had been exercised immediately prior to each such offering. The Company shall promptly (but in any case no later than five Business Days prior to such rights offering) give notice to the Warranholder that such rights offering will take place. The Company shall not be required to make any adjustment pursuant to Section 6.1 with respect to the issuance of shares of Common Stock or preferred stock pursuant to a rights offering in which the holder hereof is offered the right to participate under the provisions of this Section 6.2, assuming this Warrant was fully exercisable in accordance with Section 1.1.

6.3 Notice of Adjustments . Whenever the number of Warrant Shares or the Exercise Price is adjusted pursuant to Section 6.1, the Company shall promptly give to the Warranholder notice of such adjustment or adjustments and a certificate of a firm of independent public accountants of recognized national standing (which shall be appointed at the Company's expense and may be the independent public accountants regularly employed by the Company) setting forth the number of Warrant Shares and the Exercise Price of such Warrant Shares after such adjustment, a brief statement of the facts requiring such adjustment, and the computation by which such adjustment was made.

6.4 Notice of Extraordinary Corporate Events . In case the Company after the date hereof shall propose to (i) distribute any dividend (whether stock or cash or otherwise) to the holders of shares of Common Stock or to make any other distribution to the holders of shares of Common Stock, (ii) offer to the holders of shares of Common Stock rights to subscribe for or purchase any additional shares of any class of stock or any other rights or options, or (iii) effect any reclassification of the Common Stock (other than a reclassification involving merely the subdivision or combination of outstanding shares of Common Stock), any capital reorganization, any consolidation or merger (other than a merger in which no distribution of securities or other property is to be made to holders of shares of Common Stock), any sale or lease or transfer or other disposition of all or substantially all of its property, assets and business, or the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to the Warranholder notice of such proposed action, which notice shall specify the date on which (a) the books of the Company shall close, or (b) a record shall be taken for determining the holders of Common Stock entitled to receive such stock dividends or other distribution or such rights or options, or (c) such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, dissolution or winding up shall take place or commence, as the case may

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be, and the date, if any, as of which it is expected that holders of record of Common Stock shall be entitled to receive securities or other property deliverable upon such action. Such notice shall be given in the case of any action covered by clause (i) or (ii) above at least ten days prior to the record date for determining holders of Common Stock for purposes of receiving such payment or offer, or in the case of any action covered by clause (iii) above at least 30 days prior to the date upon which such action takes place and 20 days prior to any record date to determine holders of Common Stock entitled to receive such securities or other property.

6.5 Effect of Failure to Notify. Failure to file any certificate or notice or to give any notice, or any defect in any certificate or notice, pursuant to Sections 6.3 and 6.4 shall not affect the legality or validity of the adjustment to the Exercise Price, the number of shares purchasable upon exercise of this Warrant, or any transaction giving rise thereto.

7. Reports Under Securities Exchange Act of 1934. With a view to making available to the Holders the benefits of Rule 144 promulgated under the Securities Act or any other similar rule or regulation of the SEC that may at any time permit the Holders to sell securities of the Company to the public without registration (“Rule 144”), the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144, at all times;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(c) furnish to each Holder so long as such Holder owns Warrants, promptly upon request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to permit the Holders to sell such securities without registration.

8. Amendments. Any provision of this Warrant may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent or approval of the Company and the Holders who hold a majority in interest of the Warrants; provided that it is not necessary that the exact form of the amendment be approved by the holders of a majority in interest of the Warrants if such holders have approved the substance of such amendment. Any amendment or waiver effected in accordance with this Section 8 shall be binding upon each Holder and the Company.

9. Expiration of the Warrant. The obligations of the Company pursuant to this Warrant shall terminate on the Expiration Date.

10. Definitions. As used herein, unless the context otherwise requires, the following terms have the following respective meanings:

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“Aftermarket Freightliner Receiver” shall mean each Sirius Receiver equipped to receive the Sirius Service, and not any Competing Service, which is sold by a Freightliner dealer, Travel Center of America location or other heavy truck dealer or service center owned, controlled by or affiliated with Freightliner from time to time.

“Assignment Form” shall mean an instrument of transfer of a warrant in the form annexed hereto as Exhibit B.

“Board” shall mean the Board of Directors of the Company or any duly authorized committee thereof.

“Bundled DCC Factory Enabled Vehicle” shall mean any DCC Factory Enabled Vehicle that includes a one-year prepaid subscription to the Sirius Service.

“Business Day” shall mean any day other than a Saturday, Sunday or a day on which banks are required or authorized by law to close in The City of New York, State of New York.

“By-laws” shall mean the Amended and Restated By-laws of the Company, as the same may be amended and in effect from time to time.

“Certificate of Incorporation” shall mean the Amended and Restated Certificate of Incorporation of the Company, as the same may be amended and in effect from time to time.

“Common Stock” shall have the meaning specified on the cover of this Warrant.

“Company” shall have the meaning specified on the cover of this Warrant.

“Competing Service” shall mean any satellite digital audio radio service offered in the continental United States within the frequency range from 2310 to 2360 megahertz.

“Contractual Obligation” shall mean as to any Person, any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument to which such Person is a party or by which it or any of its property is bound.

“DaimlerChrysler” shall have the meaning specified in Section 1.1.

“DaimlerChrysler Enabled Vehicle” shall mean any vehicle which contains a Sirius Receiver capable of receiving the Sirius Service, and not any Competing Service, that was installed in (a) a factory owned or operated by DaimlerChrysler, any present or future subsidiary of DaimlerChrysler, or (b) the factory from which DaimlerChrysler or any present or future subsidiary of DaimlerChrysler acquired such vehicle for distribution in the United States, or (c) any other service facility designated in writing by DaimlerChrysler (which may include dealerships as long as such installation principally results from a program authorized by DaimlerChrysler).

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“DCAG” shall have the meaning specified on the cover of this Warrant.

“DCC” shall have the meaning specified in Section 1.1.

“DCC Factory Enabled Vehicle” shall mean any DCC vehicle that contains a Sirius Receiver that was installed in a factory owned or operated by DCC or any present or future subsidiary of DCC.

“Eligible Vehicle” means a DaimlerChrysler Enabled Vehicle or any vehicle containing an Aftermarket Freightliner Receiver.

“Exchange Act” shall mean the Securities Exchange Act of 1934 or any similar Federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time. Reference to a particular section of the Exchange Act shall include a reference to a comparable section, if any, of any such similar Federal statute.

“Exercise Form” shall mean a request to exercise this Warrant in the form annexed hereto as Exhibit A.

“Exercise Price” shall have the meaning specified on the cover of this Warrant.

“Expiration Date” shall have the meaning specified on the cover of this Warrant.

“Fair Market Value” shall mean, with respect to a share of Common Stock as of a particular date (the “Determination Date”):

(i) if the Common Stock is registered under the Exchange Act, (a) the average of the daily closing sales prices of the Common Stock for the 20 consecutive trading days immediately preceding such date, or (b) if the securities have been registered under the Exchange Act for less than 20 consecutive trading days before such date, then the average of the daily closing sales prices for all of trading days before such date for which closing sales prices are available, in the case of each of (a) and (b), as certified by any Vice President or the Chief Financial Officer of the Company; or

(ii) if the Common Stock is not registered under the Exchange Act, then the Fair Market Value shall be as reasonably determined in good faith by the Board or a duly appointed committee of the Board (which determination shall be reasonably described in the written notice given to the Warrantholder).

For the purposes of clause (i) of this definition, the closing sales price for each such trading day shall be: (1) in the case of a security listed or admitted to trading on any United States national securities exchange or quotation system, the closing sales price, regular way, on such day, or if no sale takes place on such day, the average of the closing bid and asked prices on such day; (2) in the case of a security not then listed or admitted

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to trading on any national securities exchange or quotation system, the last reported sale price on such day, or if no sale takes place on such day, the average of the closing bid and asked prices on such day, as reported by a reputable quotation source designated by the Company; (3) in the case of a security not then listed or admitted to trading on any national securities exchange or quotation system and as to which no such reported sale price or bid and asked prices are available, the average of the reported high bid and low asked prices on such day, as reported by a reputable quotation service, or a newspaper of general circulation in the Borough of Manhattan, City and State of New York, customarily published on each Business Day, designated by the Company, or if there shall be no bid and asked prices on such day, the average of the high bid and low asked prices, as so reported, on the most recent day (not more than 30 days prior to the date in question) for which prices have been so reported; and (4) if there are no bid and asked prices reported during the 30 days prior to the date in question, the Fair Market Value shall be determined as if the securities were not registered under the Exchange Act.

“FCC” shall mean the Federal Communications Commission.

“Freightliner” shall have the meaning specified in Section 1.1.

“Governmental Authority” shall mean the government of any nation, state, city, locality or other political subdivision of any thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government or any international regulatory body having or asserting jurisdiction over a Person, its business or its properties.

“Head Unit” shall mean a device, which is integrated in the dashboard of a vehicle, which provides the user interface for the reception of radio signals and, in some cases, the playback of recorded media, such as cassette tapes, compact discs, minidisks and DVDs.

“Holder(s)” shall mean holder(s) of Warrants.

“HSR Act” shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations of the Federal Trade Commission thereunder.

“Integrated Head Unit” shall mean a Head Unit which is capable of receiving and outputting the Sirius Service, and all related textual data, as a result of circuitry contained in the Head Unit.

“Lien” shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, encumbrance, lien (statutory or other), restriction or other security interest of any kind or nature whatsoever.

“Mercedes” shall have the meaning specified in Section 1.1.

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“Nasdaq” shall mean the National Association of Securities Dealers Automated Quotations System.

“Person” shall mean any individual, firm, corporation, partnership, limited liability company, trust, incorporated or unincorporated association, joint venture, joint stock company, Governmental Authority or other entity of any kind.

“Requirement of Law” shall mean, as to any Person, the Certificate of Incorporation and Bylaws, or other organizational or governing documents, of such Person, and any law, treaty, rule, regulation, qualification, license or franchise or determination of an arbitrator or a court or other Governmental Authority, in each case applicable or binding upon such Person or any of its property or to which such Person or any of its property is subject or pertaining to any or all of the transactions contemplated hereby.

“Rule 144” shall have the meaning specified in Section 7.

“SEC” shall mean the Securities and Exchange Commission or any other Federal agency at the time administering the Securities Act or the Exchange Act, whichever is the relevant statute for the particular purpose.

“Securities Act” shall have the meaning specified on the cover of this Warrant, or any similar Federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time. Reference to a particular section of the Securities Act, shall include a reference to the comparable section, if any, of any such similar Federal statute.

“Sirius Chip Set” shall mean the generation 2.5 set of integrated circuits (including the Northstar baseband and combined tuner chip) capable of receiving, decoding, decompressing and outputting the Sirius Service.

“Sirius Receiver” shall mean (a) a Head Unit which is capable of receiving and outputting the Sirius signal, either as a result of circuitry included in the Head Unit itself or as a result of another device and (b) an antenna capable of receiving the Sirius signal.

“Sirius Service” shall mean the digital audio radio service that the Company offers to Sirius Subscribers which permits such Sirius Subscribers to receive a multichannel audio service broadcast from satellites and, in certain instances, terrestrial repeaters.

“Sirius Standard Module” shall mean a device manufactured by Ki Ryung Electronics Co., Ltd. or Wistron NeWeb Corporation that contains a Sirius Chip Set and, when integrated into a Head Unit, enables such Head Unit to receive and output the Sirius Service and all related textual data.

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“Sirius Subscriber” shall mean any person or entity that pays the Company for the right to receive the Sirius Service.

“Subsidiary” shall mean, in respect of any Person, any other Person of which, at the time as of which any determination is made, such Person or one or more of its subsidiaries has, directly or indirectly, voting control.

“Warrantholder” shall have the meaning specified on the cover of this Warrant.

“Warrant Shares” shall have the meaning specified on the cover of this Warrant.

11. No Impairment. The Company shall not by any action, including, without limitation, amending the Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but shall at all times in good faith assist in the carrying out of all such terms and in the taking of all such reasonable actions as may be necessary or appropriate to protect the rights of the Warrantholder against impairment. Without limiting the generality of the foregoing, the Company shall (a) take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant, and (b) provide reasonable assistance to the Warrantholder in obtaining all authorizations, exemptions or consents from any Governmental Authority which may be necessary in connection with the exercise of this Warrant.

## 12. Miscellaneous.

12.1 Entire Agreement. This Warrant constitutes the entire agreement between the Company and the Warrantholder with respect to the Warrants.

12.2 Binding Effects; Benefits. This Warrant shall inure to the benefit of and shall be binding upon the Company and the Warranholders and their respective heirs, legal representatives, successors and assigns. Nothing in this Warrant, expressed or implied, is intended to or shall confer on any Person other than the Company and the Warranholders, or their respective heirs, legal representatives, successors or assigns, any rights, remedies, obligations or liabilities under or by reason of this Warrant.

12.3 Section and Other Headings. The section and other headings contained in this Warrant are for reference purposes only and shall not be deemed to be a part of this Warrant or to affect the meaning or interpretation of this Warrant.

12.4 Pronouns. All pronouns and any variations thereof refer to the masculine, feminine or neuter, singular or plural, as the context may require.

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12.5 Further Assurances. Each of the Company and the Warrantholder shall do and perform all such further acts and things and execute and deliver all such other certificates, instruments and documents as the Company or the Warrantholder may, at any time and from time to time, reasonably request in connection with the performance of any of the provisions of this Warrant.

12.6 Notices. All notices and other communications required or permitted to be given under this Warrant shall be in writing and shall be deemed to have been duly given if (i) delivered personally or (ii) sent by facsimile or recognized overnight courier or by United States first class certified mail, postage prepaid, to the parties hereto at the following addresses or to such other address as any party hereto shall hereafter specify by notice to the other party hereto:

if to the Company, addressed to:

Sirius Satellite Radio Inc.  
1221 Avenue of the Americas  
36th Floor  
New York, New York 10020  
Attention: Chief Financial Officer  
Telecopy: (212) 584-5353

if to the Warrantholder, addressed to:

DaimlerChrysler AG  
c/o DaimlerChrysler Corporation  
1000 Chrysler Drive  
CIMS 485-14-78  
Auburn Hills, Michigan 48326-2766  
Attention: Assistant Secretary  
Telecopy: (248) 512-1771

Except as otherwise provided herein, all such notices and communications shall be deemed to have been received (a) on the date of delivery thereof, if delivered personally or sent by facsimile, (b) on the second Business Day following delivery into the custody of an overnight courier service, if sent by overnight courier, provided that such delivery is made before such courier's deadline for next-day delivery, or (c) on the third Business Day after the mailing thereof.

12.7 Separability. Any term or provision of this Warrant which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the terms and provisions of this Warrant or affecting the validity or enforceability of any of the terms or provisions of this Warrant in any other jurisdiction.

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12.8 Governing Law. This Warrant shall be deemed to be a contract made under the laws of New York and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to such agreements made and to be performed entirely within such State.

12.9 No Rights or Liabilities as Stockholder. Nothing contained in this Warrant shall be deemed to confer upon the Warrantholder any rights as a stockholder of the Company or as imposing any liabilities on the Warrantholder to purchase any securities whether such liabilities are asserted by the Company or by creditors or stockholders of the Company or otherwise.

12.10 Representations of the Company. The Company hereby represents and warrants, as of the date hereof, to the Warrantholder as follows:

(a) Corporate Existence and Power. The Company (i) is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware; (ii) has all requisite corporate power and authority to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is engaged; and (iii) has the corporate power and authority to execute, deliver and perform its obligations under this Warrant. The Company is duly qualified to do business as a foreign corporation in, and is in good standing under the laws of, each jurisdiction in which the conduct of its business or the nature of the property owned requires such qualification.

(b) Corporate Authorization; No Contravention. The execution, delivery and performance by the Company of this Warrant and the transactions contemplated hereby, including, without limitation, the sale, issuance and delivery of the Warrant Shares, (i) have been duly authorized by all necessary corporate action of the Company; (ii) do not contravene the terms of the Certificate of Incorporation or Bylaws; and (iii) do not violate, conflict with or result in any breach or contravention of, or the creation of any Lien under, any Contractual Obligation of the Company or any Requirement of Law applicable to the Company. No event has occurred and no condition exists which, upon notice or the passage of time (or both), would constitute a default under any indenture, mortgage, deed of trust, credit agreement, note or other evidence of indebtedness or other material agreement of the Company or the Certificate of Incorporation or Bylaws.

(c) Issuance of Warrant Shares. The Warrant Shares have been duly authorized and reserved for issuance. When issued, such shares will be validly issued, fully paid and non-assessable, and free and clear of all Liens and preemptive rights, and the holders thereof shall be entitled to all rights and preferences accorded to a holder of Common Stock.

(d) Binding Effect. This Warrant has been duly executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance or transfer,

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moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

SIRIUS SATELLITE RADIO INC.

By: /s/ Patrick L. Donnelly  
Patrick L. Donnelly  
Executive Vice President  
and  
General Counsel

Dated: October 4, 2005

Attest:

By: /s/ Ruth A. Ziegler  
Ruth A. Ziegler  
Assistant Secretary

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EXERCISE FORM

(To be executed upon exercise of this Warrant)

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant, to purchase \_\_\_\_\_ shares of Common Stock and herewith tenders payment for such Common Stock to the order of Sirius Satellite Radio Inc. in the amount of \$\_\_\_\_\_, which amount includes payment of the par value for \_\_\_\_\_ of the Common Stock, in accordance with the terms of this Warrant. The undersigned requests that a certificate for such shares of Common Stock be registered in the name of \_\_\_\_\_ and that such certificates be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

Dated: \_\_\_\_\_

Signature \_\_\_\_\_

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
(Street Address)

\_\_\_\_\_  
(City) (State) (Zip Code)

Signed in the Presence of:

\_\_\_\_\_

\_\_\_\_\_

FORM OF ASSIGNMENT

(To be executed only upon transfer of this Warrant)

For value received, the undersigned registered holder of the within Warrant hereby sells, assigns and transfers unto \_\_\_\_\_ the right represented by such Warrant to purchase \_\_\_\_\_ shares of Common Stock of Sirius Satellite Radio Inc. to which such Warrant relates and all other rights of the Warrantholder under the within Warrant, and appoints \_\_\_\_\_ Attorney to make such transfer on the books of Sirius Satellite Radio Inc. maintained for such purpose, with full power of substitution in the premises. This sale, assignment and transfer has been previously approved in writing by Sirius Satellite Radio Inc.

Dated: \_\_\_\_\_

Signature \_\_\_\_\_

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
(Street Address)

\_\_\_\_\_  
(City) (State) (Zip Code)

Signed in the presence of:

\_\_\_\_\_

EXHIBIT 31.1

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 September 30, 2005;
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)

November 8, 2005

EXHIBIT 31.2

#### 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 September 30, 2005;
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)

November 8, 2005

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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 September 30, 2005 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)

November 8, 2005

*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 September 30, 2005 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/ D AVID J. F REAR  
David J. Frear  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

November 8, 2005

*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.*

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**End of Filing**



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