2004 ANNUAL REPORT AND PROXY STATEMENT

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Dear Stockholders,

2004 was by far the most exciting year in the history of SIRIUS. During the year, we announced and began numerous initiatives in programming, product development, and our automotive distribution channel that clearly appealed to consumers and positively positioned us for spectacular growth in the future. We also over delivered on promises to add a large number of new subscribers, to increase our market share and to significantly lower our subscriber acquisition costs, or SAC. Plus, we continued to maintain a strong balance sheet with substantial cash.

As we move into 2005, we will continue to make progress in all of these areas while also controlling our costs. Our goal is to build SIRIUS into an entertainment powerhouse, offering the best programming in satellite radio—and in all of radio!

The market opportunity for satellite radio is huge.

- More than 200 million vehicles are on the road today, and approximately 16-17 million new cars and light trucks are sold each year in the U.S.
- There are also more than 100 million households in the country, which represents an additional market opportunity for satellite radio. Add to this millions of heavy trucks, boats, RVs, retail stores, restaurants and offices, and it's easy to see that satellite radio has a potential market of more than 300 million subscriptions. So we believe that there is ample room for spectacular growth.

Our subscriber base is growing, satisfaction remains very high and awareness has dramatically increased.

- We ended 2004 with 1,143,258 subscribers, significantly beating our year-end target of 1 million. For 2005, we expect to finish the year with more than 2.5 million subscribers.
- Our subscribers love SIRIUS, with 95% of them satisfied with the service. Plus, when in their cars, they spend over 80% of their time listening to SIRIUS.
- Awareness of satellite radio increased dramatically in 2004, and the category is now well recognized across the country.
- Also, our retail market share increased, placing us at near-parity with our competitor at the end of the year.

We experienced strong revenue growth and lowered our subscriber acquisition costs.

- In 2004, our revenue increased by 419% over the previous year.
- Our SAC per gross additional subscriber for 2004 dropped significantly to $177, well below our target of less than $200 for the year.

We have the best programming in satellite radio.

- SIRIUS pioneered 100% commercial-free music in satellite radio. Today, we have more than 120 channels of quality programming, including 65 channels of commercial-free music and more than 55 channels of sports, news, talk, entertainment, traffic and weather.
- We are the leader in sports programming with the NFL, NBA, NHL, English Premier League soccer, college sports from 120 schools across the country and beginning in 2007, NASCAR races and events. Only SIRIUS offers a 24/7 NFL channel, covering exciting NFL action from the spring draft and summer training to live, play-by-play broadcasts of all regular season and playoff games, including the Super Bowl.
- And we have added more major brand names and popular celebrities to our programming roster, including Maxim, Eminem's Shade 45, Lance Armstrong, Tony Hawk, Bill Walton, 50 Cent, Jay Thomas and beginning in January of 2006, Howard Stern.
- As we move into 2005 and beyond, we will continue to provide our subscribers with the most diversified selection of programming available. Content is "king" in the entertainment industry, and SIRIUS will continue to rule this space in radio.

Our automotive and retail partner relationships helped propel growth.

- In 2004, we saw a strong increase in subscribers from our automotive, trucking and boating channels. With factory programs currently in place and those launching in 2005, we believe that we will continue to see significant gains from these channels.
- Ford announced plans to offer SIRIUS exclusively as a factory-installed option in up to 21 vehicle lines, beginning with the 2006 and 2007 model years. Ford also expects to generate up to 1 million SIRIUS subscribers in those model years by mid 2007.
- DaimlerChrysler launched its exclusive SIRIUS factory programs in the fall of 2004, and announced that it was on track to generate over 500,000 SIRIUS subscribers for the 2005 and 2006 model years by mid 2006.
- Mitsubishi announced that it would begin offering SIRIUS exclusively as a factory-installed option on the 2006 Mitsubishi Raider later this year, with more models to come next year.
- BMW continues to offer SIRIUS exclusively as a factory-installed option in most of its vehicle lines, including the popular 3 Series.
- We ended 2004 with approximately 50 factory installation programs in place. In 2005, we expect to see SIRIUS available in nearly 100 models, with 65 factory installation programs.

- The addition of a number of retail partners, including RadioShack, Target, Wal-Mart, Office Depot and DISH Network outlets, was also critical to our success in 2004. There are now more than 25,000 sales locations nationwide selling SIRIUS products, and over 10 million DISH Network customers can now experience our music programming over their television sets.

Our product portfolio continues to grow.

- During 2004, we expanded our product offering to include multiple "Plug & Play" receivers, many with boom box attachments. These included products from JVC, Sanyo, XACT, Clarion, Audiovox, Kenwood and Blaupunkt, as well as products we designed in-house such as the Sportster and Orbiter models.
- In early 2005, we introduced Star Mate, which is about the size of a deck of cards, making it SIRIUS' smallest "Plug & Play" receiver.
- We developed a single-piece system, called SiriusConnect, which is compatible with SIRIUS-ready headunits from manufacturers such as Alpine, Audiovox, JVC, Kenwood, Eclipse and Pioneer. The SiriusConnect allows headunits that are up to three years old and were designed by Alpine and Pioneer for our satellite radio competitor to connect to SIRIUS, enabling their owners to switch to our service.
- In time for the 2005 holiday season, we expect to further refine our product offering with the introduction of our third generation chip set. Products utilizing this next-generation chip set will be smaller, with lower power requirements, and will cost less to build.

We maintained a strong balance sheet, with significant cash and low debt.

- We ended 2004 with $759 million in cash, $599 million in convertible debt—$597 million of which is "in-the-money," and $57 million in non-convertible debt, which gives us very little "true" long-term debt.
- Our strong cash position gives us great flexibility, and favorably positions us for future growth.

What is our outlook for 2005?

- We predict that 2005 will be an even more exciting year for the industry and for SIRIUS.
- We will focus on executing our plan to generate strong subscriber growth and dramatically increase revenue.
- We will continue to invest in growth at SIRIUS, while keeping a laser-like focus on controlling costs.
- We will introduce an exciting array of new products in time for the busy holiday season.
- We will expand our leadership position in programming.
- And we will continue to drive down our subscriber acquisition costs.

To make SIRIUS even more compelling, and to respond to requests from our automotive partners, we plan to introduce data and video services, including real-time traffic and navigation information and sports scores, in the future that will enhance the driving experience for our subscribers. In addition, SIRIUS plans to launch a marine weather service that will be offered for both OEM and aftermarket boat sales. This will be a premium priced service to address the needs of recreational and commercial boaters by providing comprehensive marine specific information. But even as we expand our service capabilities, we will never waiver from our primary goal to make SIRIUS synonymous with world-class entertainment.

As the new CEO, and as a SIRIUS stockholder and subscriber, I can also tell you that we are fortunate to have an experienced management team and dedicated employees. They are 100% committed to achieving our objectives and increasing stockholder value.

I would also like to thank our Chairman of the Board, Joe Clayton, for his tremendous contribution as CEO over the past three years. Joe's leadership helped transform this company from a little-known concept into an operational reality. His management experience, high-level business contacts and determination clearly drove our success in penetrating the retail market place, expanding our programming lineup, and in enhancing our relationships with consumer electronics companies and our automotive partners. He steered the company through some challenging times, and helped provide us with the strong balance sheet we have today. I look forward to working with him as we take the company to the next level.

During the fourth quarter of 2004, SIRIUS was added to the NASDAQ 100 index, a significant milestone in our evolution. SIRIUS was also the most actively traded stock on the NASDAQ during that quarter, with a total volume of nearly 7.9 billion shares, and an average daily trading volume of 121 million shares. This recognition greatly raised our awareness in the financial community.

I would also like to take this opportunity to assure our stockholders that, while we have issued stock in the past for a variety of sound business reasons, we value our equity very highly, and we will be more discriminating than ever before issuing stock in the future.

Finally, I want to thank all of our stockholders and employees for their continued support and dedication. These are exciting times, and we are fortunate to have you with us as we reshape the future of entertainment together.

Mel Karmazin
Chief Executive Officer

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 report. 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 this report and in our Annual Report on Form 10-K for the year ended December 31, 2004.

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 our 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.*

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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 and long-term subscriptions as well as discounts for multiple subscriptions. Approximately 63% of the subscribers we acquired during the year ended December 31, 2004 purchased an annual subscription with an effective monthly subscription fee of $11.88.

Since inception, we have used substantial resources to develop our satellite radio system. Our satellite radio system consists of our FCC license, satellite system, 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 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 costs of services include satellite and transmission, programming and content, customer service and billing, and costs associated with the sale of equipment. Satellite and transmission expenses currently consist of costs associated with the operation and maintenance of our satellite

tracking, telemetry and control system, terrestrial repeater network 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 center and subscriber management system.

As of December 31, 2004, we had 1,143,258 subscribers as compared with 261,061 subscribers as of December 31, 2003. Our subscriber totals include subscribers under our regular pricing plans, as well as subscribers currently in promotional periods; subscribers that have prepaid, including payments received from vehicle manufacturers for prepaid subscriptions included in the sale or lease 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 December 31,		
	2004	2003	2002
Retail	797,039	197,650	26,203
OEM and special markets	317,685	39,400	1,800
Hertz	28,534	24,011	1,944
Total subscribers	1,143,258	261,061	29,947

Metrics

	For the Years Ended December 31,		
	2004	2003	2002
Gross subscriber additions	986,556	255,798	31,504
Average monthly churn(1)(5)	1.6%	1.5%	4.1%
Reported ARPU(2)(5)	$ 10.02	$ 9.39	$ 7.47
Subscriber acquisition costs per gross activation(3)(5)	$ 177	$ 293	$ 668
Total revenue	$ 66,854	$ 12,872	$ 805
Adjusted loss from operations(4)(5)	$(456,209)	$(330,094)	$(238,098)
Net cash used in operating activities	$(334,463)	$(284,487)	$(320,811)

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

(2) Average monthly revenue per subscriber, or ARPU, is derived from total subscriber revenue over the daily weighted average number of subscribers for the period.

(3) Subscriber acquisition costs per gross activation is derived from total subscriber acquisition costs and the negative margins from the direct sale of SIRIUS radios and accessories over the number of gross activations 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. This measure most closely resembles EBITDA, a common financial measure used in analyzing the performance of companies. A reconciliation of our reported loss from operations to our adjusted loss from operations is set forth below:

	For the Years Ended December 31,		
	2004	2003	2002
Loss from operations, as reported	$(678,304)	$(437,530)	$(313,127)
Depreciation	95,370	95,353	82,747
Equity granted to third parties and employees	126,725	12,083	(7,718)
Adjusted loss from operations	$(456,209)	$(330,094)	$(238,098)

(5) Average monthly churn, ARPU, subscriber acquisition costs per gross activation 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.

SIRIUS radios are primarily distributed through retailers and automakers. SIRIUS radios are available for sale at national and regional retailers, including Best Buy, Circuit City, Wal-Mart, RadioShack, Crutchfield, Office Depot, Sears, Target, Ultimate Electronics, Tweeter Home Entertainment Group, Good Guys, Kmart and DISH Network outlets. On December 31, 2004, SIRIUS radios were available at over 25,000 retail locations. SIRIUS radios are also offered to renters of Hertz vehicles at approximately 53 airport locations. In addition, we 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.

Since January 1, 2004, we improved our brand awareness, distribution and content through agreements with the NFL, RadioShack, EchoStar, Howard Stern and NASCAR. Specifically,

- in January 2004, we signed a seven-year agreement with the NFL to broadcast NFL games live nationwide, and to become the Official Satellite Radio Partner of the NFL, with exclusive rights to use the NFL "shield" logo and collective NFL team trademarks. In 2004, we created "SIRIUS NFL Radio," an around-the-clock exclusive channel of NFL content featuring both league-wide programs and team-specific shows;
- in February 2004, we signed an exclusive agreement with RadioShack to distribute, market and sell SIRIUS radios;
- in February 2004, we signed an agreement with EchoStar which allows EchoStar customers to listen to our service;
- in October 2004, we entered into an agreement with Howard Stern and his production company to move his radio show to our service on January 1, 2006 as part of a channel created by Stern; and
- in February 2005, we entered into an agreement with NASCAR to broadcast live all NASCAR Nextel Cup Series, NASCAR Busch Series and NASCAR Craftsman Truck Series races for five years starting in 2007. As part of that agreement, we will create a new around-the-clock channel of NASCAR-related programming and will become the Official Satellite Radio Partner of NASCAR with exclusive trademark and marketing rights and the right to sell advertising time on the NASCAR channel and during races.

We have principally funded our operations through the sale of debt and equity securities. We raised net proceeds of $614,438 in 2004 through the offering of:

- 25,000,000 shares of our common stock;
- $230,000 in aggregate principal amount of our 3¼% Convertible Notes due 2011; and
- $300,000 in aggregate principal amount of our 2½% Convertible Notes due 2009.

In 2003, we raised net proceeds of $686,883 through the offering of:

- 371,151,111 shares of our common stock; and
- $201,250 in aggregate principal amount of our 3½% Convertible Notes due 2008.

In 2003, we also restructured our debt and equity capitalization, resulting in the elimination of 91% of our then outstanding debt. The increase in overall liquidity and reduction of the average interest rate on our outstanding debt from 12.6% prior to the restructuring to 4.0% at December 31, 2004 has better positioned us to meet our business plan.

We have incurred operating losses since inception and expect to continue to incur operating losses until the number of our subscribers increases substantially and we develop cash flows sufficient to cover our operating costs. We also have significant commitments over the next several years, including subsidies and distribution costs, programming costs, repayment of long-term debt and lease payments, as further described under the heading "Contractual Cash Commitments." Our ability to become profitable also depends upon other factors identified under the heading "Liquidity and Capital Resources."

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 additional automakers that agree to factory and dealer-install SIRIUS radios and additional retail points-of-sale.

Selected Consolidated Financial Data

Our selected consolidated financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2004, 2003 and 2002, and with respect to the consolidated balance sheets at December 31, 2004 and 2003, are derived from our consolidated financial statements audited by Ernst & Young LLP, independent registered public accounting firm, included in this report. Our selected consolidated financial data set forth below with respect to the consolidated balance sheet at December 31, 2002 is derived from our consolidated financial statements audited by Ernst & Young LLP, which is not included in this report. Our selected consolidated financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2001 and 2000, and with respect to the consolidated balance sheets at December 31, 2001 and 2000, are derived from our consolidated financial statements audited by Arthur Andersen LLP, which are not included in this report. This selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto beginning on page 24 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

STATEMENTS OF OPERATIONS DATA

	For the Years Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands, except per share amounts)				
Total revenue	$ 66,854	$ 12,872	$ 805	$ —	$ —
Net loss[1]	(712,162)	(226,215)	(422,481)	(235,763)	(134,744)
Net loss applicable to common stockholders[1]	(712,162)	(314,423)	(468,466)	(277,919)	(183,715)
Net loss per share applicable to common stockholders (basic and diluted)	$ (0.57)	$ (0.38)	$ (6.13)	$ (5.30)	$ (4.72)
Weighted average common shares outstanding (basic and diluted)	1,238,585	827,186	76,394	52,427	38,889

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

BALANCE SHEET DATA

	As of December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Cash and cash equivalents	$ 753,891	$ 520,979	$ 18,375	$ 4,726	$ 14,397
Restricted investments, at amortized cost	97,321	8,747	7,200	21,998	48,801
Marketable securities, at market	5,277	28,904	155,327	304,218	121,862
Working capital[1]	541,526	497,661	151,289	275,732	143,981
Total assets	1,957,613	1,617,317	1,340,940	1,527,605	1,323,582
Long-term debt, net of current portion	656,274	194,803	670,357	639,990	522,602
Accrued interest, net of current portion	—	—	46,914	17,201	10,881
Preferred stock	—	—	531,153	485,168	443,012
Accumulated deficit	(1,865,856)	(1,153,694)	(927,479)	(504,998)	(269,235)
Stockholders' equity[2]	1,000,633	1,325,194	36,846	322,649	290,483

(1) The calculation of working capital includes current portions of long-term debt and accrued interest. Certain portions of long-term debt and accrued interest, which would have been classified as current absent our restructuring in March 2003, were classified as long-term as of December 31, 2002, as they were exchanged for shares of our common stock in March 2003.

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

Results of Operations

Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

Total Revenue

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

As of December 31, 2004, we had 1,143,258 subscribers, compared to 261,061 at December 31, 2003, an increase of 882,197 subscribers. Our subscriber totals include subscribers in promotional periods; subscribers that have prepaid, including payments received from vehicle manufacturers for subscriptions included in the sale or lease of a new vehicle; and active SIRIUS radios under our agreement with Hertz. At the time of sale, vehicle owners purchasing or leasing a vehicle with a subscription typically receive between six months and one year prepaid subscription.

Subscriber revenue increased $50,266 to $62,881 for the year ended December 31, 2004 from $12,615 for the year ended December 31, 2003. The increase in total subscriber revenue was attributable to the growth of subscribers to our service. We added 882,197 net new subscribers during the year ended December 31, 2004 compared to 231,114 net new subscribers during the year ended December 31, 2003.

The following table contains a breakdown of our subscriber revenue:

	For the Years Ended December 31,		
	2004	2003	Variance
Subscription fees	$65,201	$13,759	$51,442
Activation fees	2,102	534	1,568
Effects of mail-in rebates	(4,422)	(1,678)	(2,744)
Total subscriber revenue	$62,881	$12,615	$50,266

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.

Average monthly revenue per subscriber, or ARPU. Set forth below is a table showing ARPU and our average monthly revenue per Hertz subscriber:

	For the Years Ended December 31,	
	2004	2003
ARPU	$10.91	$12.02
Effects of Hertz subscribers	(0.19)	(1.38)
ARPU before effects of mail-in rebates	10.72	10.64
Effects of mail-in rebates	(0.70)	(1.25)
Reported ARPU	$10.02	$ 9.39
Average monthly revenue per Hertz subscriber	$ 7.10	$ 3.13

ARPU includes revenue recognized from subscribers in promotional periods and from subscribers that have prepaid, including that portion of revenue recognized on payments received from vehicle manufacturers for subscriptions included in the sale or lease of a new vehicle that have activated our service.

Lower ARPU for the year ended December 31, 2004 as compared with the year ended December 31, 2003 resulted from promotional activity, our $6.99 multi-receiver plan, and the popularity of our annual and longer subscription plans. Higher reported ARPU resulted from an improvement in the effects of mail-in rebates, as a result of the increase in our average subscriber base and the impact of the reduction of our rebate offer to $30 from $50 per eligible activation, and an improvement in our Hertz program.

Future ARPU will be dependent upon the amount and timing of promotions, 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 $790 to $906 for the year ended December 31, 2004 from $116 for the year ended December 31, 2003. The increase was a direct result of an increase in the number of spots sold. Advertising revenue is dependent on the availability of advertising inventory to sell.

We expect advertising revenue to grow as we increase our ad sales, our subscriber base increases and we continue to improve brand awareness and content.

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

Equipment revenue increased $2,837 to $2,898 for the year ended December 31, 2004 from $61 for the year ended December 31, 2003. The increase was attributable to the increased sales from our direct to consumer distribution channel, which we launched in the fourth quarter of 2003.

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 tracking, telemetry and control system, terrestrial repeater network and national broadcast studio.

Satellite and transmission expenses decreased $1,447 to $31,157 for the year ended December 31, 2004 from $32,604 for the year ended December 31, 2003. The decrease was primarily attributable to a $3,605 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; the practices of other satellite companies as to in-orbit insurance; and the likelihood that a catastrophic failure of one or more of our satellites may not be covered by the available insurance or would fall within a policy exclusion. In addition, during 2003, we recorded a loss of $1,028 as a result of the write-off of site acquisition costs capitalized in prior periods for terrestrial repeaters that will not be placed in operation. Such decreases were offset by increased costs associated with additional technical lines used primarily to receive programming from third parties, maintenance of existing terrestrial repeaters and the addition of new terrestrial repeaters and the purchase of our satellite uplink facility. As of December 31, 2004, we had 137 terrestrial repeaters in operation as compared with 133 as of December 31, 2003.

Increases in satellite and transmission expenses will be primarily attributable to the addition of new terrestrial repeaters and maintenance to existing terrestrial repeaters.

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 $33,735 to $63,949 for the year ended December 31, 2004 from $30,214 for the year ended December 31, 2003. The increase was primarily attributable to the expansion of our programming line-up, including personnel-related costs, consultant costs, license fees and advertising revenue share. Specifically, $16,239 was related to license fees pursuant to our agreement with the NFL. We also incurred additional on-air talent costs due to the expansion of our programming line-up and variable broadcast royalties as a result of the increase in our subscriber base.

We anticipate that our programming and content expenses will increase significantly 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 new 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 center and subscriber management system.

Customer service and billing expenses decreased $1,316 to $22,341 for the year ended December 31, 2004 from $23,657 for the year ended December 31, 2003. The decrease in customer service and billing expenses was primarily due to a $14,465 loss on the disposal of our prior subscriber management system in May 2003 as a result of the termination of our agreement with the provider. This decrease was offset by increased customer service representative costs and credit card fees necessary to support the growth of our subscriber base and increased operation and maintenance costs associated with our new billing system implemented in 2004. Customer service and billing expenses, excluding the loss on disposal of our prior subscriber management system, increased 143% compared with an increase in our end of period subscribers of 338% as of December 31, 2004 as compared with December 31, 2003. Excluding the loss on disposal of our prior subscriber management system, customer service and billing expenses per average subscriber per month for 2004 was $3.56 compared with $6.84 for 2003.

We expect our customer service and billing expenses to increase and our costs per average subscriber to decrease as our subscriber base grows.

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

Cost of equipment increased $3,352 to $3,467 for the year ended December 31, 2004 from $115 for the year ended December 31, 2003. The increase in cost of equipment was attributable to the increased sales from our direct to consumer distribution channel, which we launched in the fourth quarter of 2003.

We expect cost of equipment to increase in the future as we continue to introduce new products and as sales through our direct to consumer distribution channel continue to 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 increased $33,128 to $153,899 for the year ended December 31, 2004 from $120,771 for the year ended December 31, 2003. The increase was a result of higher advertising media and production costs primarily due to launch costs for our SIRIUS NFL Sunday Drive initiative, offset in part by a decline in media spending incurred in connection with the introduction of our Plug & Play radios for the year ended December 31, 2003 and a decline in sponsorship costs. Distribution costs also increased primarily as a result of costs associated with the expansion of our retail distribution channel, including our national rollout in RadioShack stores. The remaining increase was primarily attributable to personnel-related costs to support our continued growth, including the costs of outsourced specialists for support at retail stores and automotive dealerships.

We expect sales and marketing expenses to increase in the future as we continue to build our 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 subsidies paid to radio manufacturers; automakers, including subsidies paid to automakers who have agreed to include a SIRIUS radio and a prepaid subscription to our service in the sale or lease of a new vehicle; and 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 manufacturers of SIRIUS radios. 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 $98,842 to $173,702 for the year ended December 31, 2004 from $74,860 for the year ended December 31, 2003, an increase of 132%. Over the same period, gross activations increased 286% from 255,798 for the year ended December 31, 2003 to 986,556 for the year ended December 31, 2004. 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 activations. Included in our subscriber acquisition costs for the years ended December 31, 2004 and 2003 were approximately $17,000 and $1,000, respectively, of hardware subsidies paid to our automakers in connection with prepaid subscriptions included in the sale or lease of a new vehicle.

Subscriber acquisition costs per gross activation were $177 and $293 for the years ended December 31, 2004 and 2003, respectively. The decline was primarily attributable to the reduction in hardware subsidy rates and lower chip set costs and higher activation to sales ratios in 2004.

We expect total subscriber acquisition costs to increase in the future as our gross activations increase and we continue to offer subsidies, commissions and other incentives to acquire subscribers. 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 activation to continue to decline with future reductions in subsidy rates and chip set costs as we

continue to introduce new SIRIUS radios. If competitive forces require us to increase hardware subsidies or promotions, subscriber acquisition costs per gross activation could increase in the short-term.

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 $7,817 to $44,028 for the year ended December 31, 2004 from $36,211 for the year ended December 31, 2003. The increase was primarily a result of additional personnel-related; consulting, including costs incurred in order to comply with the Sarbanes-Oxley Act of 2002; and rent and occupancy costs to support the continued growth of our business. These increases were partially offset by a decrease in legal fees and settlement costs incurred in 2003 associated with the termination of our agreement with the prior provider of our subscriber management system.

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

Engineering, Design and Development. Engineering, design and development expenses include the 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 increased $5,986 to $30,520 for the year ended December 31, 2004 from $24,534 for the year ended December 31, 2003. The increase was primarily attributable to additional personnel-related costs to support research and development efforts, and costs associated with tooling and manufacturing upgrades at DaimlerChrysler and Ford in preparation for SIRIUS factory installations, offset in part by reduced chip set development costs.

We expect our engineering, design and development expenses to increase in future periods as automakers continue their efforts to incorporate SIRIUS radios across a broad 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 $74,255 to $74,700 for the year ended December 31, 2004 from $445 for the year ended December 31, 2003. The increase was primarily attributable to $40,080 of expense associated with vesting events for warrants granted pursuant to various distribution and programming arrangements and $10,966 related to warrants for media assets provided to us under the NFL agreement. The remaining increase in expense associated with warrants for the year ended December 31, 2004 was accrued based on certain third parties' performance toward achieving milestones. This expense 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 $36,102 to $47,740 for the year ended December 31, 2004 from $11,638 for the year ended December 31, 2003. The increase was primarily attributable to $9,701 of expense associated with vesting events for awards granted to consultants, $21,881 of expense associated with the issuance of stock-based awards to employees and members of our board of directors, which included a combination of stock options with exercise prices below fair market value at the date of grant and restricted stock units, and $2,435 of expense associated with common stock granted to employee benefit plans. Of the $21,881, $5,706 resulted from the accelerated vesting of stock options upon the satisfaction of performance criteria in 2004. The remaining increase in expense associated with stock options, restricted stock, restricted stock units and other stock-based awards for the year ended December 31, 2004 was primarily accrued based on certain consultants' performance toward achieving milestones. This expense may change in future periods as a result of price changes in our common stock.

Equity granted to third parties and employees expense for the year ended December 31, 2004 also included $4,285 of expense associated with the 15,173,070 shares of our common stock granted to the NFL upon signing the agreement.

Future expense associated with equity granted to third parties and employees is contingent upon a number of factors, including 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 July 1, 2005, 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 the compensation charge for all share-based payments granted after July 1, 2005 and for all awards granted to employees prior to July 1, 2005 that remain unvested on July 1, 2005. The adoption of SFAS No. 123R is expected to have an impact on our equity granted to third parties and employees expense, although such impact cannot be predicted at this time because it will depend on share-based payments granted in the future.

Other Income (Expense)

Debt Restructuring. For the year ended December 31, 2003, we recorded a gain of $256,538 in connection with the restructuring of our long-term debt. This gain represents the difference between the carrying value of our 15% Senior Secured Discount Notes due 2007, 14½% Senior Secured Notes due 2009, Lehman and Loral term loans, including accrued interest, and the fair market value of the common stock issued in exchange therefor, adjusted for unamortized debt issuance costs and direct costs associated with the restructuring. This gain is net of a loss on our 8¾% Convertible Subordinated Notes due 2009 exchanged in the restructuring. The loss represents the difference between the fair market value of the common stock issued in the exchange and the fair market value of the common stock which would have been issued under the original conversion ratio, including accrued interest, adjusted for unamortized debt issuance costs and direct costs associated with the restructuring.

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

Interest and investment income increased $4,426 to $9,713 for the year ended December 31, 2004 from $5,287 for the year ended December 31, 2003. The increase was primarily attributable to the increase in our average cash and cash equivalents balance resulting from funds raised through offerings of our common stock and debt securities.

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 decreased $9,124 to $41,386 for the year ended December 31, 2004 from $50,510 for the year ended December 31, 2003. The decrease was a result of the reduction in our outstanding debt and the exchange of debt for our common stock in connection with our restructuring which effectively reduced our interest rate to 6.8% at December 31, 2003; offset by additional interest in 2004 associated with our 2½% Convertible Notes due 2009 and our 3¼% Convertible Notes due 2011. Interest expense includes debt conversion costs of $19,592 and $19,439 for the years ended December 31, 2004 and 2003, respectively. Debt conversion costs for 2004 were 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. Debt conversion costs for 2003 were a result of the issuance of 54,805,993 shares of our common stock in exchange for $65,000 in aggregate principal amount of our 3½% Convertible Notes due 2008, including accrued interest.

Other Income. Other income for the year ended December 31, 2004 was primarily related to a legal settlement in our favor and a New York State franchise tax refund.

Income Tax Expense. We recorded income tax expense of $4,201 for the year ended December 31, 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.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

Total Revenue

Subscriber Revenue. Subscriber revenue increased $11,992 to $12,615 for the year ended December 31, 2003 from $623 for the year ended December 31, 2002. The increase in total subscriber revenue was attributable to the growth of subscribers to our service. We added 231,114 net new subscribers during the year ended December 31, 2003 compared to 29,947 net new subscribers during the year ended December 31, 2002.

The following table contains a breakdown of our subscriber revenue:

	For the Years Ended December 31,		
	2003	2002	Variance
Subscription fees	$13,759	$1,016	$12,743
Activation fees	534	33	501
Effects of mail-in rebates	(1,678)	(426)	(1,252)
Total subscriber revenue	$12,615	$ 623	$11,992

Average monthly revenue per subscriber, or ARPU. Set forth below is a table showing ARPU and our average monthly revenue per Hertz subscriber:

	For the Years Ended December 31,	
	2003	2002
ARPU	$12.02	$12.64
Effects of Hertz subscribers	(1.38)	(0.06)
ARPU before effects of mail-in rebates	10.64	12.58
Effects of mail-in rebates	(1.25)	(5.11)
Reported ARPU	$ 9.39	$ 7.47
Average monthly revenue per Hertz subscriber	$ 3.13	$ 5.11

Lower ARPU for the year ended December 31, 2003 as compared with the year ended December 31, 2002 was a result of promotional activity. Higher reported ARPU was primarily a result of the effects of mail-in rebates. Since we had no history of estimated take-rates for mail-in rebates, we were required to record the effects of rebates for 100% of eligible activations in 2002.

Operating Expenses

Satellite and Transmission. Satellite and transmission expenses decreased $6,704 to $32,604 for the year ended December 31, 2003 from $39,308 for the year ended December 31, 2002. The decrease was primarily attributable to a $3,147 reduction in our in-orbit satellite insurance costs as a result of reduced insurance coverage and $3,977 related to the write-off of costs previously capitalized in connection with our terrestrial repeater network. During 2003, we recorded a loss of $1,028 as a result of the write-off of site acquisition costs capitalized in prior periods for terrestrial repeaters that will not be placed in operation. During 2002, we recorded a loss of $5,005 related to the disposal of certain terrestrial repeater equipment as a result of the optimization of our terrestrial repeater network. In addition, broadcast operations costs decreased primarily as a result of system testing following the launch of our service in February 2002. Such decreases were offset

by an increase in costs associated with the use of security software to prevent the theft of our service, storage costs for our spare satellite that was delivered in April 2002, and additions to our terrestrial repeater network. As of December 31, 2003, we had 133 terrestrial repeaters in operation as compared with 98 as of December 31, 2002.

Programming and Content. Programming and content expenses increased $7,506 to $30,214 for the year ended December 31, 2003 from $22,708 for the year ended December 31, 2002. The increase was primarily attributable to an increase in costs to acquire, create and produce content, including personnel-related costs and consultant costs; an increase in on-air talent costs to support the expansion of our programming line-up; and an increase in broadcast royalties as a result of a full year of operations in 2003.

Customer Service and Billing. Customer service and billing expenses increased $15,795 to $23,657 for the year ended December 31, 2003 from $7,862 for the year ended December 31, 2002. The increase was primarily due to a $14,465 loss on the disposal of our prior subscriber management system in May 2003 as a result of the termination of our agreement with the provider. The remaining increase was primarily attributable to higher customer service representative costs as a result of increases in our subscriber base. Customer service and billing expenses, excluding the loss on disposal of our prior subscriber management system, increased 17% compared with an increase in our end of period subscribers of 772% as of December 31, 2003 as compared with December 31, 2002. Excluding the loss on disposal of our prior subscriber management system, customer service and billing expenses per average subscriber per month for 2003 was $6.84 compared with $82.47 for 2002.

Sales and Marketing. Sales and marketing expenses increased $33,553 to $120,771 for the year ended December 31, 2003 from $87,218 for the year ended December 31, 2002. This increase was a result of higher advertising media and production costs primarily as a result of increased cable and network television, magazine advertising and sponsorship activities. Distribution costs also increased primarily due to additional advertising in retailer circulars, cooperative advertising with automakers and maintenance costs associated with our Hertz program, offset by a decrease in market development funds paid to retailers and radio manufacturers. The remaining increase was primarily attributable to additional costs for outsourced specialists for support at retail stores and automotive dealerships.

Subscriber Acquisition Costs. Subscriber acquisition costs increased $53,822 to $74,860 for the year ended December 31, 2003 from $21,038 for the year ended December 31, 2002, an increase of 256%. This compared with an increase of 712% in gross activations from 31,504 for the year ended December 31, 2002 to 255,798 for the year ended December 31, 2003. The increase in subscriber acquisition costs was attributable to higher shipments of SIRIUS radios to accommodate the growth of our subscriber base; an increase in commissions resulting from the increase in gross activations; an increase in chip set subsidies as a result of purchase commitments under our agreement with Agere Systems, Inc. ("Agere"); and the effect of promotional activities. Included in our subscriber acquisition costs for the year ended December 31, 2003 was approximately $1,000 of hardware subsidies paid to our automakers in connection with prepaid subscriptions included in the sale or lease of a new vehicle. There were no costs incurred in connection with prepaid subscriptions included in the sale or lease of a new vehicle in 2002.

Subscriber acquisition costs per gross activation for the years ended December 31, 2003 and 2002 were $293 and $668, respectively. The decline in subscriber acquisition costs per gross activation was primarily attributable to the 712% increase in gross activations.

General and Administrative. General and administrative expenses increased $5,529 to $36,211 for the year ended December 31, 2003 from $30,682 for the year ended December 31, 2002. The increase was primarily a result of $6,846 of legal fees and settlement costs associated with the termination of our agreement with the prior provider of our subscriber management system and costs for corporate insurance. This increase was partially offset by reduced rent and occupancy costs as a result of the termination of leases for office space during 2002 for which we recognized a loss on disposal of assets of $924.

Engineering, Design and Development. Engineering, design and development expenses decreased $5,553 to $24,534 for the year ended December 31, 2003 from $30,087 for the year ended December 31, 2002. The decrease was primarily a result of $8,134 paid to Panasonic in 2002 to release us from a radio purchase commitment and to reduce the factory price of SIRIUS radios. Excluding this one-time item, engineering, design and development expenses increased primarily as a result of costs associated with the incorporation of SIRIUS radios into vehicles manufactured by automakers, offset by a decrease in chip set development costs as we completed our first generation of chip sets.

Depreciation. Depreciation increased $12,606 to $95,353 for the year ended December 31, 2003 from $82,747 for the year ended December 31, 2002. The increase was due to a full period of depreciation of our satellite radio system, which began in February 2002, offset by reduced depreciation expense as a result of the disposal of our prior subscriber management system.

Equity Granted to Third Parties and Employees. Equity granted to third parties and employees expense for warrants increased $425 to $445 for the year ended December 31, 2003 from $20 for the year ended December 31, 2002. The increase was primarily attributable to $239 for expense associated with vesting events for certain distribution arrangements. The remaining increase was accrued based on certain third parties' performance toward achieving milestones.

Equity granted to third parties and employees expense for stock options, restricted stock, restricted stock units and other stock-based awards was $11,638 for the year ended December 31, 2003 compared to a benefit of $7,738 for the year ended December 31, 2002. Expense for the year ended December 31, 2003 primarily related to the issuance of stock options with exercise prices below fair market value at the date of grant and restricted stock units to employees, of which $5,251 resulted from the accelerated vesting of stock options upon the satisfaction of performance criteria in 2003. The benefit for the year ended December 31, 2002 was principally due to the repricing of certain employee stock options in 2001.

Other Income (Expense)

Debt Restructuring. For the year ended December 31, 2003, we recorded a gain of $256,538 in connection with the restructuring of our long-term debt.

Interest Expense. Interest expense decreased $55,653 to $50,510 for the year ended December 31, 2003 from $106,163 for the year ended December 31, 2002. We capitalized $5,426 of interest costs during the year ended December 31, 2002. The decrease was primarily attributable to the exchange of approximately $636,000 in aggregate principal amount at maturity of our outstanding long-term debt for common stock in March 2003. Interest expense also included costs incurred as a result of the exchange of debt for our common stock. Debt conversion costs were $19,439 and $9,650 for the years ended December 31, 2003 and 2002, respectively. Debt conversion costs for 2003 were a result of the issuance of 54,805,993 shares of our common stock for $65,000 in aggregate principal amount of our 3½% Convertible Notes due 2008, including accrued interest. Conversion costs for 2002 were a result of the issuance of 2,913,483 shares of our common stock in exchange for $29,475 in aggregate principal amount of our 8¾% Convertible Subordinated Notes due 2009, including accrued interest.

Liquidity and Capital Resources

Cash Flows for the Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

As of December 31, 2004, we had $753,891 in cash and cash equivalents compared with $520,979 as of December 31, 2003, an increase of $232,912. The increase was a result of net cash provided by financing activities of $660,227, offset by net cash used in operating and investing activities of $334,463 and $92,852, 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:

	For the Years Ended December 31,		
	2004	2003	Variance
Net loss adjusted for non-cash items:			
Net loss	$(712,162)	$(226,215)	$(485,947)
Depreciation	95,370	95,353	17
Non-cash interest expense	21,912	22,708	(796)
Loss on disposal of assets	70	15,493	(15,423)
Non-cash gain associated with debt restructuring	—	(261,275)	261,275
Costs associated with debt restructuring	—	4,737	(4,737)
Equity granted to third parties and employees	126,725	12,083	114,642
Total net loss adjusted for non-cash items	(468,085)	(337,116)	(130,969)
Changes in operating assets and liabilities:			
Marketable securities	(292)	(1,184)	892
Prepaid expenses and other current assets	(13,522)	(1,877)	(11,645)
Other long-term assets	(44,563)	(79)	(44,484)
Accounts payable and accrued expenses	108,997	21,996	87,001
Accrued interest	4,689	12,821	(8,132)
Deferred revenue	78,055	16,709	61,346
Other long-term liabilities	258	4,243	(3,985)
Total changes in operating assets and liabilities	133,622	52,629	80,993
Net cash used in operating activities	$(334,463)	$(284,487)	$ (49,976)

Net cash used in operating activities increased $49,976 to $334,463 for the year ended December 31, 2004 from $284,487 for the year ended December 31, 2003. Such increase was attributable to the $130,969 increase in the net loss adjusted for non-cash items, from $337,116 for the year ended December 31, 2003 to $468,085 for the year ended December 31, 2004, offset by an increase of $80,993 for changes in operating assets and liabilities. The increase in the net loss adjusted for non-cash items was primarily a result of the $131,970 increase in subscriber acquisition costs and sales and marketing expenses to support the 338% increase in our subscriber base and the expansion of our retail distribution channel. The net inflow of cash from changes in operating assets and liabilities was primarily attributable to an increase of $87,001 in accounts payable and accrued expenses to support our operations and an increase of $61,346 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. Such increases were offset in part by the increase in other long-term assets of $44,484 primarily for payments made for future services pursuant to certain programming agreements.

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

Net Cash (Used in) Provided by Investing Activities. Net cash used in investing activities was $92,852 for the year ended December 31, 2004 compared with net cash provided by investing activities of $105,056 for the year ended December 31, 2003. For the year ended December 31, 2004, we deposited $85,000 in escrow to fund the rights fees for the 2006-2007, 2007-2008 and 2008-2009 NFL seasons and $4,706 in escrow in connection with Ford's factory installation program. These deposits were offset by cash inflows of $25,000 as a result of the maturity of available-for-sale securities, which were purchased in the year ended December 31, 2003. For the year ended December 31, 2003, we experienced a net inflow of cash as a result of $150,000 received in connection with the maturity of certain available-for-sale securities. Capital expenditures increased to $28,589 for the year ended December 31, 2004 from $20,118 for the year ended December 31, 2003, primarily as a result of the implementation of our new subscriber management system.

Net Cash Provided by Financing Activities. Net cash provided by financing activities decreased $21,808 to $660,227 for the year ended December 31, 2004 from $682,035 for the year ended December 31, 2003. We raised net proceeds of $614,438 in 2004 through the offering of 25,000,000 shares of our common stock resulting in net proceeds of $96,025, $230,000 in aggregate principal amount of our 3¼% Convertible Notes due 2011 resulting in net proceeds of $224,813, and $300,000 in aggregate principal amount of our 2½% Convertible Notes due 2009 resulting in net proceeds of $293,600. During 2003, we sold 371,151,111 shares of common stock in various offerings resulting in net proceeds of $492,659. In addition, we issued $201,250 in aggregate principal amount of our 3½% Convertible Notes due 2008 resulting in net proceeds of $194,224, and incurred costs associated with our debt restructuring of $4,737.

We also received proceeds from the exercise of options and warrants of $26,051 and $19,850, respectively, for the year ended December 31, 2004.

Cash Flows for the Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

As of December 31, 2003, we had $520,979 in cash and cash equivalents compared with $18,375 as of December 31, 2002, an increase of $502,604. The increase was a result of net cash provided by financing activities and investing activities of $682,035 and $105,056, respectively, offset by net cash used in operating activities of $284,487.

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:

	For the Years Ended December 31,		
	2003	2002	Variance
Net loss adjusted for non-cash items:			
Net loss	$(226,215)	$(422,481)	$ 196,266
Depreciation	95,353	82,747	12,606
Non-cash interest expense	22,708	58,957	(36,249)
Loss on disposal of assets	15,493	8,919	6,574
Non-cash gain associated with debt restructuring	(261,275)	—	(261,275)
Costs associated with debt restructuring	4,737	8,448	(3,711)
Equity granted to third parties and employees	12,083	(7,718)	19,801
Total net loss adjusted for non-cash items	(337,116)	(271,128)	(65,988)
Changes in operating assets and liabilities:			
Marketable securities	(1,184)	(76,562)	75,378
Prepaid expenses and other current assets	(1,877)	(12,401)	10,524
Other long-term assets	(79)	(1,377)	1,298
Accounts payable and accrued expenses	21,996	5,254	16,742
Accrued interest	12,821	28,587	(15,766)
Deferred revenue	16,709	1,750	14,959
Other long-term liabilities	4,243	5,066	(823)
Total changes in operating assets and liabilities	52,629	(49,683)	102,312
Net cash used in operating activities	$(284,487)	$(320,811)	$ 36,324

Net cash used in operating activities decreased $36,324 to $284,487 for the year ended December 31, 2003 from $320,811 for the year ended December 31, 2002. Such decrease was attributable to the $65,988 increase in the net loss adjusted for non-cash items, from $271,128 for the year ended December 31, 2002 to $337,116 for the year ended December 31, 2003, offset by an increase of $102,312 for changes in operating assets and liabilities. The increase in the net loss adjusted for non-cash items was primarily a result of the $53,822 increase in subscriber acquisition costs to support the 772% increase in our subscriber base and the $33,553 increase in sales and marketing expenses to market our service. These expenses were offset by the $12,067 increase in revenue driven by the addition of 255,798 gross subscribers for the year ended December 31, 2003.

The net inflow of cash from changes in operating assets and liabilities was primarily attributable to an increase of $75,378 in marketable securities as a result of the change in classification of our marketable securities in the second quarter of 2002 to available-for-sale securities from trading securities; an increase of $16,742 in accounts payable and accrued expenses; and an increase of $14,959 in deferred revenue for subscribers electing annual and other prepaid subscription programs. Such increases were offset in part by the $15,766 reduction in accrued interest.

Net Cash Provided by Investing Activities. Net cash provided by investing activities decreased $94,623 to $105,056 for the year ended December 31, 2003 from $199,679 for the year ended December 31, 2002. The decrease was primarily due to the $116,130 net effect of purchases and maturities of marketable securities and maturities of restricted investments. In addition, capital expenditures decreased to $20,118 for the year ended December 31, 2003 from $41,625 for the year ended December 31, 2002, as we substantially completed the build-out of our terrestrial repeater network during 2002.

Net Cash Provided by Financing Activities. Net cash provided by financing activities increased $547,254 to $682,035 for the year ended December 31, 2003 from $134,781 for the year ended December 31, 2002. During 2003, we sold 371,151,111 shares of common stock resulting in net proceeds of $492,659. In addition, we issued $201,250 in aggregate principal amount of our 3½% Convertible Notes due 2008 resulting in net proceeds of $194,224, and incurred costs associated with our debt restructuring of $4,737. During the year ended December 31, 2002, we sold 16,000,000 shares of common stock resulting in net proceeds of $147,500 and paid fees associated with our debt restructuring of $12,707.

Financings and Capital Requirements

We have financed our operations through the sale of debt and equity securities. Debt and equity transactions in 2004 and 2003, included the following:

- in October 2004, we sold 25,000,000 shares of our common stock and issued $230,000 in aggregate principal amount of our 3¼% 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 2½% 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.;
- in November 2003, we sold 73,170,732 shares of our common stock resulting in net proceeds of $149,600;
- in June 2003, we sold 86,250,000 shares of our common stock resulting in net proceeds of $144,897;
- 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; and
- in March 2003, we completed a series of transactions to restructure our debt and equity capitalization. As part of these transactions, we issued 545,012,162 shares of our common stock in exchange for approximately 91% of our then outstanding debt; we issued 76,992,865 shares of our common stock and warrants to purchase 87,577,114 shares of our common stock in exchange for all outstanding shares of our 9.2% Series A Junior Cumulative Convertible Preferred Stock, 9.2% Series B Junior Cumulative Convertible Preferred Stock and 9.2% Series D Junior Cumulative Convertible Preferred Stock; and we sold 211,730,379 shares of our common stock for net proceeds of $197,112.

Future Liquidity and Capital Resource Requirements

Effective August 2004, we discontinued our in-orbit satellite insurance. In the event of a catastrophic failure of one of our satellites, we believe we have sufficient cash, cash equivalents and marketable securities to launch and insure our spare satellite.

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, which we expect to occur in 2007. Our financial projections are based on assumptions which we believe are reasonable but contain significant uncertainties.

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

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 in ten years from date of grant. Each restricted stock unit granted entitles the holder to receive one share of our common stock upon vesting.

As of December 31, 2004, approximately 100,819,000 shares of our common stock were available for grant under the 2003 Plan. Approximately 120,203,000 stock options, shares of restricted stock and restricted stock units were outstanding as of December 31, 2004. During the year ended December 31, 2004, employees exercised 17,447,086 stock options at exercise prices ranging from $0.49 to $7.61 per share, resulting in proceeds to us of $26,060. Of this amount, $26,051 was collected as of December 31, 2004. The exercise of the remaining 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 cash contractual commitments as of December 31, 2004:

	2005	2006	2007	2008	2009	Thereafter	Total
Long-term debt obligations	$ 26,399	$ 26,249	$ 55,449	$ 87,942	$345,573	$244,800	$ 786,412
Lease obligations	7,582	7,430	6,965	5,552	5,426	25,499	58,454
Satellite and transmission	3,239	3,155	3,155	3,155	3,155	15,027	30,886
Programming and content	28,292	96,044	74,184	69,641	98,775	104,200	471,136
Customer service and billing	4,842	3,310	3,032	—	—	—	11,184
Marketing and distribution	65,801	23,916	9,342	6,260	6,450	7,500	119,269
Chip set development and production	17,908	6,631	—	—	—	—	24,539
Total contractual cash commitments	$154,063	$166,735	$152,127	$172,550	$459,379	$397,026	$1,501,880

Long-Term Debt Obligations

Long-term debt obligations include principal and interest payments. As of December 31, 2004, we had $658,452 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 an agreement with a provider of satellite services to operate our off-site satellite telemetry, tracking and control facilities.

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 chip set manufacturers to produce chip sets for use in SIRIUS radios. Our agreement with ST Microelectronics requires that we purchase a minimum quantity of chip sets during a three-year period and pay for the development of the chip sets as

milestones are satisfied. Our agreements with Agere Systems, Inc. also require us to pay for the development of our chip sets and to license us intellectual property related to our 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 also 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, 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 December 31, 2004 and 2003, $97,321 and $8,747, respectively, were classified as restricted investments as a result of our reimbursement obligations under these letters of credit and escrow deposits.

As of December 31, 2004, we have not entered into any off-balance sheet arrangements or transactions.

Critical Accounting Policies and Estimates

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

Subscription Revenue Recognition. Revenue from subscribers consists of subscription fees, including revenues associated with prepaid subscriptions included in the sale or lease 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. These prepaid subscriptions include a SIRIUS radio and a subscription to our service. We receive payment from these automakers for such subscriptions in advance of the service being activated. In connection with these agreements, we also reimburse automakers for certain costs associated with the SIRIUS radio installed in the applicable vehicle at the time the vehicle is manufactured, including hardware costs, sale and promotional allowances, tooling, and non-recurring engineering expenses. The associated payments to the automakers were included in subscriber acquisition costs. Although we receive payments from the automakers, we believe that they do not resell our service; rather, they 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 term of the 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 subscription revenue in the period the subscriber activates our service. We estimate the effect 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 consolidated statements of operations.

Certain stock-based awards to employees have accelerated vesting provisions in the event of satisfaction of performance criteria which are not specified in the original terms of the stock-based award. A new measurement date results when the performance criteria are established. In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44"), a new measurement date results because the modification of the stock-based award may allow the employee to vest in an award that would have otherwise been forfeited pursuant to the original terms. While measurement of stock compensation expense is made at the date of the modification, the recognition of stock 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. Stock-based awards subject to modification as a result of a new measurement date could result in stock compensation expense of up to $25,092 in future periods. For the years ended December 31, 2004, 2003 and 2002, we have recognized no stock compensation expense associated with modification of terms to the original stock-based award as a result of a new measurement date. To the extent any performance criteria are satisfied and the vesting of any stock options and/or restricted stock units accelerate, the unamortized stock compensation expense associated with these options or restricted stock units will also accelerate.

We account for stock-based awards granted to non-employees at fair value in accordance with 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 statements of operations as a component of equity granted to third parties and employees.

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.

Subscriber Acquisition Costs. Subscriber acquisition costs include subsidies paid to radio manufacturers; automakers, including subsidies paid to automakers who have agreed to include a SIRIUS radio and a prepaid subscription to our service in the sale or lease of a new vehicle; and 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 manufacturers of SIRIUS radios. 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 2002 or, in the case of our spare satellite, from the date it was delivered to ground storage in April 2002. If placed into orbit, our spare satellite is expected to operate effectively for 15 years. 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 for the year ended 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. It is possible, however, that 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.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R revises SFAS No. 123 and supersedes APB No. 25. SFAS 123R is effective beginning the first interim period after June 15, 2005. We will adopt the provisions of SFAS No. 123R effective July 1, 2005. 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. Under SFAS No. 123R 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 the compensation charge for all share-based payments granted after July 1, 2005 and for all awards granted to employees prior to July 1, 2005 that remain unvested on July 1, 2005. The adoption of SFAS No. 123R is expected to have an impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on share-based payments granted in the future.

In September 2004, the EITF reached a consensus on Issue No. 04-08, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share" ("EITF No. 04-08"), which requires that diluted earnings per share include the dilutive effect of any contingently convertible debt securities regardless of whether the market price trigger had been satisfied during the period. We adopted the provisions of EITF No. 04-08 as of December 31, 2004. We did not have contingently convertible debt securities as of December 31, 2004. Therefore the adoption of EITF No. 04-08 did not have an impact on our financial position, results of operations or cash flows.

In April 2004, the EITF released Issue No. 03-06, "Participating Securities and the Two Class Method under FASB Statement No. 128" ("EITF No. 03-06"), which addressed a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. It requires that undistributed earnings for the period be allocated to a participating security based on the contractual participation rights of the security to share in those earnings as if all the earnings for the period had been distributed in calculating earnings per share. EITF No. 03-06 was effective for fiscal periods beginning after March 15, 2004. It requires that prior period earnings per share amounts be restated to ensure comparability year over year. The adoption of EITF No. 03-06 did not impact our financial position, results of operations or cash flows.

Management's Report on Internal Control over Financial Reporting

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

Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2004.

Ernst & Young LLP, our independent registered public accounting firm, who audited the consolidated financial statements included in this report, has issued an attestation report on our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004, a copy of which is included in this report.

Market For SIRIUS' Common Stock and Related Stockholder Matters

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

	High	Low
Year ended December 31, 2003		
First Quarter	$1.36	$0.41
Second Quarter	2.35	0.63
Third Quarter	2.02	1.53
Fourth Quarter	3.16	1.85
Year ended December 31, 2004		
First Quarter	$3.82	$2.63
Second Quarter	4.02	2.94
Third Quarter	3.20	2.05
Fourth Quarter	9.01	3.14

On April 18, 2005, the closing bid price of our common stock on the NASDAQ National Market was $5.08 per share. On April 18, 2005, there were approximately 900,000 beneficial holders of our common stock. We have never paid cash dividends on our common stock. We currently intend to retain earnings, if any, for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

Quantitative and Qualitative Disclosure About Market Risks

As of December 31, 2004, we did not have any derivative financial instruments and do not intend to use derivatives. We do not hold or issue any free-standing derivatives. We invest our cash in short-term commercial paper, investment-grade corporate and government obligations and money market funds. Our long-term debt includes fixed interest rates and the fair market value of our debt is sensitive to changes in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Sirius Satellite Radio Inc. and Subsidiary (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in Schedule II. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

New York, New York
March 16, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in Management's Report on Internal Control over Financial Reporting, that Sirius Satellite Radio Inc. (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004 of the Company and our report dated March 16, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

New York, New York
March 16, 2005

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	For the Years Ended December 31,		
	2004	2003	2002
Revenue:			
Subscriber revenue, including effects of mail-in rebates	$ 62,881	$ 12,615	$ 623
Advertising revenue, net of agency fees	906	116	146
Equipment revenue	2,898	61	—
Other revenue	169	80	36
Total revenue	66,854	12,872	805
Operating expenses:			
Cost of services (excludes depreciation shown separately below):			
Satellite and transmission	31,157	32,604	39,308
Programming and content	63,949	30,214	22,708
Customer service and billing	22,341	23,657	7,862
Cost of equipment	3,467	115	—
Sales and marketing	153,899	120,771	87,218
Subscriber acquisition costs	173,702	74,860	21,038
General and administrative	44,028	36,211	30,682
Engineering, design and development	30,520	24,534	30,087
Depreciation	95,370	95,353	82,747
Equity granted to third parties and employees[(1)]	126,725	12,083	(7,718)
Total operating expenses	745,158	450,402	313,932
Loss from operations	(678,304)	(437,530)	(313,127)
Other income (expense):			
Debt restructuring	—	256,538	(8,448)
Interest and investment income	9,713	5,287	5,257
Interest expense, net of amounts capitalized	(41,386)	(50,510)	(106,163)
Other income	2,016	—	—
Total other income (expense)	(29,657)	211,315	(109,354)
Loss before income taxes	(707,961)	(226,215)	(422,481)
Income tax expense	(4,201)	—	—
Net loss	(712,162)	(226,215)	(422,481)
Preferred stock dividends	—	(8,574)	(45,300)
Preferred stock deemed dividends	—	(79,634)	(685)
Net loss applicable to common stockholders	$ (712,162)	$(314,423)	$(468,466)
Net loss per share applicable to common stockholders (basic and diluted)	$ (0.57)	$ (0.38)	$ (6.13)
Weighted average common shares outstanding (basic and diluted)	1,238,585	827,186	76,394

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

	2004	2003	2002
Satellite and transmission	$ 2,041	$ 508	$ (1,403)
Programming and content	23,930	1,216	(1,787)
Customer service and billing	439	136	(172)
Sales and marketing	48,322	4,844	(917)
Subscriber acquisition costs	33,149	—	—
General and administrative	13,877	4,210	(1,616)
Engineering, design and development	4,967	1,169	(1,823)
Total equity granted to third parties and employees	$ 126,725	$ 12,083	$ (7,718)

See Notes to Consolidated Financial Statements.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	As of December 31,	
	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 753,891	$ 520,979
Marketable securities	5,277	28,904
Prepaid expenses	12,956	18,745
Restricted investments	4,706	1,997
Other current assets	34,210	9,039
Total current assets	811,040	579,664
Property and equipment, net	881,280	941,052
FCC license	83,654	83,654
Restricted investments	92,615	6,750
Deferred financing fees	13,140	5,704
Other long-term assets	75,884	493
Total assets	$1,957,613	$1,617,317
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 182,933	$ 65,919
Accrued interest	5,758	1,349
Deferred revenue	80,823	14,735
Total current liabilities	269,514	82,003
Long-term debt	656,274	194,803
Deferred revenue, net of current portion	15,691	3,724
Other long-term liabilities	15,501	11,593
Total liabilities	956,980	292,123
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, $0.001 par value: 2,500,000,000 shares authorized, 1,276,922,634 and 1,137,758,947 shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively	1,277	1,138
Additional paid-in capital	2,916,199	2,525,135
Deferred compensation	(50,963)	(47,411)
Accumulated other comprehensive (loss) income	(24)	26
Accumulated deficit	(1,865,856)	(1,153,694)
Total stockholders' equity	1,000,633	1,325,194
Total liabilities and stockholders' equity	$1,957,613	$1,617,317

See Notes to Consolidated Financial Statements.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share and per share amounts)

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount					
Balances, December 31, 2001	57,455,931	$ 57	$ 827,590	$ —	$—	$ (504,998)	$ 322,649
Net loss	—	—	—	—	—	(422,481)	(422,481)
Change in unrealized gain on available-for-sale securities	—	—	—	—	913	—	913
Total comprehensive loss							(421,568)
Issuance of common stock to employees and employee benefit plans	910,204	1	3,347	—	—	—	3,348
Compensation in connection with the issuance of stock-based awards	—	—	(9,475)	—	—	—	(9,475)
Issuance of common stock in connection with marketing agreement	150,000	—	129	—	—	—	129
Sale of $0.001 par value common stock, $9.85 per share, net of expenses	16,000,000	16	147,484	—	—	—	147,500
Exchange of 8¾% Convertible Subordinated Notes due 2009, including accrued interest	2,913,483	3	39,297	—	—	—	39,300
Exercise of stock options, $7.50 per share	3,000	—	22	—	—	—	22
Reduction of warrant exercise price in connection with amendment to Lehman term loan	—	—	926	—	—	—	926
Issuance of common stock in connection with conversion of 10½% Series C Convertible Preferred Stock in prior period	21,579	—	—	—	—	—	—
Preferred stock dividends	—	—	(45,300)	—	—	—	(45,300)
Preferred stock deemed dividends	—	—	(685)	—	—	—	(685)
Balances, December 31, 2002	77,454,197	77	963,335	—	913	(927,479)	36,846
Net loss	—	—	—	—	—	(226,215)	(226,215)
Change in unrealized loss on available-for-sale securities	—	—	—	—	(887)	—	(887)
Total comprehensive loss							(227,102)
Issuance of common stock to employees and employee benefit plans	810,814	1	537	—	—	—	538
Compensation in connection with the issuance of stock-based awards	—	—	980	—	—	—	980
Issuance of stock-based awards	—	—	58,110	(58,110)	—	—	—
Cancellation of stock-based awards	—	—	(135)	135	—	—	—
Amortization of deferred compensation	—	—	—	10,564	—	—	10,564
Sale of common stock, par value $0.001 per share, at $0.92 and $1.04 per share, net of expenses	211,730,379	212	192,641	—	—	—	192,853
Exchange of Lehman term loan, including accrued interest	120,988,793	121	85,781	—	—	—	85,902
Exchange of Loral term loan, including accrued interest	58,964,981	59	41,806	—	—	—	41,865
Exchange of 15% Senior Secured Discount Notes due 2007, including accrued interest	204,319,915	204	144,863	—	—	—	145,067
Exchange of 14½% Senior Secured Notes due 2009, including accrued interest	148,301,817	148	105,146	—	—	—	105,294

(table continued on next page)

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY—(Continued)

(In thousands, except share and per share amounts)

(table continued from previous page)

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount					
Exchange of 8¾% Convertible Subordinated Notes due 2009, including accrued interest	12,436,656	13	24,342	—	—	—	24,355
Exchange of 9.2% Series A and B Junior Cumulative Convertible Preferred Stock, including accrued dividends	39,927,796	40	304,807	—	—	—	304,847
Exchange of 9.2% Series D Junior Cumulative Convertible Preferred Stock, including accrued dividends	37,065,069	37	283,748	—	—	—	283,785
Issuance of warrants in connection with the exchange of 9.2% Series A, B and D Junior Cumulative Convertible Preferred Stock, at $0.92 and $1.04 per share	—	—	30,731	—	—	—	30,731
Sale of common stock, par value $0.001 per share, $1.80 per share, net of expenses	86,250,000	86	144,811	—	—	—	144,897
Sale of common stock, par value $0.001 per share, $2.10 per share, net of expenses	73,170,732	73	149,527	—	—	—	149,600
Exercise of warrants, $1.04 per share	11,531,805	12	(12)	—	—	—	—
Exchange of 3½% Convertible Notes due 2008, including accrued interest	54,805,993	55	82,325	—	—	—	82,380
Preferred stock dividends	—	—	(8,574)	—	—	—	(8,574)
Preferred stock deemed dividends	—	—	(79,634)	—	—	—	(79,634)
Balances, December 31, 2003	1,137,758,947	1,138	2,525,135	(47,411)	26	(1,153,694)	1,325,194
Net loss	—	—	—	—	—	(712,162)	(712,162)
Change in unrealized loss on available-for-sale securities	—	—	—	—	(50)	—	(50)
Total comprehensive loss							(712,212)
Sale of common stock, par value $0.001 per share, $3.87 per share, net of expenses	25,000,000	25	96,000	—	—	—	96,025
Issuance of common stock to employees and employee benefit plans	3,942,133	4	1,624	—	—	—	1,628
Issuance of common stock to third parties	99,602	—	280	—	—	—	280
Compensation in connection with the issuance of stock-based awards	—	—	87,029	—	—	—	87,029
Issuance of stock-based awards	—	—	33,499	(33,499)	—	—	—
Cancellation of stock-based awards	—	—	(703)	703	—	—	—
Amortization of deferred compensation	—	—	—	29,244	—	—	29,244
Issuance of equity to the NFL	15,173,070	15	40,952	—	—	—	40,967
Exercise of options, $0.49 to $7.61 per share	17,447,086	18	26,042	—	—	—	26,060
Exchange of 3½% Convertible Notes due 2008, including accrued interest	56,409,853	56	86,512	—	—	—	86,568
Exercise of warrants, $0.92 and $1.04 per share	21,091,943	21	19,829	—	—	—	19,850
Balances, December 31, 2004	1,276,922,634	$1,277	$2,916,199	$(50,963)	$ (24)	$(1,865,856)	$1,000,633

See Notes to Consolidated Financial Statements.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Years Ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Net loss	$(712,162)	$(226,215)	$(422,481)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	95,370	95,353	82,747
Non-cash interest expense	21,912	22,708	58,957
Loss on disposal of assets	70	15,493	8,919
Non-cash gain associated with debt restructuring	—	(261,275)	—
Costs associated with debt restructuring	—	4,737	8,448
Equity granted to third parties and employees	126,725	12,083	(7,718)
Changes in operating assets and liabilities:			
Marketable securities	(292)	(1,184)	(76,562)
Prepaid expenses and other current assets	(13,522)	(1,877)	(12,401)
Other long-term assets	(44,563)	(79)	(1,377)
Accounts payable and accrued expenses	108,997	21,996	5,254
Accrued interest	4,689	12,821	28,587
Deferred revenue	78,055	16,709	1,750
Other long-term liabilities	258	4,243	5,066
Net cash used in operating activities	(334,463)	(284,487)	(320,811)
Cash flows from investing activities:			
Additions to property and equipment	(28,589)	(20,118)	(41,625)
Sale of property and equipment	443	—	—
Purchases of restricted investments	(89,706)	—	—
Maturities of restricted investments	—	—	14,500
Purchases of available-for-sale securities	—	(24,826)	(273,196)
Maturities of available-for-sale securities	25,000	150,000	500,000
Net cash (used in) provided by investing activities	(92,852)	105,056	199,679
Cash flows from financing activities:			
Proceeds from issuance of long-term debt, net	518,413	194,224	—
Proceeds from issuance of common stock, net	96,025	492,659	147,500
Costs associated with debt restructuring	—	(4,737)	(12,707)
Proceeds from exercise of stock options	26,051	—	22
Proceeds from exercise of warrants	19,850	—	—
Other	(112)	(111)	(34)
Net cash provided by financing activities	660,227	682,035	134,781
Net increase in cash and cash equivalents	232,912	502,604	13,649
Cash and cash equivalents at the beginning of period	520,979	18,375	4,726
Cash and cash equivalents at the end of period	$ 753,891	$ 520,979	$ 18,375

See Notes to Consolidated Financial Statements.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, unless otherwise stated)

1. Business

We are a leading provider of satellite radio 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 and long-term subscriptions as well as discounts for multiple subscriptions. Approximately 63% of the subscribers we acquired during the year ended December 31, 2004 purchased an annual subscription with an effective monthly subscription fee of $11.88.

Since inception, we have used substantial resources to develop our satellite radio system. Our satellite radio system consists of our FCC license, satellite system, 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 December 31, 2004, we had 1,143,258 subscribers as compared with 261,061 subscribers as of December 31, 2003. Our subscriber totals include subscribers under our regular pricing plans, as well as subscribers currently in promotional periods; subscribers that have prepaid, including payments received from vehicle manufacturers for prepaid subscriptions included in the sale or lease 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. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reported period. Estimates, by their nature, are based on judgment and available information. Actual results could differ from these estimates.

Revenue Recognition

Revenue from subscribers consists of subscription fees, including revenues associated with prepaid subscriptions included in the sale or lease 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. These prepaid subscriptions include a SIRIUS radio and a subscription to our service. We receive payment from these automakers for such subscriptions in advance of the service being activated. In connection with these agreements, we also reimburse automakers for certain costs associated with the SIRIUS radio installed in the applicable vehicle at the time the vehicle is manufactured, including hardware costs, sale and promotional allowances, tooling, and non-recurring engineering expenses. The associated payments to the automakers were included in subscriber acquisition costs. Although we receive payments

from the automakers, we believe that they do not resell our service; rather, they 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 effect of mail-in rebates based on actual take-rates for rebate incentives offered in prior periods. In subsequent periods, estimates are adjusted when necessary.

We recognize revenues from the sale of advertising on our non-music channels as the advertising is broadcast. Agency fees are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory and are reported as a reduction of advertising revenue.

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

Stock-Based Compensation

In accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), 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 stock 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 consolidated statements of operations.

Certain stock-based awards to employees have accelerated vesting provisions in the event of satisfaction of performance criteria which are not specified in the original terms of the stock-based award. A new measurement date results when the performance criteria are established. In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44"), a new measurement date results because the modification of the stock-based award may allow the employee to vest in an award that would have otherwise been forfeited pursuant to the original terms. While measurement of compensation is made at the date of the modification, the recognition of stock 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. Stock-based awards subject to modification as a result of a new measurement date could result in stock compensation expense of up to $25,092 in future periods. For the years ended December 31, 2004, 2003 and 2002, we have recognized no stock compensation expense associated with modification of terms to the original stock-based award as a result of a new measurement date. To the extent any performance criteria are satisfied and the vesting of any stock options and/or restricted stock units accelerate, the unamortized stock compensation expense associated with these options or restricted stock units will also accelerate.

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 Emerging Issues Task Force 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.

Expense for stock-based awards issued to non-employees, other than non-employee members of our board of directors, was estimated using Black-Scholes with the following assumptions for each period:

	For the Years Ended December 31,		
	2004	2003	2002
Risk-free interest rate	1.99-4.69%	2.84%	N/A
Expected life of stock-based awards—years	1.00-10.00	3.37-10.00	N/A
Expected stock price volatility	56-116%	110-118%	N/A
Expected dividend yield	0%	0%	N/A

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 have adopted the disclosure provisions of 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, and used by us, is the Black-Scholes option valuation model ("Black-Scholes"). The Black-Scholes option valuation model 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 input assumptions can materially affect the fair market value estimate, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our stock-based awards. The following table illustrates the effect on net loss applicable to common

stockholders and net loss per share applicable to common stockholders had stock-based compensation for employees been recorded based on the fair value method under SFAS No. 123:

	For the Years Ended December 31,		
	2004	2003	2002
Net loss applicable to common stockholders—as reported	$(712,162)	$(314,423)	$(468,466)
Stock-based compensation to employees—included in equity granted to third parties and employees	35,789	11,454	(7,867)
Stock-based compensation to employees—pro forma	(62,491)	(43,198)	(33,834)
Net loss applicable to common stockholders—pro forma	$(738,864)	$(346,167)	$(510,167)
Net loss per share applicable to common stockholders:			
Basic and diluted—as reported	$ (0.57)	$ (0.38)	$ (6.13)
Basic and diluted—pro forma	$ (0.60)	$ (0.42)	$ (6.68)

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

	For the Years Ended December 31,		
	2004	2003	2002
Risk-free interest rate	3.72-4.12%	0.91-3.25%	2.48%
Expected life of options—years	5.30-6.49	4.89-5.88	4.75
Expected stock price volatility	109-114%	115-118%	110%
Expected dividend yield	0%	0%	0%

Sports Programming Costs

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

Subscriber Acquisition Costs

Subscriber acquisition costs include subsidies paid to radio manufacturers; automakers, including subsidies paid to automakers who have agreed to include a SIRIUS radio and a prepaid subscription to our service in the sale or lease of a new vehicle; and 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 manufacturers of SIRIUS radios. 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.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs for the years ended December 31, 2004, 2003 and 2002 were $21,154, $18,054 and $21,004, respectively, and are included in engineering, design and development expenses in the accompanying consolidated statements of operations.

Advertising Costs

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

Net (Loss) Income Per Share

We compute net (loss) income per share in accordance with SFAS No. 128, "Earnings Per Share." Basic net (loss) income per share is based on the weighted average common shares outstanding during each reporting period. Diluted net (loss) income per share adjusts the weighted average for the potential dilution that could occur if common stock equivalents (convertible debt, warrants, stock options and restricted stock units) were exercised or converted into common stock. Common stock equivalents of approximately 225,000,000, 122,000,000 and 17,000,000 were not considered in the calculation of diluted net loss per share for the years ended December 31, 2004, 2003 and 2002, respectively, as the effect would have been anti-dilutive.

Comprehensive (Loss) Income

We report comprehensive (loss) income in accordance with SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 established a standard for reporting and displaying other comprehensive (loss) income and its components within financial statements. Unrealized gains and losses on available-for-sale securities are the only component of our other comprehensive (loss) income. Comprehensive loss for the years ended December 31, 2004, 2003 and 2002 was $712,212, $227,102 and $421,568, respectively.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes are recognized for the tax consequences related to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established when necessary based on the weight of available evidence, if it is considered more likely than not that all or some portion of the deferred tax assets will not be realized. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, money market funds and investments purchased with an original maturity of three months or less. Cash and cash equivalents are stated at fair market value.

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 U.S. government notes and U.S. government agency obligations and are classified as available-for-sale securities. Available-for-sale securities are carried at fair market value and unrealized gains and losses are included as a component of stockholders' equity. We recognized gains on the sale or maturity of marketable securities of $75, $1,184, and $7,328 for the years ended December 31, 2004, 2003 and 2002, respectively. We received proceeds from sales of marketable securities of $25,000, $150,000 and $500,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Marketable securities held at December 31, 2004 mature within one year from the date of purchase. We had unrealized holding (losses) gains on marketable securities of $(24) and $26 as of December 31, 2004 and 2003, respectively.

Restricted Investments

Restricted investments consist of fixed income securities, which are stated at amortized cost plus accrued interest. As of December 31, 2004 and 2003, long-term restricted investments were $92,615 and $6,750, respectively, and short-term restricted investments were $4,706 and $1,997, respectively. Restricted investments as of December 31, 2004 include the $85,000 escrow deposit in connection with our NFL agreement which is invested under our direction in a commercial money market fund and will be drawn by the NFL to pay the rights fees due for the 2006-2007, 2007-2008 and 2008-2009 NFL seasons; monies deposited in escrow to secure our obligation to reimburse Ford for certain costs it will incur in connection with the introduction of SIRIUS radios as a factory option, including costs associated with tooling, facilities, non-recurring engineering, marketing and equipment subsidies; and certificates of deposit and United States government obligations pledged to secure our reimbursement obligations under letters of credit issued primarily for the benefit of the lessor of our headquarters.

Property and Equipment

Property and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, which range from 1 to 30 years. Our satellite system is depreciated on a straight-line basis over the respective remaining useful lives of our satellites from the date we launched our service in February 2002 or, in the case of our spare satellite, from the date it was delivered to ground storage in April 2002. Leasehold improvements are depreciated on a straight-line basis over the life of the lease or the estimated useful life of the asset, whichever is shorter. Equipment under capital leases is depreciated using the straight-line method over the lesser of the lease term or the estimated useful life.

Major additions and improvements are capitalized, while replacements, repairs and maintenance that do not improve or extend the life of the assets are charged to expense. In the period assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss on disposal is included in our results of operations.

The costs of acquiring, developing and testing software are capitalized under Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." We capitalize costs associated with software developed or obtained for internal use when the following occur: (1) the preliminary project stage is completed and (2) management has authorized funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalized costs include external direct costs of materials and services consumed in developing or obtaining

internal-use software. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended use. Costs associated with the development of software for internal use have been capitalized in the amounts of $15,372 and $2,297 for the years ended December 31, 2004 and 2003, respectively.

The estimated useful lives of our property and equipment are as follows:

Customer care, billing and conditional access	1-7 years
Furniture, fixtures, equipment and other	2-7 years
Broadcast studio equipment	3-8 years
Satellite telemetry, tracking and control facilities	3 or 15 years
Terrestrial repeater network	5 or 15 years
Leasehold improvements	15 years
Satellite system	15 years
Building	30 years

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 changes in circumstances indicate that the useful lives of our satellites have changed, we will modify the depreciable life accordingly.

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. If an impairment in value of a long-lived asset is identified, except for our FCC license discussed below, the impairment will be measured in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," 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.

FCC License

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives be tested for impairment at least annually. In accordance with SFAS No. 142, we determined that our FCC license has an indefinite life and will be evaluated for impairment on an annual basis. We completed an impairment analysis for the year ended December 31, 2004, and concluded that there was no impairment loss related to our FCC license. We use projections of 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. To date, we have not recorded any amortization expense related to our FCC license.

Deferred Financing Fees

Costs associated with the issuance of debt are deferred and amortized to interest expense over the term of the respective debt.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximate fair value due to the short-term nature of these instruments. The

carrying amounts of outstanding capital lease obligations approximate fair value based on the terms and interest rates available to us for similar transactions.

We determined the estimated fair values of our debt using available market information and commonly accepted valuation methods. Considerable judgment is necessary to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that could be realized upon disposition. The use of alternative valuation methods and/or estimates may have resulted in materially different estimates from those presented.

Quoted market prices were used to estimate the fair market values of our debt as of December 31, 2004 and 2003. The following table summarizes the book and fair values of our debt:

	As of December 31,			
	2004		2003	
	Book Value	Fair Value	Book Value	Fair Value
3¼% Convertible Notes due 2011	$230,000	$393,300	$ —	$ —
2½% Convertible Notes due 2009	300,000	565,125	—	—
3½% Convertible Notes due 2008	67,250	375,423	136,250	347,438
8¾% Convertible Subordinated Notes due 2009	1,744	907	1,744	1,632
14½% Senior Secured Notes due 2009	28,080	30,081	27,609	31,052
15% Senior Secured Discount Notes due 2007	29,200	31,536	29,200	29,967

Asset Retirement Obligation

In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations," we recorded costs equal to the present value of the future obligation associated with the retirement of our terrestrial repeater network. These costs, which are included in other long-term liabilities, include an amount that we estimate will be sufficient to satisfy our obligations under leases to remove our terrestrial repeater equipment and restore the sites to their original condition. The following table reconciles the beginning and ending aggregate carrying amount of this asset retirement obligation:

	Asset Retirement Obligation
Balance, December 31, 2003	$279
Present value of asset retirement obligation	16
Accretion expense	66
Balance, December 31, 2004	$361

Reclassifications

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

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R revises SFAS No. 123 and supersedes APB No. 25. SFAS 123R is effective beginning the first interim period after June 15, 2005. We will adopt the provisions of SFAS No. 123R effective July 1, 2005. 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. Under SFAS No. 123R 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 the compensation charge for all share-based payments granted after July 1, 2005 and for all awards granted to employees prior to July 1, 2005 that remain unvested on July 1, 2005. The adoption of SFAS No. 123R is expected to have an impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on share-based payments granted in the future.

In September 2004, the EITF reached a consensus on Issue No. 04-08, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share" ("EITF No. 04-08"), which requires that diluted earnings per share include the dilutive effect of any contingently convertible debt securities regardless of whether the market price trigger had been satisfied during the period. We are required to adopt the provisions of EITF No. 04-08 as of December 31, 2004 and are also required to restate prior period diluted earnings per share for convertible debt securities that were outstanding during such periods and not ultimately settled in cash or modified prior to December 31, 2004. We did not have contingently convertible debt securities as of December 31, 2004. Therefore the adoption of EITF No. 04-08 did not have an impact on our financial position, results of operations or cash flows.

In April 2004, the EITF released Issue No. 03-06, "Participating Securities and the Two Class Method under FASB Statement No. 128" ("EITF No. 03-06"), which addressed a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. It requires that undistributed earnings for the period be allocated to a participating security based on the contractual participation rights of the security to share in those earnings as if all the earnings for the period had been distributed in calculating earnings per share. EITF No. 03-06 was effective for fiscal periods beginning after March 15, 2004. It requires that prior period earnings per share amounts be restated to ensure comparability year over year. The adoption of EITF No. 03-06 did not impact our financial position, results of operations or cash flows.

3. Subscriber Revenue

Subscriber revenue consists of subscription fees, non-refundable activation fees and the effects of mail-in rebates. We record an estimate of mail-in rebates that will be paid by us directly to subscribers as a reduction to subscriber revenue in the period the subscriber activates our service. In subsequent periods, estimates are adjusted when necessary.

Subscriber revenue consists of the following:

	For the Years Ended December 31,		
	2004	**2003**	**2002**
Subscription fees	$65,201	$13,759	$1,016
Activation fees	2,102	534	33
Effects of mail-in rebates	(4,422)	(1,678)	(426)
Total subscriber revenue	$62,881	$12,615	$ 623

4. Interest Costs

The following is a summary of our interest costs:

	For the Years Ended December 31,		
	2004	2003	2002
Interest costs charged to expense	$21,794	$31,071	$ 96,513
Debt conversion costs charged to expense	19,592	19,439	9,650
Total interest expense	41,386	50,510	106,163
Interest costs capitalized	—	—	5,426
Total interest costs incurred	$41,386	$50,510	$111,589

Debt conversion costs for the year ended December 31, 2004 are a result of the exchange of $69,000 in aggregate principal amount of our 3½% Convertible Notes due 2008 for shares of our common stock. Debt conversion costs for the year ended December 31, 2003 are a result of the exchange of $65,000 in aggregate principal amount of our 3½% Convertible Notes due 2008 for shares of our common stock. Debt conversion costs for the year ended December 31, 2002 are a result of the exchange of $29,475 in aggregate principal amount of our 8¾% Convertible Subordinated Notes due 2009 for shares of our common stock. During the year ended December 31, 2002, we capitalized a portion of the interest on funds borrowed to finance our construction in process.

5. Supplemental Cash Flow Disclosures

The following represents supplemental cash flow information:

	For the Years Ended December 31,	
	2004	2003
Cash paid for interest	$14,920	$ 14,998
Supplemental non-cash operating activities:		
Common stock issued in satisfaction of accrued compensation	913	—
Supplemental non-cash investing and financing activities:		
Common stock issued to the NFL	40,967	—
Common stock issued in exchange for 3½% Convertible Notes due 2008, including accrued interest	86,568	82,380
Common stock issued in exchange for 15% Senior Secured Discount Notes due 2007, including accrued interest	—	145,067
Common stock issued in exchange for 14½% Senior Secured Notes due 2009, including accrued interest	—	105,294
Common stock issued in exchange for Lehman term loan, including accrued interest	—	85,902
Common stock issued in exchange for Loral term loan, including accrued interest	—	41,865
Common stock issued in exchange for 8¾% Convertible Subordinated Notes due 2009, including accrued interest	—	24,355
Common stock issued in exchange for 9.2% Series A and B Junior Cumulative Convertible Preferred Stock, including accrued dividends	—	304,847
Common stock issued in exchange for 9.2% Series D Junior Cumulative Convertible Preferred Stock, including accrued dividends	—	283,785
Warrants issued in exchange for 9.2% Series A, B and D Junior Cumulative Convertible Preferred Stock, including accrued dividends	—	30,731

6. Property and Equipment

Property and equipment consists of the following:

	As of December 31,	
	2004	2003
Satellite system	$ 945,548	$ 945,548
Terrestrial repeater network	71,988	69,342
Leasehold improvements	27,715	26,210
Broadcast studio equipment	28,926	25,847
Customer care, billing and conditional access	23,298	6,436
Satellite telemetry, tracking and control facilities	16,732	16,570
Furniture, fixtures, equipment and other	41,362	34,842
Land	311	—
Building	1,763	—
Construction in process	4,698	2,221
Total property and equipment	1,162,341	1,127,016
Accumulated depreciation	(281,061)	(185,964)
Property and equipment, net	$ 881,280	$ 941,052

Construction in process consists of the following:

	As of December 31,	
	2004	2003
Construction of terrestrial repeater network	$1,984	$1,949
Construction of satellite system	1,033	—
Other	1,681	272
Construction in process	$4,698	$2,221

Our satellites were successfully launched on June 30, 2000, September 5, 2000 and November 30, 2000. Our spare satellite was delivered to ground storage on April 19, 2002. Our three-satellite constellation and terrestrial repeater network were placed into service on February 14, 2002.

Subscriber Management System

In April 2003, we terminated our agreement with the prior provider of our subscriber management system. As a result of this termination, we recorded a non-cash charge of $14,465 related to the write-off of the net book value of our subscriber management system and $6,846 of legal fees and settlement costs. Such costs are included in customer service and billing expenses and general and administrative expenses, respectively, in the accompanying consolidated statement of operations for the year ended December 31, 2003.

Terrestrial Repeater Network

During the year ended December 31, 2002, we implemented a plan to optimize our terrestrial network, which was designed to improve our signal coverage in urban areas. In connection with this optimization, we recorded a loss of $5,005 related to the disposal of certain terrestrial repeater equipment, which is included in satellite and transmission expenses in the accompanying consolidated statement of operations for the year ended December 31, 2002.

7. Accounts Payable and Accrued Expenses

Our accounts payable and accrued expenses consists of the following:

	As of December 31,	
	2004	2003
Accounts payable	$ 5,525	$ 1,630
Accrued sports programming	10,900	—
Accrued advertising	9,355	923
Accrued compensation and other payroll related costs	19,673	5,247
Accrued capital expenditures	6,168	2,469
Accrued engineering, design and development costs	2,127	4,400
Accrued subsidies and distribution	78,033	30,770
Accrued broadcast royalties	14,116	3,478
Other accrued expenses	37,036	17,002
Total accounts payable and accrued expenses	$182,933	$65,919

8. Long-Term Debt and Accrued Interest

Our long-term debt consists of the following:

	As of December 31,	
	2004	2003
3¼% Convertible Notes due 2011	$230,000	$ —
2½% Convertible Notes due 2009	300,000	—
3½% Convertible Notes due 2008	67,250	136,250
8¾% Convertible Subordinated Notes due 2009	1,744	1,744
14½% Senior Secured Notes due 2009	28,080	27,609
15% Senior Secured Discount Notes due 2007	29,200	29,200
Total long-term debt	$656,274	$194,803

Accrued interest associated with our long-term debt is as follows:

	As of December 31,	
	2004	2003
3¼% Convertible Notes due 2011	$ 1,708	$ —
2½% Convertible Notes due 2009	2,902	—
3½% Convertible Notes due 2008	196	397
8¾% Convertible Subordinated Notes due 2009	38	38
14½% Senior Secured Notes due 2009	549	549
15% Senior Secured Discount Notes due 2007	365	365
Total accrued interest	$ 5,758	$ 1,349
Less: current portion	(5,758)	(1,349)
Total long-term accrued interest	$ —	$ —

The maturities of our long-term debt are as follows:

	As of December 31, 2004
2005	$ —
2006	—
2007	29,200
2008	67,250
2009	332,002
Thereafter	230,000
Total debt	$658,452

3¼% Convertible Notes due 2011

In October 2004, we issued $230,000 in aggregate principal amount of our 3¼% Convertible Notes due 2011 resulting in net proceeds of $224,813. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 188.6792 shares of common stock for each $1,000.00 principal amount, or $5.30 per share of common stock, subject to certain adjustments. Our 3¼% Convertible Notes due 2011 mature on October 15, 2011 and interest is payable semi-annually on April 15 and October 15 of each year. The obligations under our 3¼% Convertible Notes due 2011 are not secured by any of our assets.

2½% Convertible Notes due 2009

In February 2004, we issued $250,000 in aggregate principal amount of our 2½% Convertible Notes due 2009 resulting in net proceeds of $244,625. In March 2004, we issued an additional $50,000 in aggregate principal amount of our 2½% Convertible Notes due 2009 pursuant to an option granted in connection with the initial offering of the notes, resulting in net proceeds of $48,975. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 226.7574 shares of common stock for each $1,000.00 principal amount, or $4.41 per share of common stock, subject to certain adjustments. Our 2½% Convertible Notes due 2009 mature on February 15, 2009 and interest is payable semi-annually on February 15 and August 15 of each year. The obligations under our 2½% Convertible Notes due 2009 are not secured by any of our assets.

3½% Convertible Notes due 2008

In May 2003, we issued $201,250 in aggregate principal amount of our 3½% Convertible Notes due 2008 resulting in net proceeds of $194,224. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 724.6377 shares of common stock for each $1,000.00 principal amount, or $1.38 per share of common stock, subject to certain adjustments. Our 3½% Convertible Notes due 2008 mature on June 1, 2008 and interest is payable semi-annually on June 1 and December 1 of each year. The obligations under our 3½% Convertible Notes due 2008 are not secured by any of our assets.

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. In connection with these transactions, we incurred debt conversion costs of $19,592. In December 2003, we issued 54,805,993 shares of our common stock in exchange for $65,000 in aggregate principal amount of our 3½% Convertible Notes due 2008, including accrued interest. In connection with these transactions we incurred debt conversion costs of $19,439.

8¾% Convertible Subordinated Notes due 2009

Our 8¾% Convertible Subordinated Notes due 2009 mature on September 29, 2009 and interest is payable semi-annually on March 29 and September 29 of each year. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 35.134 shares of common stock for each $1,000.00 principal amount, or $28.4625 per share of common stock, subject to certain adjustments. The obligations under our 8¾% Convertible Subordinated Notes due 2009 are not secured by any of our assets.

During the year ended December 31, 2002, we issued 2,913,483 shares of our common stock in exchange for $29,475 in aggregate principal amount of our 8¾% Convertible Subordinated Notes due 2009, including accrued interest. In connection with these transactions we incurred debt conversion costs of $9,650 for the year ended December 31, 2002.

14½% Senior Secured Notes due 2009

Our 14½% Senior Secured Notes due 2009 mature on May 15, 2009 and interest is payable semi-annually on May 15 and November 15 of each year. As of December 31, 2004, $30,258 in aggregate principal amount of our 14½% Senior Secured Notes due 2009 was outstanding. The aggregate principal amount of our 14½% Senior Secured Notes due 2009 is reduced by $2,178, the unamortized portion of the fair market value of warrants issued in connection with these notes. The obligations under our 14½% Senior Secured Notes due 2009 are secured by a lien on the common stock of our subsidiary that holds our FCC license and a lien on our spare satellite.

15% Senior Secured Discount Notes due 2007

Our 15% Senior Secured Discount Notes due 2007 mature on December 1, 2007 and interest is payable semi-annually on June 1 and December 1 of each year. The obligations under our 15% Senior Secured Discount Notes due 2007 are secured by a lien on the common stock of our subsidiary that holds our FCC license and a lien on our spare satellite.

Debt Restructuring

In March 2003, we issued 545,012,162 shares of our common stock in exchange for approximately 91% of our then outstanding debt, including all of our Lehman and Loral term loans and $435,689 in aggregate principal amount at maturity of our 15% Senior Secured Discount Notes due 2007, 14½% Senior Secured Notes due 2009 and 8¾% Convertible Subordinated Notes due 2009. In connection with the exchange offer relating to our debt, we also amended the indentures under which our 15% Senior Secured Discount Notes due 2007, 14½% Senior Secured Notes due 2009 and 8¾% Convertible Subordinated Notes due 2009 were issued to eliminate substantially all of the restrictive covenants. Holders of our debt also waived any existing events of default or events of default caused by the restructuring.

We recorded a gain of $256,538 in connection with the restructuring of our long-term debt in March 2003. This gain represents the difference between the carrying value of our 15% Senior Secured Discount Notes due 2007, 14½% Senior Secured Notes due 2009, Lehman and Loral term loans, including accrued interest, and the fair market value of the common stock issued in exchange therefor, adjusted for unamortized debt issuance costs and direct costs associated with the restructuring. This gain is net of a loss on our 8¾% Convertible Subordinated Notes due 2009 exchanged in the restructuring. This loss represents the difference between the fair market value of the common stock issued in the exchange and the fair market value of the common stock which would have been issued under the original conversion ratio, including accrued interest, adjusted for unamortized debt issuance costs and direct costs associated with the restructuring.

9. Stockholders' Equity

Common Stock, Par Value $0.001 Per Share

We are authorized to issue 2,500,000,000 shares of our common stock as of December 31, 2004. As of December 31, 2004, approximately 566,377,000 shares of our common stock were reserved for issuance in connection with outstanding convertible debt, warrants and incentive stock plans.

During the year ended December 31, 2004, employees exercised 17,447,086 stock options at exercise prices ranging from $0.49 to $7.61 per share, resulting in proceeds to us of $26,060. Of this amount, $26,051 was collected as of December 31, 2004.

In October 2004, we sold 25,000,000 shares of our common stock resulting in net proceeds of $96,025.

In January 2004, we signed a seven-year agreement with the NFL. We delivered to the NFL 15,173,070 shares of our common stock valued at $40,967 upon execution of this agreement. These shares of common stock are subject to certain transfer restrictions which lapse over time. We recognized $4,285 of expense associated with these shares during the year ended December 31, 2004. Of the remaining $36,682 in common stock value, $5,852 and $30,830 are included in other current assets and other long-term assets, respectively, on our accompanying consolidated balance sheet as of December 31, 2004.

In November 2003, we sold 73,170,732 shares of our common stock resulting in net proceeds of $149,600.

In June 2003, we sold 86,250,000 shares of our common stock resulting in net proceeds of $144,897.

In March 2003, we sold 24,060,271 shares of our common stock to affiliates of Apollo Management, L.P. ("Apollo") for an aggregate of $25,000; 24,060,271 shares of our common stock to affiliates of The Blackstone Group L.P. ("Blackstone") for an aggregate of $25,000; and 163,609,837 shares of our common stock to affiliates of OppenheimerFunds, Inc. for an aggregate of $150,000. We received net proceeds of $197,112 in connection with these sales.

Preferred Stock

In December 1998, we sold Apollo 1,350,000 shares of our 9.2% Series A Junior Cumulative Convertible Preferred Stock, par value $0.001 per share, for an aggregate purchase price of $135,000. Each share of our 9.2% Series A Junior Cumulative Convertible Preferred Stock was convertible into a number of shares of our common stock calculated by dividing the $100.00 per share liquidation preference by a conversion price of $30.00. Dividends on our 9.2% Series A Junior Cumulative Convertible Preferred Stock were payable annually in cash or additional shares of our 9.2% Series A Junior Cumulative Convertible Preferred Stock, at our option.

In December 1998, Apollo granted to us an option to sell to Apollo 650,000 shares of our 9.2% Series B Junior Cumulative Convertible Preferred Stock, par value $0.001 per share, for an aggregate purchase price of $65,000. We exercised this option on December 23, 1999. The terms of our 9.2% Series B Junior Cumulative Convertible Preferred Stock were similar to those of our 9.2% Series A Junior Cumulative Convertible Preferred Stock.

In January 2000, we sold Blackstone 2,000,000 shares of our 9.2% Series D Junior Cumulative Convertible Preferred Stock, par value $0.001 per share, for an aggregate purchase price of $200,000. Each share of our 9.2% Series D Junior Cumulative Convertible Preferred Stock was convertible into a number of shares of our common stock calculated by dividing the $100.00 per share liquidation preference by a conversion price of $34.00. Dividends on our 9.2% Series D

Junior Cumulative Convertible Preferred Stock were payable annually in cash or additional shares of our 9.2% Series D Junior Cumulative Convertible Preferred Stock, at our option.

In March 2003, we issued 39,927,796 shares of our common stock to Apollo 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, and 37,065,069 shares of our common stock to Blackstone in exchange for all of our outstanding 9.2% Series D Junior Cumulative Convertible Preferred Stock, including, in each case, accrued dividends.

We recorded a deemed dividend of $79,510 in connection with the exchange in March 2003 of all outstanding shares of our preferred stock for shares of our common stock and warrants to purchase our common stock. This deemed dividend represents the difference between the fair market value of the common stock and warrants issued in exchange for all outstanding shares of our 9.2% Series A Junior Cumulative Convertible Preferred Stock, 9.2% Series B Junior Cumulative Convertible Preferred Stock and 9.2% Series D Junior Cumulative Convertible Preferred Stock and the fair market value of the common stock which would have been issued under the original conversion ratios, adjusted for unamortized issuance costs and direct costs associated with the exchange of the preferred stock.

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 (“RadioShack”) 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. All of 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 and the balance of these warrants vest over time and upon achievement of certain milestones by the Penske companies.

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 NFL and its member clubs, and 33,333,335 of these warrants will be earned by the NFL or its member clubs as we acquire subscribers which are directly trackable through their efforts.

During the year ended December 31, 2004, we issued warrants to purchase 9,425,000 shares of our common stock at exercise prices of $3.00 to $3.21 per share to other third parties as part of distribution and programming arrangements. These warrants vest over time and upon achievement of certain milestones.

In March 2003, we issued warrants to purchase 45,416,690 shares of our common stock in exchange for all our outstanding 9.2% Series A Junior Cumulative Convertible Preferred Stock and 9.2% Series B Junior Cumulative Convertible Preferred Stock held by Apollo. Warrants to purchase 27,250,013 shares of our common stock have an exercise price of $1.04 per share, and

warrants to purchase 18,166,677 shares of our common stock have an exercise price of $0.92 per share. These warrants are exercisable and expire on March 7, 2005.

In March 2003, we issued warrants to purchase 42,160,424 shares of our common stock in exchange for all our outstanding 9.2% Series D Junior Cumulative Convertible Preferred Stock held by Blackstone. Warrants to purchase 25,296,255 shares of our common stock had an exercise price of $1.04 per share, and warrants to purchase 16,864,169 shares of our common stock had an exercise price of $0.92 per share. Blackstone exercised all of these warrants prior to their expiration on September 7, 2004 in a series of transactions that included cashless exercises and exercises for cash. In connection with these transactions, we issued 32,623,748 shares of our common stock and received $19,850 in proceeds.

Warrants to acquire shares of our common stock were outstanding as follows (shares in thousands):

	Average Exercise Price	Expiration Date	Number of Warrants Outstanding as of December 31, 2004	2003
NFL	$ 2.50	March 2008—March 2010	50,000	—
Apollo	0.99	March 2005	45,417	45,417
Blackstone	0.99	September 2004	—	21,133
Penske	2.392	January 2014	38,000	—
DaimlerChrysler	1.04	May 2012	21,500	4,000
RadioShack	5.00	April 2009	10,000	—
Ford	3.00	October 2007	4,000	4,000
Other distribution and programming partners	3.16	January 2008—June 2014	9,363	—
Other	28.76	June 2005—May 2009	6,333	6,333
Total	$ 3.02		184,613	80,883

We recognized expense of $74,700 and $445 in connection with warrants for the years ended December 31, 2004 and 2003, respectively.

10. 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 in ten years from date of grant. Each restricted stock unit granted entitles the holder to receive one share of our common stock upon vesting.

As of December 31, 2004, approximately 100,819,000 shares of our common stock were available for grant under the 2003 Plan. Approximately 120,203,000 stock options, shares of restricted stock and restricted stock units were outstanding as of December 31, 2004.

Stock Options

The following table summarizes the stock option activity under our stock incentive plans (shares in thousands):

	For the Years Ended December 31,					
	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	64,731	$3.28	13,341	$12.16	11,117	$13.58
Granted	51,121	4.11	53,379	1.17	3,240	5.78
Exercised	(17,447)	1.49	—	—	(3)	7.50
Cancelled or expired	(681)	3.78	(1,989)	6.27	(1,013)	7.34
Outstanding at end of year	97,724	4.04	64,731	3.28	13,341	12.16
Weighted average grant date fair value of options granted during the period		$4.12		$ 1.49		$ 3.74

The following table provides certain information with respect to stock options outstanding and exercisable at December 31, 2004 (shares in thousands):

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Price per Share	Shares	Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$0.47–$1.00	184	5.8	$ 0.80	81	$ 0.92
$1.01–$4.99	85,926	9.2	2.82	8,875	1.89
$5.00–$14.99	8,990	5.8	7.69	8,514	7.68
$15.00–$34.99	2,526	3.3	31.01	2,526	31.01
$35.00–$57.00	98	5.5	45.89	98	45.89
Total	97,724	8.7	$ 4.04	20,094	$ 8.21

We recorded deferred compensation of $1,002 and $30,299 during the years ended December 31, 2004 and 2003, respectively, 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. For the years ended December 31, 2004 and 2003, we recognized stock compensation expense associated with stock options of $27,957 and $8,888, respectively. Such expense is recorded as a component of equity granted to third parties and employees in the accompanying consolidated statements of operations.

Restricted Stock Units and Restricted Stock

The following table summarizes the restricted stock unit activity under our stock incentive plans and provides certain information with respect to restricted stock units outstanding and exercisable at December 31, 2004 (shares in thousands):

	For the Years Ended December 31,		
	2004	2003	2002
Outstanding at beginning of year	16,951	138	58
Granted	5,948	16,860	100
Exercised	(404)	(13)	(20)
Cancelled	(16)	(34)	—
Outstanding at end of year	22,479	16,951	138
Weighted average grant date fair value of restricted stock units granted during the period	$ 3.14	$ 1.65	$9.95

The average remaining contractual life for restricted stock units outstanding at December 31, 2004 was 6.4 years.

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 deferred compensation of $32,497 and $27,811 during the years ended December 31, 2004 and 2003, respectively, in connection with restricted stock units and restricted stock granted to employees and members of our board of directors. 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 the accompanying consolidated statements of operations. For the years ended December 31, 2004 and 2003, we recognized stock compensation expense associated with these restricted stock units and shares of restricted stock of $13,896 and $1,949, respectively. In 2004, we also recognized stock compensation expense for 2004 services performed of $2,651 for restricted stock units expected to be granted in February 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 33⅓% for each year of employment and is fully vested after three years of employment. Expense resulting from our matching contribution to the Plan was $718, $801 and $1,231 for the years ended December 31, 2004, 2003 and 2002, 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 regular employer contributions, will be determined by the compensation committee of our board of directors. Employees are only eligible to share in regular employer contributions during any year in which they are employed on the last day of the year. Profit sharing contribution expense was $2,518 and $913 for the years ended December 31, 2004 and 2003, respectively, and was paid in shares of our common stock. There was no profit sharing contribution expense for the year ended December 31, 2002.

11. Income Taxes

Our income tax expense consisted of the following:

	For the Years Ended December 31,		
	2004	2003	2002
Current taxes:			
Federal	$ —	$ —	$ —
State	—	—	—
Total current taxes	$ —	$ —	$ —
Deferred taxes:			
Federal	$3,662	$ —	$ —
State	539	—	—
Total deferred taxes	$4,201	$ —	$ —
Total income tax expense	$4,201	$ —	$ —

The following table indicates the significant elements contributing to the difference between the federal tax provision (benefit) at the statutory rate and at our effective rate:

	For the Years Ended December 31,		
	2004	2003	2002
Federal tax benefit, at statutory rate	$(247,786)	$(79,175)	$(147,868)
State income tax benefit, net of federal benefit	(36,459)	(11,644)	(21,747)
Change in taxes resulting from permanent differences, net	(15,627)	8,944	3,508
Other	(2,237)	—	2,571
Change in valuation allowance	306,310	81,875	163,536
Income tax expense	$ 4,201	$ —	$ —

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	As of December 31,	
	2004	2003
Deferred tax assets:		
Start-up costs capitalized for tax purposes	$ 48,833	$ 72,829
Net operating loss carryforwards	823,723	489,499
Capitalized interest expense	1,795	10,032
Stock-based awards	45,560	5,019
Other	10,398	6,822
Total deferred tax asset	930,309	584,201
Deferred tax liabilities:		
Depreciation of property and equipment	(189,710)	(149,912)
Amortization of FCC license	(6,438)	(2,237)
Total deferred tax liability	(196,148)	(152,149)
Net deferred tax assets before valuation allowance	734,161	432,052
Valuation allowance	(740,599)	(434,289)
Net deferred tax liability	$ (6,438)	$ (2,237)

The net deferred tax liability of $6,438 at December 31, 2004 is a result of the difference in accounting for our FCC license, which is amortized over 15 years for tax purposes but not amortized for book purposes. This net deferred tax liability cannot be offset against our deferred

tax assets under U.S. generally accepted accounting principles since it relates to an indefinite-lived asset and is not anticipated to reverse in the same period.

A significant portion of our costs incurred to date have been capitalized for tax purposes as a result of our status as a start-up enterprise. Total unamortized start-up costs as of December 31, 2004 and 2003 were $124,316 and $184,081, respectively. These capitalized costs are being amortized over 60 months. The total deferred tax asset includes approximately $32,278, which, if realized, would not affect financial statement income but would be recorded directly to stockholders' equity.

At December 31, 2004, we had net operating loss ("NOL") carryforwards of approximately $2,052,000 for federal and state income tax purposes available to offset future taxable income. These NOL carryforwards expire on various dates beginning in 2008. We have had several ownership changes under Section 382 of the Internal Revenue Code, which may limit our ability to utilize tax deductions. Furthermore, future changes in our ownership may limit our ability to utilize our deferred tax asset. Realization of our deferred tax assets is dependent upon future earnings; accordingly, a full valuation allowance was recorded against the assets.

12. Lease Obligations

We have entered into non-cancelable operating leases for office space, equipment and terrestrial repeaters. These leases provide for minimum lease payments, additional operating expense charges, have initial terms ranging from one to fifteen years, and certain leases have options to renew. Total rent expense recognized in connection with these leases for the years ended December 31, 2004, 2003 and 2002 was $14,989, $12,275 and $12,792, respectively.

In addition, we have entered into non-cancelable capital leases for equipment. These leases have been capitalized using interest rates of approximately 16% and expire on various dates through 2005. Depreciation on the capitalized assets acquired pursuant to capital leases has been included in depreciation expense in the accompanying consolidated statements of operations.

Future minimum lease payments under these non-cancelable leases as of December 31, 2004 were as follows:

	Operating	Capital
2005	$ 7,582	$ 8
2006	7,430	—
2007	6,965	—
2008	5,552	—
2009	5,426	—
Thereafter	25,499	—
Total minimum lease payments	$58,454	$ 8
Less: amount representing interest		—
Present value of net minimum lease payments		8
Less: current portion		(8)
Total long-term capital lease obligations		$—

13. 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 December 31, 2004:

	2005	2006	2007	2008	2009	Thereafter	Total
Satellite and transmission	$ 3,239	$ 3,155	$ 3,155	$ 3,155	$ 3,155	$ 15,027	$ 30,886
Programming and content	28,292	96,044	74,184	69,641	98,775	104,200	471,136
Customer service and billing	4,842	3,310	3,032	—	—	—	11,184
Marketing and distribution	65,801	23,916	9,342	6,260	6,450	7,500	119,269
Chip set development and production	17,908	6,631	—	—	—	—	24,539
Total contractual cash commitments	$120,082	$133,056	$89,713	$79,056	$108,380	$126,727	$657,014

Satellite and Transmission

We have entered into an agreement with a provider of satellite services to operate our off-site satellite telemetry, tracking and control facilities.

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 chip set manufacturers to produce chip sets for use in SIRIUS radios. Our agreement with ST Microelectronics (“ST”) requires that we purchase a minimum quantity of chip sets during a three-year period and pay for the development of the chip sets as milestones are satisfied. Our agreements with Agere Systems, Inc. (“Agere”) also require us to pay for the development of our chip sets and to license us intellectual property related to our 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 in the accompanying 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 also 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, 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 December 31, 2004 and 2003, $97,321 and $8,747, respectively, were classified as restricted investments as a result of our reimbursement obligations under these letters of credit and escrow deposits.

As of December 31, 2004, we have not entered into any off-balance sheet arrangements or transactions.

Risks and Uncertainties

Agere is currently the sole supplier of chip sets to our radio manufacturers. ST is developing our next generation chip set. Further changes in chip set suppliers could cause a delay in manufacturing and a possible loss of sales, which would adversely affect our operating results.

SIRIUS radios are produced by a limited number of manufacturers. An interruption in the supply of SIRIUS radios could adversely affect our operating results.

14. Quarterly Financial Data (Unaudited)

Our quarterly results of operations are summarized below:

	For the Three Months Ended			
	March 31	June 30	September 30	December 31
2004:				
Total revenue	$ 9,291	$ 13,230	$ 19,116	$ 25,217
Cost of services[3]	(21,026)	(23,522)	(32,972)	(43,394)
Net loss applicable to common stockholders[1]	(144,059)	(136,797)	(169,433)	(261,873)
Net loss per share applicable to common stockholders (basic and diluted)[2]	$ (0.12)	$ (0.11)	$ (0.14)	$ (0.21)
2003:				
Total revenue	$ 1,591	$ 2,073	$ 4,258	$ 4,950
Cost of services[3]	(16,643)	(31,647)	(17,720)	(20,580)
Net income (loss) applicable to common stockholders[1][4]	51,880	(111,836)	(106,689)	(147,778)
Net income (loss) per share applicable to common stockholders (basic and diluted)[2]	$ 0.16	$ (0.12)	$ (0.11)	$ (0.14)

(1) Net loss applicable to common stockholders for the three months ended March 31, 2004 included debt conversion costs of $19,592. Net loss applicable to common stockholders for the three months ended December 31, 2003 included debt conversion costs of $19,439. Net loss applicable to common stockholders for the three months ended June 30, 2003 included a $14,465 loss on the disposal of our prior subscriber management system in May 2003 as a result of the termination of our agreement with the provider.

(2) The sum of the quarterly net income (loss) per share applicable to common stockholders (basic and diluted) does not necessarily agree to the net loss per share for the year due to the timing of our common stock issuances.

(3) Quarterly cost of services previously reported for the quarters ended March 31, 2004 and December 31, 2003 included expense associated with stock-based awards granted to third parties. Such amounts were reclassed to equity granted to third parties and employees in the accompanying consolidated statements of operations.

(4) Net income applicable to common stockholders for the three months ended March 31, 2003 included other income of $256,538 related to our debt restructuring.

15. Subsequent Events (Unaudited)

In January 2005, certain third parties exercised approximately 18,167,000 warrants, with an exercise price of $0.92 per share, approximately 27,250,000 warrants, with an exercise price of $1.04

per share, and 2,400,000 warrants, with an exercise price of $2.392 per share. In connection with these exercises, we issued approximately 41,194,000 shares of our common stock in a series of cashless exercise transactions.

In February 2005, we entered into an agreement with NASCAR to broadcast live all NASCAR Nextel Cup Series, NASCAR Busch Series and NASCAR Craftsman Truck Series races for five years starting in 2007. We will create a new around-the-clock channel of NASCAR-related programming and will become the Official Satellite Radio Partner of NASCAR with exclusive trademark and marketing rights and the right to sell advertising time on the NASCAR channel and during races. We will pay rights fees totaling $107.5 million over the term of this agreement, including an initial $3 million payment and a $15 million payment into escrow.

SIRIUS SATELLITE RADIO INC. AND SUBSIDIARY

Schedule II—Schedule of Valuation and Qualifying Accounts

	Balance at Beginning of Year	Charge to Expense	Balance at End of Year
For the year ended December 31, 2003			
Deferred Tax Assets—Valuation Allowance	$352,414	$ 81,875	$434,289
For the year ended December 31, 2004			
Deferred Tax Assets—Valuation Allowance	$434,289	$306,310	$740,599

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON WEDNESDAY, MAY 25, 2005

To our Stockholders:

You are cordially invited to attend our Annual Meeting of Stockholders, which will be held on Wednesday, May 25, 2005, at 9:00 a.m., New York City time, in The Auditorium at The Equitable Center, 787 Seventh Avenue, New York, New York 10019. The annual meeting is being held to:

1. Elect eight directors.
2. Transact any other business that may properly come before the meeting.

Only stockholders of record at the close of business on April 4, 2005 are entitled to vote at the annual meeting. A list of stockholders entitled to vote will be available for examination for the ten days prior to the annual meeting, between the hours of 9:00 a.m. and 4:00 p.m., New York City time, at our offices at 1221 Avenue of the Americas, 36th Floor, New York, New York 10020.

Whether or not you expect to attend in person, we urge you to vote your shares via the Internet, by phone, or by signing, dating, and returning the enclosed proxy card at your earliest convenience. This will ensure the presence of a quorum at the meeting. If you wish to vote your shares by mail, an addressed envelope for which no postage is required if mailed in the United States is enclosed.

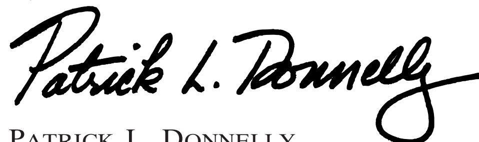
Voting over the Internet or by telephone is fast, convenient, and your vote is immediately confirmed and tabulated. Most important, by using the Internet or telephone, you help us reduce postage and proxy tabulation costs. Please do not return the enclosed paper ballot if you are voting over the Internet or by telephone.

Instead of receiving future copies of our proxy statement and annual report materials by mail, most stockholders can elect to receive an e-mail that will provide electronic links to them. Opting to receive your proxy materials online will save us the cost of producing and mailing documents to you and will also give you an electronic link to the proxy voting site. Please see page 2 (*"How can I access the proxy materials and annual report on the Internet?"*) of this proxy statement for instructions on receiving your materials by e-mail.

If You Plan to Attend

Please note that space limitations make it necessary to limit attendance to stockholders. Admission to the meeting will be on a first-come, first-served basis. Stockholders holding stock in brokerage accounts ("street name" holders) will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date to enter the meeting. Cameras, recording devices and other electronic equipment will not be permitted in the meeting.

By Order of the Board of Directors,



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

New York, New York
April 20, 2005

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SIRIUS SATELLITE RADIO INC.

PROXY STATEMENT

This proxy statement contains information related to the annual meeting of stockholders of Sirius Satellite Radio Inc. to be held on Wednesday, May 25, 2005, beginning at 9:00 a.m., New York City time, in The Auditorium at The Equitable Center, 787 Seventh Avenue, New York, New York 10019, and at any postponements or adjournments thereof. This proxy statement is being mailed to stockholders on or about April 20, 2005.

A copy of our Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission, except for exhibits, will be furnished without charge to any stockholder upon written request to Sirius Satellite Radio Inc., Attention: Corporate Secretary, 1221 Avenue of the Americas, 36th Floor, New York, New York 10020.

ABOUT THE MEETING

What is the purpose of the annual meeting?

At our annual meeting, stockholders will elect eight directors to our board (Leon D. Black, Joseph P. Clayton, Lawrence F. Gilberti, James P. Holden, Mel Karmazin, Warren N. Lieberfarb, Michael J. McGuiness and James F. Mooney). In addition, management will report on its performance and respond to questions from stockholders.

Who is entitled to vote?

Only stockholders of record at the close of business on April 4, 2005, the record date for the meeting, are entitled to receive notice of and to participate at the annual meeting. If you were a stockholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the meeting, or any postponements or adjournments of the meeting.

What are the voting rights of the holders of SIRIUS common stock?

Each outstanding share of our common stock is entitled to one vote on each matter considered at the meeting.

Who can attend the annual meeting?

Subject to space availability, all stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. Registration will begin at 8:15 a.m., New York City time, and seating will begin at 8:30 a.m., New York City time.

If you are a registered stockholder (that is, if you hold your stock in certificate form or participate in the Sirius Satellite Radio Inc. 401(k) Savings Plan), an admission ticket is enclosed with your proxy card. If you wish to attend the annual meeting, please vote your proxy but keep the admission ticket and bring it with you to the annual meeting.

If your shares are held in "street name" (that is, through a bank, broker or other holder of record) and you wish to attend the annual meeting, you need to bring a copy of a bank or brokerage statement to the annual meeting reflecting your stock ownership as of the record date.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the common stock outstanding on the record date will constitute a quorum, permitting the meeting to conduct its business. As of the record date, 1,320,497,551 shares of common stock were outstanding.

Proxies received but marked as abstentions or broker non-votes will be included in the calculation of the number of votes considered to be present at the meeting.

How do I vote?

Stockholders of record can vote as follows:

- *Via the Internet:* Stockholders may vote through the Internet at *www.proxyvotenow.com/siri* by following the instructions included with your proxy card.
- *By Telephone:* Stockholders may vote by telephone (1-866-353-7844) by following the instructions included with your proxy card.
- *By Mail:* Stockholders may sign, date and return their proxy cards in the pre-addressed, postage-paid envelope that is provided.
- *At the Meeting:* If you attend the annual meeting, you may vote in person by ballot, even if you have previously returned a proxy card.

If your shares are held in "street name", through a broker, bank or other nominee, that institution will send you separate instructions describing the procedure for voting your shares. "Street name" stockholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares.

Can I vote by telephone or electronically?

If your shares are held in "street name" please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically. The deadline for voting by telephone or electronically is 5:00 p.m., New York City time, on May 24, 2005.

If you are a registered stockholder (that is, if you hold your stock in certificate form or participate in the Sirius Satellite Radio Inc. 401(k) Savings Plan), you may vote by telephone (1-866-353-7844), or electronically through the Internet at *www.proxyvotenow.com/siri,* by following the instructions included with your proxy card.

How can I access the proxy materials and annual report on the Internet?

This proxy statement and our annual report are available on our website at *www.sirius.com.* Instead of receiving future copies of our proxy statement and annual report materials by mail, most stockholders can elect to receive an e-mail that will provide electronic links to them. Opting to receive your proxy materials online will save us the cost of producing and mailing documents to you and will also give you an electronic link to the proxy voting site.

Registered Stockholders: If you vote on the Internet at *www.proxyvotenow.com/siri* simply follow the prompts for enrolling in the electronic proxy delivery service. You also may enroll in the electronic proxy delivery service at any time in the future by going directly to *www.giveconsent.com/siri* and following the enrollment instructions.

Beneficial Owners: If your shares are held in "street name", through a broker, bank or other nominee, you also may have the opportunity to receive copies of these documents electronically. Please check the information provided in the proxy materials mailed to you by your bank or other holder of record regarding the availability of this service.

Can I change my vote?

Yes. You may change your vote at any time before your shares are voted at the annual meeting by:

- Notifying our Corporate Secretary, Patrick L. Donnelly, in writing at Sirius Satellite Radio Inc., 1221 Avenue of the Americas, 36th Floor, New York, New York 10020 that you are revoking your proxy; or

- Executing and delivering a later dated proxy card; or
- Voting in person at the annual meeting.

However, if you have shares held through a brokerage firm, bank or other custodian, you may revoke your instructions only by informing the custodian in accordance with any procedures it has established.

What vote is required to approve each item?

The affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors. A properly executed proxy marked "Withhold Authority" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

Who will count the votes?

A representative of The Bank of New York, our transfer agent, will tabulate the votes and act as inspector of election.

What is a proxy?

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

Who am I designating as my proxy?

You will be designating Patrick L. Donnelly, our Executive Vice President, General Counsel and Secretary, and Ruth A. Ziegler, our Deputy General Counsel, as your proxies.

How will my proxy vote my shares?

Your proxy will vote according to your instructions. If you complete your proxy card but do not indicate your vote on one or all of the business matters, your proxy will vote "FOR" these items. Also, your proxy is authorized to vote on any other business that properly comes before the annual meeting in accordance with the recommendation of our board of directors.

What happens if a nominee for director is unable to serve as a director?

If any of the nominees becomes unavailable for election, which we do not expect, votes will be cast for such substitute nominee or nominees as may be designated by our board of directors, unless our board of directors reduces the number of directors on our board.

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

SIRIUS is soliciting your proxy. The cost of soliciting proxies will be borne by SIRIUS, which has engaged MacKenzie Partners, Inc. to assist in the distribution and solicitation of proxies. We have agreed to pay MacKenzie $10,000 plus reimburse the firm for its reasonable out-of-pocket expenses. SIRIUS will also reimburse brokerage firms, banks and other custodians for their reasonable out-of-pocket expenses for forwarding these proxy materials to you. Our directors, officers and employees may solicit proxies on our behalf by telephone or in writing.

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

To be eligible for inclusion in our proxy statement and form of proxy for next year's annual meeting, stockholder proposals must be submitted in writing by the close of business on December 15, 2005 to Patrick L. Donnelly, Executive Vice President, General Counsel and Secretary, Sirius Satellite Radio Inc., 1221 Avenue of the Americas, 36th Floor, New York, New York 10020.

If any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph) is instead sought to be presented directly at next year's annual meeting, the proxies may vote in their discretion if (a) we receive notice of the proposal before the close of business on February 28, 2006 and advise stockholders in next year's proxy statement about the nature of the matter and how management intends to vote on such matter or (b) we do not receive notice of the proposal prior to the close of business on February 28, 2006. Notices of intention to present proposals at next year's annual meeting should be addressed to Patrick L. Donnelly, Executive Vice President, General Counsel and Secretary, Sirius Satellite Radio Inc., 1221 Avenue of the Americas, 36th Floor, New York, New York 10020.

STOCK OWNERSHIP

Who are the owners of the largest amount of SIRIUS' common stock?

The following table sets forth information regarding beneficial ownership of our common stock as of February 28, 2005 by each person known by us to be the beneficial owner of more than 5% of our outstanding common stock. In general, "beneficial ownership" includes those shares a person has the power to vote or transfer, and options to acquire our common stock that are exercisable currently or become exercisable within 60 days. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed below, based on information furnished by these owners, have sole investment and voting power with respect to these shares, except as otherwise provided by community property laws where applicable.

Name and Address of Beneficial Owner of Common Stock	Shares Beneficially Owned as of February 28, 2005	
	Number	**Percent**
Apollo Investment Fund IV, L.P.[1]	157,107,857	11.9%
Apollo Overseas Partners IV, L.P. Two Manhattanville Road Purchase, New York 10577		
OppenheimerFunds, Inc.[2]	101,384,914	7.7%
Atlas Global Growth Fund Clarington Global Equity Fund Security Benefit Life Global Series Fund Security Benefit Life Worldwide Equity Series D/VA CUNA Global Series Fund/VA JNL/Oppenheimer Global Growth Series VA Oppenheimer Global Fund Oppenheimer Global Securities Fund/VA Oppenheimer Global Growth & Income Fund Two World Financial Center 225 Liberty Street, 11th Floor New York, New York 10281-1008		

(1) This information is based upon an amendment to Schedule 13D filed by Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P. and Apollo Advisors IV, L.P. on January 11, 2005.

(2) This information is based upon an amendment to Schedule 13G filed by OppenheimerFunds, Inc. on February 15, 2005.

How much stock do the directors and executive officers of SIRIUS own?

The following table shows the number of shares of common stock beneficially owned by each of our directors, our Chief Executive Officer and the four other most highly compensated executive officers during 2004 as of February 28, 2005. The table also shows common stock beneficially owned by all of our directors and executive officers as a group as of February 28, 2005.

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percent of Class	Shares Acquirable within 60 days
Leon D. Black[2]	34,870	*	5,135
Joseph P. Clayton[3]	15,152,438	1.1%	10,000,000
Lawrence F. Gilberti	195,117	*	70,135
James P. Holden	168,117	*	45,135
Warren N. Lieberfarb	72,842	*	5,135
Michael J. McGuiness	66,217	*	5,135
James F. Mooney[4]	88,615	*	5,135
Mel Karmazin	4,502,973	*	—
Scott A. Greenstein	3,078,072	*	1,600,000
James E. Meyer	1,884,536	*	716,666
Patrick L. Donnelly	2,973,122	*	1,716,666
David J. Frear[5]	1,544,633	*	883,333
All Executive Officers and Directors as a Group (12 persons)[6]	29,761,552	2.2%	15,052,475

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

(1) These amounts include shares of common stock, restricted shares of common stock and restricted stock units which the individuals hold and shares of common stock they have a right to acquire within the next 60 days through the exercise of stock options as shown in the last column. Also included are the shares of common stock acquired under our 401(k) savings plan as of February 28, 2005: Mr. Karmazin—2,973 shares; Mr. Clayton—23,677 shares; Mr. Donnelly—3,045 shares; and Mr. Frear—1,696 shares.

(2) Mr. Black is the founding partner of Apollo Management, L.P., an affiliate of Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P. Mr. Black disclaims beneficial ownership of all shares of our common stock in excess of his pecuniary interest.

(3) Includes 10,000 shares held by a partnership and 15,000 shares held in a trust. Mr. Clayton has adopted a plan pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. Pursuant to this plan, each month (commencing in April 2005 and ending in December 2005) Mr. Clayton expects to exercise options with respect to 600,000 shares of our common stock and sell the shares received upon exercise. The exercise of these options and the sale of the underlying common stock are subject to certain conditions contained in the plan.

(4) Includes 9,100 shares held as custodian for a child.

(5) Includes 1,900 shares held by spouse.

(6) Does not include 49,011,433 shares issuable under stock options that are not exercisable within 60 days.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers to file reports of ownership of our common stock and changes in such ownership with the Securities and Exchange Commission, or the SEC. Based on our records and other information, we believe that our directors and executive officers met all applicable filing requirements during 2004, with the exception of James F. Mooney who filed one late report regarding the acquisition of shares held as custodian for a child.

GOVERNANCE OF THE COMPANY

What are the responsibilities of the board of directors?

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

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

Our board of directors maintains three standing committees, an Audit Committee, a Compensation Committee and a Finance Committee.

The following table shows the current members and chairman of each committee, the number of committee meetings held during 2004 and the functions performed by each committee:

Committee	Functions
Audit Number of Meetings: 11 Members: Lawrence F. Gilberti James P. Holden James F. Mooney*	• Selects our independent registered public accounting firm • Reviews reports of our independent registered public accounting firm • Reviews and approves the scope and cost of all services, including all non-audit services, provided by the firm selected to conduct the audit • Monitors the effectiveness of the audit process • Reviews adequacy of financial and operating controls • Monitors corporate compliance program
Compensation Number of Meetings: 6 Members: Leon D. Black Lawrence F. Gilberti* James P. Holden	• Reviews and approves salaries and other compensation matters for executive officers • Administers stock compensation program, including grants of options, restricted stock units and other equity based compensation under our long-term incentive plan
Finance Number of Meetings: 9 Members: Leon D. Black James P. Holden* Michael J. McGuiness	• Reviews and approves operating and capital budgets • Reviews and approves proposed changes to our business • Assists in identifying and implementing means to reduce operating and capital expenditures and increase and enhance profitability and cash flows • Assists in evaluating financing opportunities

* Chairman

How often are directors elected to the board?

All directors stand for election annually. Our board reaffirms its accountability to stockholders through this annual election process.

Does the board have a nominating or corporate governance committee?

Our board of directors does not maintain a nominating or corporate governance committee. Given the small size of our board of directors, the directors have decided not to form either a nominating or corporate governance committee.

How does the board select nominees for the board?

Our board of directors, as a whole, reviews possible candidates for the board and is responsible for overseeing matters of corporate governance, including the evaluation of performance and practices of the board of directors, the board's committees, management succession plans and executive resources. The board of directors considers suggestions from many sources, including stockholders, for possible directors. Such suggestions, together with appropriate biographical information, should be submitted to our Corporate Secretary, Sirius Satellite Radio Inc., 1221 Avenue of the Americas, 36th Floor, New York, New York 10020. Candidates who are suggested by our stockholders are evaluated by the board of directors in the same manner as are other possible candidates. During 2004, our board of directors did not retain any third parties to assist in the process of identifying and evaluating potential nominees for our board of directors.

Who is the board's chairman?

In November 2004, the board elected Joseph P. Clayton to serve as chairman of our board of directors. The chairman of our board organizes the work of the board and ensures that the board has access to sufficient information to enable the board to carry out its functions, including monitoring the company's performance and the performance of management. In carrying out this role, the chairman, among other things, presides over meetings of the board of directors, establishes the agendas of each meeting of the board in consultation with our Chief Executive Officer, and oversees the distribution of information to directors.

How does the board determine which directors are considered independent?

Our board reviews the independence of our directors annually based on answers the directors provide on a written questionnaire. The questionnaire is designed to uncover transactions and relationships between each director and members of his immediate family and SIRIUS, other directors, members of our senior management and our affiliates. Under the Marketplace Rules of the NASDAQ Stock Market and Securities Exchange Act Rule 10A-3(b)(1), our board has determined that only Messrs. Clayton and Karmazin do not qualify as independent directors.

Who is the Audit Committee's financial expert?

Our board of directors has determined that Mr. James F. Mooney, the chairman of the Audit Committee, is qualified as an "audit committee financial expert" within the meaning of SEC regulations, and he has accounting and related financial management expertise within the meaning of the listing standards of the NASDAQ.

How often did the board meet during 2004?

During the year ended December 31, 2004, there were 12 meetings of our board of directors, and the board took action once by written consent in lieu of a meeting. Each director attended more than 90% of the total number of meetings of the board and meetings held by committees on which he served. Directors are encouraged to attend the annual meeting of stockholders, but our board of directors does not have a formal policy with respect to attendance. Messrs. Clayton and Gilberti attended and participated in our 2004 annual meeting of stockholders.

How are the directors compensated?

Each member of our board of directors who is not employed by us receives an annual retainer of $80,000 per year payable in the following manner:

- $24,000 in the form of cash, restricted stock units, options to purchase our common stock, or any combination thereof, at the election of the director; and
- $56,000 in the form of restricted stock units, options to purchase our common stock, or any combination thereof, at the election of the director.

If any director fails to attend at least 75% of the meetings of the board of directors in any given year, he or she will forfeit 25% of his or her compensation that is payable in cash. During 2004, all of our directors attended over 75% of the meetings of our board of directors.

In addition to this annual retainer, each director who serves as chair of a committee of the board of directors receives an additional payment of $20,000. These fees are payable in the form of cash, restricted stock units, options to purchase our common stock, or any combination thereof, at the election of the director.

All options to purchase common stock awarded to our directors vest over a four-year period, and all restricted stock units awarded to our directors vest on the date that is one year following the director's resignation, retirement from the board of directors or failure to be re-elected for any reason whatsoever.

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

Does the chairman of the board of directors receive more compensation than other directors?

On November 18, 2004, Joseph P. Clayton relinquished his role as our Chief Executive Officer and became chairman of our board of directors. On November 18, 2004, we granted Mr. Clayton options to purchase 2,000,000 shares of our common stock, at an exercise price of $4.72 per share, and 500,000 restricted stock units. Of these stock options, 500,000 vested immediately; and 750,000 stock options will vest on each of December 31, 2005 and December 31, 2006. Mr. Clayton's restricted stock units will vest in equal installments on January 1, 2006 and January 1, 2007.

Our board of directors has also authorized our Compensation Committee to negotiate further arrangements with Mr. Clayton in respect of his new role as chairman of our board of directors. As part of these arrangements, we expect to enter into an agreement with Mr. Clayton to, among other things:

- require him to remain an employee until June 30, 2005, at his current salary;
- pay him severance in June 2005 in an amount equal to $1,050,000;
- pay him a bonus in February 2006 for his services as an employee during 2005;
- provide him medical, dental, vision and life insurance for five years or until he secures comparable coverage from a new employer;
- reimburse him for his reasonable living expenses in New York City, including rent, through May 2005; and
- reimburse him for reasonable travel expenses between his home and New York City to the extent travel is required for the business of SIRIUS or the board of directors.

We also intend to accelerate the vesting of restricted stock units which were held by Mr. Clayton on November 17, 2004 to January 2006, and will replace the provisions in his stock option agreements that terminate the options ninety days after the end of his employment with a provision that will terminate such options three years after he ceases to be chairman of our board of directors. We expect to effect these modifications in a mutually acceptable manner, while preserving the intended economic benefits to Mr. Clayton of his stock options without any increased cost to us.

How can stockholders communicate with the board of directors?

Stockholders may communicate directly with our board of directors, or specified individual directors, according to the procedures described on our website at *www.sirius.com/aboutus/directors.*

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

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

Does SIRIUS have a code of ethics?

Our board of directors has adopted a code of ethics, which is applicable to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer. Our code of ethics is available on our website at *www.sirius.com/aboutus/ethics.* We intend to post any amendments to our code of ethics at this location on our website. Any person who wishes to receive a copy of our code of ethics, without charge, can send a letter addressed to our General Counsel at Sirius Satellite Radio Inc., 1221 Avenue of the Americas, 36th Floor, New York, New York 10020.

REPORT OF THE AUDIT COMMITTEE

The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate this Report by reference therein.

The SEC rules require us to include in this proxy statement a report from the Audit Committee of our board of directors. The following report concerns the Audit Committee's activities regarding oversight of our financial reporting and auditing process.

The Audit Committee is comprised solely of independent directors, as defined in the Marketplace Rules of the NASDAQ Stock Market and under Securities Exchange Act Rule 10A-3(b)(1), and it operates under a written charter (which is attached to this proxy statement as Appendix A) adopted by our board of directors. The composition of the Audit Committee, the attributes of its members and the responsibilities of the Audit Committee, as reflected in its charter, are intended to be in accordance with applicable requirements for corporate audit committees. The Audit Committee reviews and assesses the adequacy of its charter on an annual basis.

The Audit Committee met 11 times during 2004. The Audit Committee schedules its meetings with a view to ensuring that it devotes appropriate attention to all of its tasks. The Audit Committee's meetings include, whenever appropriate, executive sessions with our independent registered public accounting firm, without the presence of our management. During 2004, the Audit Committee devoted a substantial amount of time discussing and monitoring our efforts to comply with the requirements of the Sarbanes-Oxley Act of 2002. As part of that effort, the Audit Committee reviewed our key initiatives and programs aimed at strengthening the effectiveness of our internal and disclosure control structure.

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

The Audit Committee members are not professional accountants or auditors, and their functions are not intended to duplicate or to certify the activities of management and our independent registered public accounting firm, nor can the Audit Committee certify that our independent registered public accounting firm is "independent" under applicable rules. The Audit Committee serves a board-level oversight role, in which it provides advice, counsel and direction to management and our independent registered public accounting firm on the basis of the information it receives, its discussions with management and our independent registered public accounting firm and the experience of the Audit Committee's members in business, financial and accounting matters.

Among other matters, the Audit Committee monitors the activities and performance of our independent registered public accounting firm, including the audit scope, external audit fees, auditor independence matters and the extent to which the independent registered public accounting firm may be retained to perform non-audit services. The Audit Committee and our board of directors have ultimate authority and responsibility to select, evaluate and, when appropriate, replace our independent registered public accounting firm. The Audit Committee also reviews the results of the audit work with regard to the adequacy and appropriateness of our financial, accounting and internal controls. The Audit Committee also covers various topics and events that may have significant financial impact or are the subject of discussions between management and the independent registered public accounting firm. In addition, the Audit Committee generally oversees our internal compliance programs.

The Audit Committee has reviewed and discussed our consolidated financial statements with management and our independent registered public accounting firm. Management represented to the Audit Committee that our consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles, and our independent registered public accounting firm represented that its presentations included the matters required to be discussed with the Audit Committee by Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees."

Ernst & Young LLP, our independent registered public accounting firm, also provided the Audit Committee with the written disclosures required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," and the Audit Committee discussed with Ernst & Young LLP the firm's independence.

Following the Audit Committee's discussions with management and Ernst & Young LLP, the Audit Committee recommended that our board of directors include the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2004.

Audit Committee

LAWRENCE F. GILBERTI
JAMES P. HOLDEN
JAMES F. MOONEY, *Chairman*

Principal Accountant Fees and Services

The following table sets forth the fees billed to us by Ernst & Young LLP, our independent registered public accounting firm, as of and for the years ended December 31, 2004 and 2003:

	For the Years Ended December 31,	
	2004	**2003**
Audit fees[1]	$ 984,362	$605,951
Audit-related fees[2]	30,000	23,160
Tax fees[3]	—	247,828
All other fees	—	—
	$1,014,362	$876,939

(1) Audit fees billed by Ernst & Young LLP in 2004 related to the audit of our annual consolidated financial statements and internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002; the review of our interim consolidated financial statements included in our Quarterly Reports on Form 10-Q for the periods ended March 31, June 30 and September 30, 2004; attest services; the provision of comfort letters; and the provision of consents. Audit fees billed by Ernst & Young LLP in 2003 related to the audit of our annual consolidated financial statements; the review of our interim consolidated financial statements included in our Quarterly Reports on Form 10-Q for the periods ended March 31, June 30 and September 30, 2003; attest services; the provisions of comfort letters; the provision of consents; and the review and advice in respect of accounting matters in connection with our recapitalization which was completed in March 2003. Included in audit fees for the year ended December 31, 2004 is $84,750 of fees billed to us by Ernst & Young LLP related to the audit of our consolidated financial statements for the year ended December 31, 2003. Included in audit fees for the year ended December 31, 2003 is $76,000 of fees billed to us by Ernst & Young LLP related to the audit of our consolidated financial statements for the year ended December 31, 2002.

(2) Audit-related fees billed by Ernst & Young LLP in 2004 principally related to audits of employee benefit plans and non-regulatory attest services. Audit-related fees in 2003 related to audits of employee benefit plans, services with respect to internal controls and litigation advice concerning our prior subscriber management system.

(3) Tax fees billed by Ernst & Young LLP related to tax compliance; tax planning; and tax advice in connection with our recapitalization.

Pre-Approval Policy for Services of Independent Auditor

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

registered public accounting firm. The following sets forth the primary principles of the Audit Committee's pre-approval policies:

- The independent registered public accounting firm is not permitted to perform consulting, legal, book-keeping, valuation, internal audit, management functions, or other prohibited services, under any circumstances;
- The engagement of our independent registered public accounting firm, including related fees, with respect to the annual audits and quarterly reviews of our consolidated financial statements is specifically approved by the Audit Committee on an annual basis;
- The Audit Committee reviews and pre-approves a detailed list of other audit and audit-related services annually or more frequently, if required. Such services generally include services performed under the audit and attestation standards established by regulatory authorities or standard setting bodies and include services related to SEC filings, employee benefit plan audits and subsidiary audits;
- The Audit Committee reviews and pre-approves a detailed list of permitted non-audit services annually or more frequently, if required; and
- The Audit Committee pre-approves each proposed engagement to provide services not previously included in the approved list of audit and non-audit services and for fees in excess of amounts previously pre-approved.

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

The Audit Committee has appointed Ernst & Young LLP to audit our 2005 consolidated financial statements. Representatives of the firm will be available at the annual meeting to make a statement, if they choose, and to answer any questions you may have.

EXECUTIVE COMPENSATION

Report of the Compensation Committee

The following Report of the Compensation Committee of our board of directors and the performance graph included elsewhere in this proxy statement do not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filings by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate this Report or the performance graph by reference therein.

The Compensation Committee of our board of directors, comprised solely of independent directors, is responsible for overseeing and administering our compensation programs. The Compensation Committee consults with our Senior Vice President, Human Resources, and from time to time seeks the advice and input of, and competitive compensation data from, independent compensation consultants. The Compensation Committee also reviews, monitors and approves executive compensation, establishes compensation guidelines for our officers, reviews projected personnel needs and administers our long-term stock incentive plan.

During 2004, we hired a new Chief Executive Officer and two presidents—a President, Entertainment and Sports, and a President, Sales and Operations. Members of the Compensation Committee participated in the process of interviewing and selecting these executive officers, and recommended to our board of directors approval of their compensation arrangements.

During 2004, we also entered into a new employment agreement with Patrick L. Donnelly, our Executive Vice President, General Counsel and Secretary. A summary of this employment agreement and the employment agreements with our other executive officers are described under the heading "Employment Agreements."

Compensation Philosophy

Our compensation program in 2004 for executive officers consisted of three key elements:

- a base salary;
- an annual bonus; and
- equity-based compensation, consisting of stock options and restricted stock units.

The Compensation Committee believes that this three-part approach is consistent with programs adopted by similarly situated companies and best serves the interests of our stockholders. It enables us to meet the requirements of the competitive environment in which we operate, while ensuring that executive officers are compensated in a manner that advances both the short and long-term interests of stockholders. Under this approach, compensation for our executive officers involves a high proportion of pay that is "at risk"—namely, the annual bonus and the value and vesting of stock options and restricted stock units. Stock options and restricted stock units relate a significant portion of each executive's long-term remuneration directly to the stock price appreciation realized by our stockholders.

Base Salaries

The base salaries paid to each of our executive officers during 2004 were paid pursuant to the written employment agreements described under the heading "Employment Agreements."

The base salaries paid to Messrs. Greenstein and Meyer were largely the product of negotiations between those executives and us. In evaluating the base salaries of Messrs. Greenstein and Meyer, the Compensation Committee was advised by Frederick W. Cook, Inc., independent compensation consultants.

The Compensation Committee approved base salary increases on February 1, 2004 for Mr. Donnelly, our Executive Vice President, General Counsel and Secretary, from $345,000 to $358,800, and for Mr. Frear, our Executive Vice President and Chief Financial Officer, from $325,000 to $331,500. No other executive officers received an increase in base salary during 2004.

These increases were made as part of our normal annual merit increase program and took into account the executives' contributions during 2003 and their expected contributions in the future.

Annual Bonus

During 2004, the Compensation Committee approved a bonus plan for executive officers and other employees. Under this program, employees were awarded bonuses based upon the attainment of prescribed levels of subscriber activations, prepaid subscribers, product costs and cash flow. The Compensation Committee assigned each of these criteria weight, and measured the achievement of these items in January 2005 based upon objective data certified by management. These criteria were established by the Compensation Committee after review of our business plan, and discussions with our management.

In January 2005, the Compensation Committee awarded an annual bonus to Mr. Clayton of $600,000, Mr. Greenstein of $400,000, Mr. Meyer of $400,000, Mr. Donnelly of $321,885, and Mr. Frear of $297,862. The annual bonuses awarded to Messrs. Clayton, Donnelly and Frear were determined in accordance with the criteria contained in our 2004 bonus program. The Compensation Committee reviewed the performance of Messrs. Greenstein and Meyer during the year and, based upon the recommendation of our Chief Executive Officer, increased their bonuses from the amount which would have been paid based upon the application of the formula contained in our 2004 bonus program. Half of these bonuses were paid in cash and half of these bonuses were paid in the form of restricted stock units. These restricted stock units will vest in February 2006. Mr. Karmazin was not awarded a bonus for his work in 2004 because he commenced his employment in late November 2004.

The Compensation Committee has approved performance goals applicable to our executive officers for the year ending December 31, 2005. Our executive officers and eligible employees will be awarded bonuses based upon the attainment of prescribed levels of corporate achievement, including subscriber activations, average monthly subscriber churn, cash flow and automakers' models available for installation of SIRIUS radios. The Compensation Committee has assigned each of these criteria a weight and will measure the achievement of these items in January 2006 based upon objective data. Executive officers and other eligible employees in certain operational divisions may also have to achieve additional objectives relevant to their specific areas of responsibility, such as programming or sales as well as individual objectives. Executive officers and eligible employees may receive cash bonuses and restricted stock units at different levels if we achieve threshold, standard or premier attainments as established by the Compensation Committee. The criteria of corporate achievement were established by the Compensation Committee after review of our business plan, and discussions with our management.

Stock Options and Restricted Stock Units

We provide long-term incentives through stock options and restricted stock units granted to our executive officers under our long-term stock incentive plan. The Compensation Committee believes that stock ownership by executives and other employees is the most effective method by which the interests of management may be aligned with those of our stockholders.

In connection with the execution of his employment agreement in May 2004, Mr. Greenstein was awarded 2,800,000 options to purchase our common stock at an exercise price of $3.14 per share and 1,575,000 restricted stock units. In connection with the execution of his employment agreement in May 2004, Mr. Meyer was awarded 2,800,000 options to purchase our common stock at an exercise price of $3.14 per share and 1,200,000 restricted stock units. The terms and other conditions of these awards are described below under "Employment Agreements—Scott A. Greenstein" and "—James E. Meyer," respectively.

The size and terms of each of these equity-based awards, particularly the vesting provisions, were the product of negotiations between Messrs. Greenstein and Meyer and the Compensation Committee. In general, the awards were designed to compensate Messrs. Greenstein and Meyer for future performance and align their interests with our stockholders. The Compensation Committee

considered the size of the equity awards to both individuals; the expected dollar value of these individual equity awards, calculated based on a binomial lattice model; the reasonableness of the awards in light of current market conditions and competitive practices; the importance of motivating these executives to achieve our objectives; and the expected perception of the awards in the marketplace. The Compensation Committee was advised by Frederick W. Cook, Inc., independent compensation consultants, as to the reasonableness of these equity awards and consulted with other members of our board of directors in recommending these awards.

No stock options or restricted stock units were awarded to Messrs. Donnelly or Frear during 2004, other than the restricted stock units each received as part of our bonus program described above. The stock options, restricted shares of common stock and restricted stock units awarded to Messrs. Karmazin and Clayton during 2004 are described below.

The Compensation Committee has also authorized executive management to grant stock options to employees below the senior management level on an annual basis according to guidelines intended to be competitive with comparable companies and to reward individual achievement appropriately. Our executive officers do not receive annual stock option grants under this program.

Stock Option Repricing

During 2004, no options held by executive officers or other employees were repriced.

Common Stock Ownership Requirement

During 2004, the Compensation Committee formalized a common stock ownership requirement for all of our officers. Over a five-year period, all of our officers are required to acquire, and hold, shares of our common stock. Specifically, our Chief Executive Officer is required to acquire shares of our common stock having a value equal to or greater than five times his base salary; each of our Presidents is required to acquire shares of our common stock having a value equal to or greater than three times his base salary; each of our Executive Vice Presidents is required to acquire shares of our common stock having a value equal to or greater than two and one-half times his or her base salary; each of our Senior Vice Presidents is required to acquire shares of our common stock having a value equal to or greater than two times his or her base salary; and each of our Vice Presidents is required to acquire shares of our common stock having a value equal to or greater than his or her base salary.

Shares of common stock owned by the executive and his or her immediate family, stock held in our 401(k) savings plan and unvested restricted stock units awarded as part of our annual bonus program are counted toward the fulfillment of this common stock ownership requirement. The Compensation Committee has designed incentives, in the form of additional restricted stock units, for executives to satisfy this equity requirement prior to the end of the five-year period.

Compensation of our Chief Executive Officer

Mel Karmazin. In November 2004, our board of directors negotiated, and we entered into, a five-year employment agreement with Mel Karmazin to serve as our Chief Executive Officer. The terms of Mr. Karmazin's employment agreement are described below under "Employment Agreements—Mel Karmazin."

The terms of Mr. Karmazin's employment were established by negotiations between Mr. Karmazin and members of our board of directors, including members of the Compensation Committee. The board of directors and the Compensation Committee did not retain an independent compensation consultant to advise them in the negotiation of Mr. Karmazin's compensation arrangements or to assess the reasonableness of the compensation arrangements. In assessing Mr. Karmazin's compensation, the Compensation Committee and our board of directors evaluated:

- Mr. Karmazin's historical compensation; and

- other publicly available compensation information for chief executive officers that was prepared Frederick W. Cook, Inc. at the request of the Compensation Committee as part of the process of evaluating potential compensation for Mr. Clayton if it wished to extend his employment as our chief executive officer.

Our board of directors and the Compensation Committee concluded that, in their business judgment, Mr. Karmazin's profile, qualifications and experience, particularly in radio, were uniquely suited for SIRIUS' needs, and that the compensation, including the base salary, stock option and restricted stock components of the compensation, was, taken as a whole, reasonable and appropriate under the circumstances.

Joseph P. Clayton. In November 2001, our board of directors negotiated, and we entered into, an employment agreement with Mr. Clayton, to serve as our Chief Executive Officer. During 2004, we paid Mr. Clayton pursuant to this employment agreement.

On November 18, 2004, Mr. Clayton relinquished his role as our Chief Executive Officer and became chairman of our board of directors. Our board of directors and the Compensation Committee believed that it was important to retain the services of Mr. Clayton to, among other things, facilitate the transition of SIRIUS' strategic relationships with automakers, retailers and radio manufacturers and assist in maintaining the continuity of senior management, almost all of whom were recruited by Mr. Clayton. On November 18, 2004, in conjunction with his appointment as chairman of our board of directors, we granted Mr. Clayton options to purchase 2,000,000 shares of our common stock, at an exercise price of $4.72 per share, and 500,000 restricted stock units. Of these stock options, 500,000 vested immediately; and 750,000 stock options will vest on each of December 31, 2005 and December 31, 2006. Mr. Clayton's restricted stock units will vest in equal installments on January 1, 2006 and January 1, 2007.

The Compensation Committee has been authorized by the board of directors to negotiate further arrangements with Mr. Clayton to compensate him for his services as an employee through June 2005 and in respect of his new role as chairman of our board of directors. Further information regarding the terms of the agreement we expect to enter into with Mr. Clayton are contained on page 8 of this proxy statement under "*Does the chairman of the board of directors receive more compensation than other directors?*".

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

Section 162(m) of the Internal Revenue Code places a $1 million per person limitation on the tax deduction we may take for compensation paid to our Chief Executive Officer and our four other highest paid executive officers, except that compensation constituting performance-based compensation, as defined by the Internal Revenue Code, is not subject to the $1 million limit. The Compensation Committee generally intends to grant awards under our long-term stock incentive plan consistent with the terms of Section 162(m) so that such awards will not be subject to the $1 million limit. However, the Compensation Committee reserves the discretion to pay compensation that does not qualify for exemption under Section 162(m) where the Compensation Committee believes such action to be in the best interests of our stockholders.

Compensation Committee

LEON D. BLACK
LAWRENCE F. GILBERTI, *Chairman*
JAMES P. HOLDEN

Compensation Committee Interlocks and Insider Participation

Leon D. Black, Lawrence F. Gilberti and James P. Holden served on the Compensation Committee in 2004. There were no Compensation Committee interlocks or insider participation in 2004.

Employment Agreements

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

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

In connection with this agreement, we granted Mr. Karmazin options to purchase 30,000,000 shares of our common stock, at an exercise price of $4.72 per share (the closing price of our common stock on the NASDAQ National Market on the date of his employment agreement), and 3,000,000 shares of restricted common stock. The stock options and restricted shares granted to Mr. Karmazin vest in equal installments on November 18th of each of the next five years beginning November 18, 2005. The vesting of these stock options and shares of restricted stock will accelerate upon the termination of Mr. Karmazin's employment for good reason, upon his death or disability and in the event of a change in control. In the event Mr. Karmazin's employment is terminated without cause, his unvested stock options and shares of restricted stock will thereupon vest and become exercisable, and he will receive his current base salary for the remainder of the term and any earned but unpaid annual bonus.

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

Scott A. Greenstein. In May 2004, we entered into an employment agreement with Scott A. Greenstein to serve as our President, Entertainment and Sports, for three years. We will pay Mr. Greenstein an annual salary of $540,750 in 2005. We paid Mr. Greenstein a one-time cash bonus of $150,000 upon commencement of his employment.

In connection with this agreement, we granted Mr. Greenstein options to purchase 2,800,000 shares of our common stock at an exercise price of $3.14 per share, and 1,575,000 restricted stock units. Of these stock options, 1,000,000 vested in May 2004, and 600,000 vested on March 15, 2005 as a result of achieving performance milestones established by our board of directors. The balance of Mr. Greenstein's options, 1,200,000, will vest on July 1, 2008, with accelerated vesting if we achieve performance milestones established by our board of directors. Specifically, 750,000 of these options will vest on March 15, 2006 if we achieve performance milestones for the year ending December 31, 2005; and 450,000 of these options will vest on March 15, 2007 if we achieve performance milestones for the year ending December 31, 2006.

In May 2004, 258,000 of Mr. Greenstein's restricted stock units vested, and in April 2005, 425,000 of Mr. Greenstein's restricted stock units vested. The balance of Mr. Greenstein's restricted stock units vests over the term of the agreement, with 575,000 restricted stock units vesting on April 15, 2006, and 317,000 restricted stock units vesting on April 15, 2007. Each restricted stock unit entitles Mr. Greenstein to one share of our common stock on the applicable vesting date.

If Mr. Greenstein's employment is terminated without cause or he terminates his employment for good reason, he is entitled to receive a lump sum payment equal to (1) his base salary in effect from the termination date through May 2, 2007 and (2) any annual bonuses, at a level equal to 60% of his base salary, that would have been customarily paid during the period from the termination date through May 2, 2007. In the event Mr. Greenstein's employment is terminated

without cause or he terminates his employment for good reason, we are also obligated to continue his medical, disability and life insurance benefits until May 2, 2007.

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

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

James E. Meyer. In May 2004, we entered into an employment agreement with James E. Meyer to serve as our President, Sales and Operations, and in March 2005, we amended that agreement. Mr. Meyer has agreed to serve as our President, Sales and Operations, until April 2006 and we will pay Mr. Meyer an annual salary of $540,750 in 2005. We paid Mr. Meyer a one-time cash bonus of $150,000 upon commencement of his employment.

In connection with these agreements, we granted Mr. Meyer options to purchase 2,800,000 shares of our common stock at an exercise price of $3.14 per share, and 1,300,000 restricted stock units. Of these stock options, 1,000,000 vested in May 2004 and 600,000 vested on March 15, 2005 as the result of satisfaction of performance milestones established by our board of directors. The balance of Mr. Meyer's options, 1,200,000, vest on April 15, 2007, with accelerated vesting if we achieve performance milestones established by our board of directors for the year ending December 31, 2005.

In May 2004, 133,000 of Mr. Meyer's restricted stock units vested, and in April 2005, 400,000 of Mr. Meyer's restricted stock units vested. The balance of Mr. Meyer's restricted stock units will vest on April 15, 2006. Each restricted stock unit entitles Mr. Meyer to one share of our common stock on the applicable vesting date.

If Mr. Meyer's employment is terminated without cause or he terminates his employment for good reason, he is entitled to receive a lump sum equal to (1) his base salary in effect from the termination date through April 16, 2006 and (2) any annual bonuses, at a level equal to 60% of his base salary, that would have been customarily paid during the period from the termination date through April 16, 2006. In the event Mr. Meyer's employment is terminated without cause or he terminates his employment for good reason, we are also obligated to continue his medical, disability and life insurance benefits until April 16, 2006.

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

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

Upon the expiration of Mr. Meyer's employment agreement on April 16, 2006, we have agreed to offer Mr. Meyer a one-year consulting agreement. We expect to reimburse Mr. Meyer for all of his reasonable out-of-pocket expenses associated with the performance of his obligations under this consulting agreement, but do not expect to pay him any cash compensation. As consideration for the services under this consulting agreement, we intend to grant Mr. Meyer an additional 300,000 restricted stock units. These restricted stock units will vest on May 3, 2007 if Mr. Meyer continues to be engaged by us as a consultant on such date.

Patrick L. Donnelly. In November 2004, we entered into an employment agreement with Patrick L. Donnelly to serve as our Executive Vice President, General Counsel and Secretary until May 2006. We will pay Mr. Donnelly an annual base salary of $369,564 in 2005.

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

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

David J. Frear. In June 2003, we entered into an employment agreement with David J. Frear to serve as our Executive Vice President and Chief Financial Officer for three years. We will pay Mr. Frear an annual base salary of $351,488 in 2005.

In connection with this agreement, we granted Mr. Frear options to purchase 1,400,000 shares of our common stock at an exercise price of $1.85 per share, and 600,000 restricted stock units. Of these stock options, 533,333 vested during 2004 and 600,000 vested on March 15, 2005 as a result of the achievement of performance milestones established by our board of directors. The balance of Mr. Frear's options will vest in equal installments on July 1, 2005 and July 1, 2006. Mr. Frear's 600,000 restricted stock units will vest on July 1, 2008; however, this vesting will accelerate if performance milestones established by our board of directors for the year ending December 31, 2005 are met. Each restricted stock unit entitles Mr. Frear to one share of our common stock on the vesting date.

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

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

Summary Compensation Table

The table below shows the compensation for the last three years for our Chief Executive Officer, our former Chief Executive Officer and the other four most highly compensated executive officers at the end of 2004.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation Awards		
Name and Principal Position(1)	Year	Salary ($)	Bonus ($)(2)	Other Annual Compensation($)(3)	Restricted Stock Awards ($)(4)	Securities Underlying Options/ SARS (#)(5)	All Other Compensation ($)(6)
Mel Karmazin	2004	147,436	—	—	14,160,000(7)	30,000,000	—
Chief Executive Officer	2003	—	—	—	—	—	—
	2002	—	—	—	—	—	—
Joseph P. Clayton	2004	600,000	600,000	71,548	2,360,000(8)	2,750,000	18,450
Former Chief Executive Officer	2003	600,000	432,000	67,248	7,290,000(9)	11,250,000	28,000
and current Chairman of Board of Directors	2002	600,000	300,000	49,372	—	750,000	8,250
Scott A. Greenstein	2004	344,279	550,000	—	5,386,500(10)	2,800,000	16,238
President, Entertainment	2003	—	—	—	—	—	—
and Sports	2002	—	—	—	—	—	—
James E. Meyer	2004	344,279	550,000	96,832	4,104,000(11)	2,800,000	13,613
President, Sales and Operations	2003	—	—	—	—	—	—
	2002	—	—	—	—	—	—
Patrick L. Donnelly	2004	357,650	321,885	—	—	—	18,450
Executive Vice President,	2003	345,000	235,700	—	1,944,000(12)	2,800,000	22,655
General Counsel and Secretary	2002	345,000	172,500	—	—	—	8,250
David J. Frear	2004	330,958	297,862	75,203	—	—	13,435
Executive Vice President	2003	176,042	98,583	131,273	972,000(13)	1,400,000	4,964
and Chief Financial Officer	2002	—	—	—	—	—	—

(1) Mr. Karmazin became our chief executive officer in November 2004, at which time Mr. Clayton relinquished his position as our chief executive officer. Messrs. Greenstein and Meyer became executive officers in May 2004. Mr. Frear became an executive officer in June 2003.

(2) Bonuses for executive officers for the years ended December 31, 2004 and 2003 were paid 50% in cash and 50% in restricted stock units. Such restricted stock units vest approximately one year from the date of issue. Bonus amounts for 2004 and 2003 represent the cash amount paid plus the value of the restricted stock units on the date of grant. Messrs. Greenstein and Meyer each received a cash bonus of $150,000 upon execution of their employment agreements in May 2004, and these amounts are included in this column.

(3) Represents amounts reimbursed to Messrs. Clayton and Meyer for temporary living expenses in accordance with their respective employment agreements, and amounts reimbursed to Mr. Frear for temporary living and relocation expenses.

(4) Amounts in this column exclude the value of the restricted stock units awarded to our executive officers as part of their 2004 and 2003 annual bonuses. The value of these restricted stock units as of the date they were awarded are included under the "Bonus" column.

(5) We have not granted any stock appreciation rights.

(6) Represents matching and profit sharing contributions by us under our 401(k) savings plan. These amounts were paid in the form of shares of our common stock.

(7) In November 2004, Mr. Karmazin was awarded 3,000,000 shares of restricted common stock. The amount represents the value of these restricted shares of common stock (calculated by multiplying the closing price of our common stock on November 18, 2004, $4.72 per share, by the number of restricted shares of common stock awarded) on November 18, 2004. On December 31, 2004, these restricted shares of common stock had an aggregate value of $22,860,000 (calculated by multiplying the closing price of our common stock on December 31, 2004, $7.62 per share, by the number of restricted shares of common stock awarded). These shares of restricted stock vest in equal installments on November 18th of each of the next five years beginning November 18, 2005.

(8) In November 2004, Mr. Clayton was awarded 500,000 restricted stock units. The amount represents the value of these restricted stock units (calculated by multiplying the closing price of our common stock on November 18, 2004, $4.72 per share, by the number of restricted stock units awarded) on November 18, 2004. On December 31, 2004, these restricted stock units had an aggregate value of $3,810,000 (calculated by multiplying the closing price of our common stock on December 31, 2004, $7.62 per share, by the number of restricted stock units awarded). These restricted stock units will vest in equal installments on January 1, 2006 and January 1, 2007.

(9) In August 2003, Mr. Clayton was awarded 4,500,000 restricted stock units. The amount represents the value of these restricted stock units (calculated by multiplying the closing price of our common stock on August 8, 2003, $1.62 per share, by the number of restricted stock units awarded) on August 11, 2003. On December 31, 2004, these restricted stock units had an aggregate value of $34,290,000 (calculated by multiplying the closing price of our common stock on December 31, 2004, $7.62 per share, by the number of restricted stock units awarded). These restricted stock units will vest on July 1, 2008; however, this vesting will accelerate if performance milestones established by our board of directors for the year ending December 31, 2005 are satisfied. We expect to accelerate the vesting of these restricted stock units to January 2006.

(10) In May 2004, Mr. Greenstein was awarded 1,575,000 restricted stock units. The amount represents the value of these restricted stock units (calculated by multiplying the closing price of our common stock on May 5, 2004, $3.42 per share, by the number of restricted stock units awarded) on May 5, 2004. On May 5, 2004, 258,000 of these restricted stock units vested, and Mr. Greenstein sold 130,373 shares of our common stock to pay federal and state taxes associated with the vesting of these restricted stock units. On December 31, 2004, Mr. Greenstein held 1,444,627 restricted stock units which had an aggregate value of $11,008,058 (calculated by multiplying the closing price of our common stock on December 31, 2004, $7.62 per share, by the number of restricted stock units). Of these restricted stock units, 425,000 vested on April 15, 2005, and 575,000 will vest on April 15, 2006 and 317,000 will vest on April 15, 2007.

(11) In May 2004, Mr. Meyer was awarded 1,200,000 restricted stock units. The amount represents the value of these restricted stock units (calculated by multiplying the closing price of our common stock on May 5, 2004, $3.42 per share, by the number of restricted stock units awarded) on May 5, 2004. On May 5, 2004, 133,000 of these restricted stock units vested, and Mr. Meyer sold 65,575 shares of our common stock to pay federal and state taxes associated with the vesting of these restricted stock units. On December 31, 2004, Mr. Meyer held 1,134,425 restricted stock units which had an aggregate value of $8,644,319 (calculated by multiplying the closing price of our common stock on December 31, 2004, $7.62 per share, by the number of restricted stock units). Of these restricted stock units, 400,000 vested on April 15, 2005, and the balance will vest on April 15, 2006.

(12) In August 2003, Mr. Donnelly was awarded 1,200,000 restricted stock units. The amount represents the value of these restricted stock units (calculated by multiplying the closing price of our common stock on August 8, 2003, $1.62 per share, by the number of restricted stock units awarded) on August 11, 2003. On December 31, 2004, these restricted stock units had an aggregate value of $9,144,000 (calculated by multiplying the closing price of our common stock on December 31, 2004, $7.62 per share, by the number of restricted stock units awarded). These restricted stock units will vest on July 1, 2008; however, this vesting will accelerate if performance milestones established by our board of directors for the year ending December 31, 2005 are satisfied.

(13) In August 2003, Mr. Frear was awarded 600,000 restricted stock units. The amount represents the value of these restricted stock units (calculated by multiplying the closing price of our common stock on August 8, 2003, $1.62 per share, by the number of restricted stock units awarded) on August 11, 2003. On December 31, 2004, these restricted stock units had an aggregate value of $4,572,000 (calculated by multiplying the closing price of our common stock on December 31, 2004, $7.62 per share, by the number of restricted stock units awarded). These restricted stock units will vest on July 1, 2008; however, this vesting will accelerate if performance milestones established by our board of directors for the year ending December 31, 2005 are satisfied.

Option Grants during 2004

The following table sets forth certain information for the year ended December 31, 2004 with respect to options granted to individuals named in the Summary Compensation Table above.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options (#)	% of Total Options Granted to Employees	Exercise Price ($/Share)	Market Price on Date of Grant ($/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation	
						5% ($)	10% ($)
Mel Karmazin	30,000,000	66.8	4.72	4.72	11/17/2014	89,051,479	225,673,932
Joseph P. Clayton	750,000	6.1	5.25	5.25	11/26/2014	2,476,273	6,275,361
	2,000,000	—	4.72	4.72	11/18/2014	5,936,765	15,044,929
Scott A. Greenstein	2,800,000	6.2	3.14	3.14	5/5/2014	5,529,242	14,012,184
James E. Meyer	2,800,000	6.2	3.14	3.14	5/5/2014	5,529,242	14,012,184
Patrick L. Donnelly	—	—	—	—	—	—	—
David J. Frear	—	—	—	—	—	—	—

We have not granted any stock appreciation rights.

Option Exercises and Values for 2004

The following table sets forth information with respect to the number of shares acquired upon exercise of stock options and the value realized upon exercise of such stock options by the

individuals named in the Summary Compensation Table during 2004. The table also contains information regarding the number of shares covered by both exercisable and unexercisable stock options held by the individuals named in the Summary Compensation Table as of December 31, 2004. Also reported are the values for "in-the-money" stock options that represent the positive spread between the respective exercise prices of outstanding stock options and the fair market value of our common stock as of December 31, 2004 ($7.62 per share).

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-the-Money Options at Fiscal Year End ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Mel Karmazin	—	—	—	30,000,000	—	87,000,000
Joseph P. Clayton	2,000,000	13,757,000	5,500,000	8,000,000	21,719,993	47,120,007
Scott A. Greenstein	—	—	1,000,000	1,800,000	4,480,000	8,064,000
James E. Meyer	1,000,000	4,384,000	116,666	1,933,334	482,162	8,941,338
Patrick L. Donnelly	1,050,000	5,940,825	516,666	1,733,334	158,662	11,405,338
David J. Frear	250,000	1,417,500	283,333	866,667	1,634,831	5,000,669

We have not granted any stock appreciation rights.

Equity Compensation Plans

The following table sets forth information as of December 31, 2004 regarding the number of shares of our common stock to be issued under outstanding options, warrants or rights, the weighted average exercise price of such outstanding options, warrants or rights, and the securities remaining available for issuance under our equity compensation plans that have been approved and not approved by our security holders.

EQUITY COMPENSATION PLAN INFORMATION

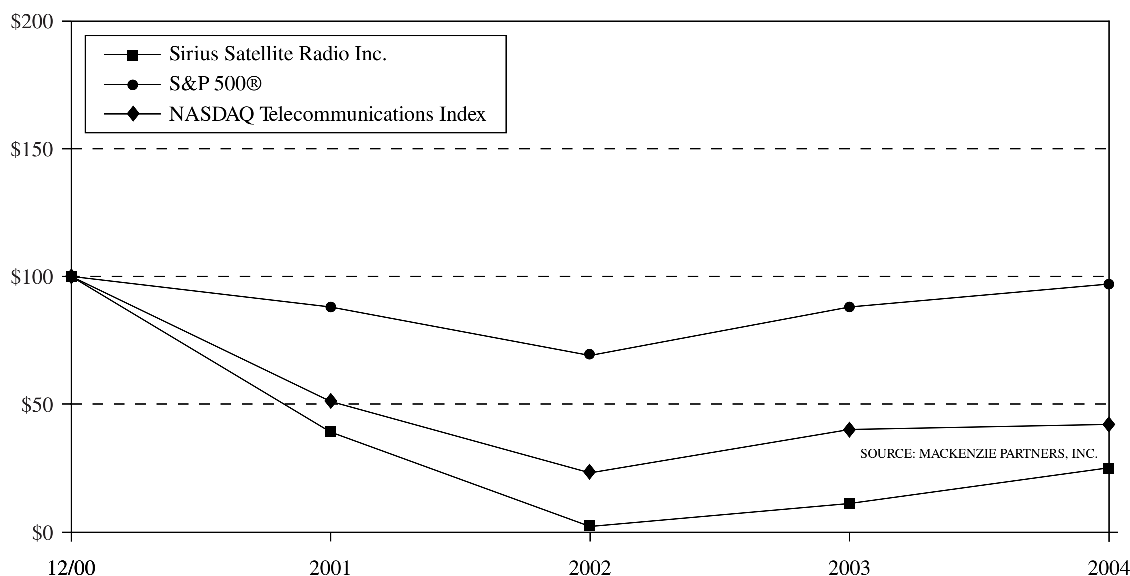
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants or rights	Weighted average exercise price of outstanding options, warrants or rights	Number of securities remaining available for future issuance under equity compensation plans(1)
Equity compensation plans approved by security holders[2]	120,203,087	$3.28	110,819,454
Equity compensation plans not approved by security holders	—	—	—
Total	120,203,087	$3.28	110,819,454

(1) The number of securities available for issuance under the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan is equal to 15% of the sum of: (i) the issued and outstanding shares of our common stock; (ii) any shares of our common stock which are issuable as a result of any conversion, exchange or exercise of any preferred stock, warrant or other security of the company which is outstanding on the date of determination; and (iii) the shares of our common stock which have been issued or are issuable to employees, consultants and directors pursuant to the plan, our Sirius Satellite Radio 1999 Long-Term Stock Incentive Plan, our Amended and Restated 1994 Stock Option Plan and our Amended and Restated 1994 Directors' Nonqualified Stock Option Plan.

(2) Our stockholders have approved the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan, the Sirius Satellite Radio 1999 Long-Term Stock Incentive Plan, our Amended and Restated 1994 Stock Option Plan and our Amended and Restated 1994 Directors' Nonqualified Stock Option Plan. The number of securities to be issued upon exercise includes restricted stock units which have a weighted average exercise price of $0.

COMPARISON OF CUMULATIVE TOTAL RETURNS

Set forth below is a graph comparing the cumulative performance of our common stock with the Standard & Poor's Composite-500 Stock Index, or the S&P 500, and the NASDAQ Telecommunications Index from December 31, 2000 to December 31, 2004. The graph assumes that $100 was invested on December 31, 2000 in each of our common stock, the S&P 500 and the NASDAQ Telecommunications Index and that all dividends were reinvested.



Date	SIRIUS	S&P 500	NASDAQ Telecommunications Index(1)
December 31, 2000	$100	$100	$100
December 31, 2001	$ 39	$ 88	$ 51
December 31, 2002	$ 2	$ 69	$ 23
December 31, 2003	$ 11	$ 88	$ 40
December 31, 2004	$ 25	$ 97	$ 42

(1) The NASDAQ Telecommunications Index is a capitalization weighted index designed to measure the performance of all NASDAQ-traded stocks in the telecommunications sector, including satellite technology.

ITEM 1—ELECTION OF DIRECTORS

Our board of directors currently has eight members, all of whom are standing for re-election at this year's annual meeting. Directors serve until the next annual meeting of stockholders or until the director is succeeded by another director who has been duly elected and qualified. Each of the nominated directors has agreed to serve if elected. However, if for some reason any of the nominees is unable to accept nomination or election, it is intended that shares represented by proxies will be voted for such substitute nominee as designated by our board of directors. Biographical information for each of the nominees is presented below.

Nominees for the Board of Directors

Leon D. Black, age 53, has been a director since June 2001. Mr. Black is one of the founding principals of Apollo Advisors, L.P., which manages investment capital on behalf of institutions. He is also the founder of Apollo Real Estate Advisors, L.P. From 1977 to 1990, Mr. Black worked at Drexel Burnham Lambert Incorporated, where he served as Managing Director, head of the Mergers & Acquisitions Group and co-head of the Corporate Department. Mr. Black is a director of United Rentals, Inc., Allied Waste Industries, Inc., Nalco Corporation, United Rentals, Inc. and Wyndham International, Inc. Mr. Black is a trustee of The Museum of Modern Art, Mt. Sinai Hospital, The Metropolitan Museum of Art, Lincoln Center for The Performing Arts, Prep for Prep, The Asia Society and Dartmouth College.

Joseph P. Clayton, age 55, has served as chairman of our board of directors since November 2004 and as a director since November 2001. He served as our Chief Executive Officer from November 2001 through November 2004. Mr. Clayton served as President of Global Crossing North America, a global internet and long distance services provider, from September 1999 until November 2001. Mr. Clayton also served as a member of the board of directors of Global Crossing Ltd. from September 1999 until May 2002. On January 28, 2002, Global Crossing Ltd. and certain of its affiliates filed petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. From August 1997 to September 1999, Mr. Clayton was President and Chief Executive Officer of Frontier Corporation, a Rochester, New York-based national provider of local telephone, long distance, data, conferencing and wireless communications services, which was acquired by Global Crossing in September 1999. Prior to joining Frontier, Mr. Clayton was Executive Vice President, Marketing and Sales—Americas and Asia, of Thomson S.A., a leading consumer electronics company. Mr. Clayton is a member of the board of directors of Transcend Services Inc., a trustee of Bellarmine University and The Rochester Institute of Technology and a member of the advisory board of Indiana University School of Business.

Lawrence F. Gilberti, age 54, has been a director since September 1993. Since June 2000, Mr. Gilberti has been a partner in the law firm of Reed Smith LLP; from May 1998 through May 2000, he was of counsel to that firm. From August 1994 to May 1998, Mr. Gilberti was a partner in the law firm of Fischbein Badillo Wagner & Harding.

James P. Holden, age 53, has been a director since August 2001. From October 1999 until November 2000, Mr. Holden was the President and Chief Executive Officer of DaimlerChrysler Corporation, a subsidiary of DaimlerChrysler AG, one of the world's largest automakers. Prior to being appointed President in 1999, Mr. Holden held numerous senior positions within Chrysler Corporation during his 19-year career at the company. Mr. Holden is a director of Speedway MotorSports, Inc.

Mel Karmazin, age 61, has served as our Chief Executive Officer and a member of our board of directors since November 2004. Prior to joining us, Mr. Karmazin was President and Chief Operating Officer and a member of the board of directors of Viacom Inc. from May 2000 until June 2004. Prior to joining Viacom, Mr. Karmazin was President and Chief Executive Officer of CBS Corporation from January 1999 and a director of CBS Corporation from 1997 until its merger with Viacom in May 2000. He was President and Chief Operating Officer of CBS Corporation from April 1998 through December 1998. Mr. Karmazin joined CBS Corporation in December 1996 as Chairman and Chief Executive Officer of CBS Radio and served as Chairman

and Chief Executive Officer of the CBS Station Group (Radio and Television) from May 1997 to April 1998. Prior to joining CBS Corporation, Mr. Karmazin served as President and Chief Executive Officer of Infinity Broadcasting Corporation from 1981 until its acquisition by CBS Corporation in December 1996. Mr. Karmazin served as Chairman, President and Chief Executive Officer of Infinity from December 1998 until the merger of Infinity Broadcasting Corporation with Viacom in February 2001.

Warren N. Lieberfarb, age 61, has been a director since September 2003. Mr. Lieberfarb is the president and chief executive officer of Warren N. Lieberfarb & Associates LLC, a media, entertainment and technology consulting firm. From 1984 until December 2002, Mr. Lieberfarb was President of Warner Home Video, a subsidiary of Warner Bros. Entertainment, a global leader in the creation, distribution, licensing and marketing of theatrical motion pictures, television programming, animation, video/DVD and related products. Mr. Lieberfarb serves on the board of trustees of the University of Pennsylvania, on the board's nominating and development committees, and on the undergraduate executive board of The Wharton School. He also serves on the board of directors and the board of trustees of the American Film Institute, and chairs its entrepreneurial committee, and on the board of directors of Digital Theatre Systems, Inc. Mr. Lieberfarb is also a member of the Academy of Motion Picture Arts and Sciences.

Michael J. McGuiness, age 41, has been a director since June 2003. Since 1994, Mr. McGuiness has been a portfolio manager for W.R. Huff Asset Management Co., L.L.C., an investment adviser and private equity boutique.

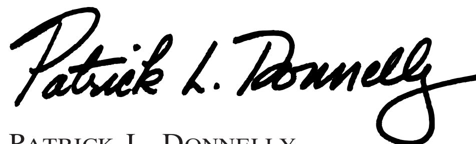
James F. Mooney, age 50, has been a director since July 2003. Since December 2004, Mr. Mooney has been chairman of the board of directors of RCN Corporation, a provider of bundled telephone, cable and high speed internet services. Since March 2003, Mr. Mooney has also been chairman of the board of directors of NTL Incorporated, a cable television company with operations in the United Kingdom and Ireland. From April 2001 to September 2002, Mr. Mooney was the Executive Vice President and Chief Operating Officer of Nextel Communications Inc., a provider of wireless communications services. From January 2000 to January 2001, Mr. Mooney was the Chief Executive Officer and Chief Operating Officer of Tradeout Inc., an asset management firm owned jointly by General Electric Capital, Ebay Inc. and Benchmark Capital. From March 1999 to January 2000, Mr. Mooney was the Chief Financial Officer/Chief Operating Officer at Baan Company, a business management software provider. From 1980 until 1999, Mr. Mooney held a number of positions with IBM Corporation, including Chief Financial Officer of the Americas.

The board of directors unanimously recommends a vote "FOR" each of the nominees.

OTHER MATTERS

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

By Order of the Board of Directors,



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

New York, New York
April 20, 2005

APPENDIX A

SIRIUS SATELLITE RADIO INC.
CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS

Purpose

The primary purpose of the Audit Committee is to assist the Board of Directors (the "Board") in fulfilling its responsibility to oversee management's conduct of the Company's financial reporting process, including the development and maintenance of systems of internal accounting and financial controls and the outside auditor's annual audit of the Company's financial statements.

Composition

The Committee shall consist of at least three Directors, and the Committee's composition will meet the requirements for audit committees of the NASDAQ:

- No member may have a relationship to the Company that may interfere with the exercise of his or her independence from management and the Company;
- Each member shall be financially literate or will become financially literate within a reasonable period of time after his or her appointment to the Committee; and
- At least one member shall have accounting or related financial management expertise.

The determination of any member's qualification to serve on the Audit Committee, including assessments of financial literacy and of past accounting or financial management expertise, shall be made by the Board in keeping with the applicable requirements and definitions of the NASDAQ.

Responsibilities, including Structure and Processes

The Committee's job is one of oversight, recognizing that the Company's management is responsible for preparing the Company's financial statements and for developing and maintaining systems of internal accounting and financial controls and that outside auditors are ultimately accountable to the Committee and the Board for their review of the financial statements and internal controls of the Company. The Committee also recognizes that the financial management and the internal and outside auditors have more knowledge and information about the Company than do Committee members. Consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or internal controls or any professional certification as to the outside auditor's work.

The following functions shall be the common recurring activities of the Committee in carrying out its oversight responsibilities, and the Committee may, as it deems appropriate, act as a whole, through subcommittees or through the Committee chair. In discharging its oversight role, the Committee shall have full access to all books, records, facilities and personnel of the Company and the authority to retain outside counsel, auditors or other experts.

1. The Committee shall review and reassess the adequacy of this Charter on an annual basis and shall make recommendations to the Board, as conditions dictate, to update this Charter.
2. The Committee shall have the responsibility to evaluate the outside auditor annually and to make recommendations to the Board concerning its appointment. The Board shall have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the outside auditor.
3. The Committee shall review and approve the appointment or termination of the Company's Controller and any internal auditor.
4. The Committee shall meet regularly with the Company's Controller and outside auditors independent of management.

5. The Committee shall review and discuss with management the audited financial statements to be included in the Company's Annual Report on Form 10-K (or the Annual Report to Stockholders if distributed prior to the filing of Form 10-K) and shall discuss with the outside auditor the matters required to be discussed by Statement of Auditing Standards ("SAS") No. 61, as amended or supplemented.
6. In connection with the review by the outside auditors of the financial information included in the Company's Quarterly Reports on Form 10-Q, the Committee shall prior to the release of earnings or the filing of the Form 10-Q discuss with the outside auditors the matters required to be discussed by SAS No. 61, as amended or supplemented.
7. The Committee shall review any significant disagreement between management and the internal or outside auditors in connection with the preparation of the financial statements.
8. The Committee shall:
    - receive from the outside auditors, at least annually, a formal written statement delineating all relationships between the auditor and the Company consistent with Independence Standards Board Standard Number 1;
    - review and discuss with the outside auditors any relationships or services that may impact the objectivity and independence of the outside auditor; and
    - recommend, if necessary, that the Board take appropriate action in response to the outside auditor's report to satisfy itself of the auditor's independence.
9. Based on the review and discussions referred to in paragraphs 5 through 8, the Committee shall determine whether to recommend to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.
10. The Committee shall prepare its report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.
11. The Committee shall discuss with management, the Company's Controller, and the outside auditor the quality and adequacy of the Company's internal controls.
12. The Committee shall receive reports on legal compliance and litigation matters and review the significant reports as well as management's responses thereto.
13. The Committee shall review and make recommendations to the Board concerning the Company's policies with regard to affiliate transactions and officers' expense accounts and perquisites.
14. The Committee shall maintain minutes or other record of its meetings and make reports on its meetings to the Board.

Corporate Information

Management

Mel Karmazin
Chief Executive Officer

Scott A. Greenstein
President, Entertainment and Sports

James E. Meyer
President, Sales and Operations

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

David J. Frear
Executive Vice President
and Chief Financial Officer

Board of Directors

Joseph P. Clayton
Chairman of the Board
Sirius Satellite Radio Inc.

Leon D. Black
Director
Founding Partner
Apollo Management, L.P.

Lawrence F. Gilberti
Director
Partner
Reed Smith LLP

James P. Holden
Director
President and CEO (Retired)
DaimlerChrysler Corporation

Mel Karmazin
Director
Chief Executive Officer
Sirius Satellite Radio Inc.

Warren N. Lieberfarb
Director
Chairman
Warren N. Lieberfarb & Associates, LLC

Michael J. McGuiness
Director
Portfolio Manager
W.R. Huff Asset Management Co., L.L.C.

James F. Mooney
Director
Chairman
NTL Incorporated and RCN Corporation

Executive Offices

Sirius Satellite Radio Inc.
1221 Avenue of the Americas
36th Floor
New York, New York 10020
212.584.5100
www.sirius.com

Stockholder Information

Annual Stockholders Meeting

The annual meeting of Sirius stockholders is scheduled for 9:00 a.m., New York City time, on Wednesday, May 25, 2005, in The Auditorium at The Equitable Center, 787 Seventh Avenue, New York, New York 10019.

Transfer Agent and Registrar

The transfer agent and registrar for the Company's common stock is:

The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, New York 10286
1-800-524-4458
Shareowners@bankofny.com

Send Certificates For Transfer and Address Changes To:
Receive and Deliver Department
P.O. Box 11002
Church Street Station
New York, New York 10286
www.stockbny.com

Independent Registered Public Accounting Firm

Ernst & Young LLP
5 Times Square
New York, New York 10036

Sirius common stock is listed on The NASDAQ National Market under the symbol "SIRI".

SIRIUS®