

SIRIUS SATELLITE RADIO INC.

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June 13, 2006

Mr. Lawrence W. Smith
Chairman of Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Re: EITF Issue No. 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Specialized Equipment Necessary for an End-Customer to Receive Service from the Service Provider"

Dear Mr. Smith:

Thank you for the opportunity to have Sirius Satellite Radio Inc. ("Sirius") respond to the draft abstract of EITF Issue No. 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Specialized Equipment Necessary for an End-Customer to Receive Service from the Service Provider."

COMPANY BACKGROUND

Sirius is a publicly traded corporation and is one of two companies that is a provider of satellite radio service in the United States. Sirius broadcasts through its proprietary satellite radio system, which currently consists of three orbiting satellites, 139 terrestrial repeaters that receive and retransmit its signal, a satellite uplink facility and its studios. Subscribers primarily receive the SIRIUS service through SIRIUS radios, which are sold by automakers, consumer electronics retailers, mobile audio dealers and through its website.

Sirius has entered into agreements with certain automakers to manufacture, market and sell cars and trucks equipped with radios capable of receiving its broadcasts ("enabled vehicles"). In certain cases, automakers include a SIRIUS radio and prepaid subscription to the SIRIUS service in the sale or lease price of vehicles. The length of these prepaid subscriptions varies, but is typically six months to one year. In the majority of cases, Sirius receives subscription payments from automakers in advance of the activation of service. Sirius reimburses various automakers for certain costs associated with the SIRIUS radios installed in vehicles, including advertising, hardware costs and tooling expenses. Under these agreements, Sirius also agreed to share a portion of the revenue derived from subscribers using enabled vehicles.

Sirius has also entered into numerous agreements with national, regional and local consumer electronics retailers and car dealers for the marketing and sale of radios capable of receiving the SIRIUS service. Sirius pays retailers and mobile audio dealers commissions, residuals and market development funds. Sirius also sells SIRIUS radios directly to consumers through its website, which is referred to as the direct to consumer distribution channel.

In addition, Sirius has entered into various agreements with manufacturers to design and produce radios capable of receiving the SIRIUS service. Sirius may subsidize a portion of the cost of these radios to facilitate the sale and to effectively reduce the price of SIRIUS radios to subscribers due to the fact that the initial costs to produce hardware technology are typically high until economies of scale are reached. Over time, as the economies of scale are reached, the hardware costs decline, as do the corresponding subsidies.

COMMENT ON DRAFT

The following are our comments in response to the EITF draft:

Issue 1: Whether the consideration given by a service provider to a manufacturer or a reseller of specialized equipment that reduces the price of the specialized equipment to an end-customer and is necessary for an end-customer to receive a service from the service provider should be accounted for pursuant to EITF 01-9.

View A argues that service providers, through their contractual arrangements, control a portion of the activities of third-party manufacturers and resellers by influencing the production and distribution processes. Proponents of View A also believe that there is linkage between the incentive payments made by the service providers to third-party manufacturers or resellers and the revenue earned on the service contract, as the incentive payments are intended to influence and incentivize the end-customer to purchase the equipment and enter into a service contract with the service provider. Proponents of View A believe that these factors are a strong indicator that these arrangements should be subject to the guidance in EITF Issue No. 01-9.

View B argues that the third-party manufacturer and reseller is not within the service provider's distribution chain and that the service provider never has title to, nor risk associated with, the specialized equipment inventory produced by the third-party manufacturer. Additionally, the third party manufacturer and reseller are not within the service provider's distribution chain because neither is purchasing and then selling the service provider's services. As such, these payments are not being made to a "customer" or reseller as defined in EITF Issue No. 01-9. Proponents of View B look to the guidance in EITF Issue No. 99-19 for indicators of control of the production and distribution process. They believe that because the service provider does not have inventory risk it does not meet the definition of a vendor and should not be considered within the scope of EITF Issue No. 01-9. Proponents of View B also do not believe there is linkage since the customer may be unaware of the incentives paid by the service provider to the third party manufacturer and reseller.

Sirius is not a vendor in the distribution chain and the automakers, retailers and mobile audio dealers that sell SIRIUS radios are neither customers nor resellers for Sirius. Sirius is not in business to sell radios – Sirius is in business to provide satellite radio service to its customers. Automakers are in business to sell cars – not the SIRIUS service just as retailers and mobile

audio dealers are in business to sell electronics – not the SIRIUS service. The automakers, retailers and mobile audio dealers merely facilitate the sale of the SIRIUS service, acting as an agent on behalf of Sirius. This relationship is more closely aligned with the guidance and principles of EITF Issue No. 99-19. Sirius believes there is sufficient guidance in the existing literature to support such an approach. In reviewing the indicators of gross versus net revenue reporting in accordance with EITF Issue No. 99-19, Sirius believes that gross revenue reporting is appropriate as (1) Sirius is the primary obligor in the service arrangement since the company is responsible for providing the service, and changes to the service for that matter; (2) Sirius has the latitude in establishing the price of the service with the customer; and (3) Sirius determines the nature, type, characteristics and specifications of the service.

IMPLICATIONS

Sirius currently recognizes subscription revenue over the service period from the date of activation of a SIRIUS radio. Subsidies paid to third-party manufacturers and commissions paid to retailers are recorded to subscriber acquisition costs when incurred. Residuals, revenue share, market development funds and advertising paid to retailers or automakers are recorded to sales and marketing expense when incurred. Funds paid to reimburse automakers for non-recurring engineering and tooling costs are recorded to engineering, design and development expense when incurred. Sirius believes the current presentation for the above revenue and expense categories is in accordance with GAAP – revenue is reported gross in accordance with EITF Issue No. 99-19 as earned and expenses are recorded as incurred. Net revenue reporting would not only affect the timing of expense recognition, especially for expenses incurred in connection with radios that may never be activated, it also does not present clearly the amounts of individual revenue and expense categories. Sirius believes the current presentation provides a clear picture of the economics of the business and provides overall transparency on the face of the financial statements. The current presentation clearly portrays the results of operations so that both investors and analysts are able to understand the business model and the key drivers of the business, including the metrics used to measure operating performance, which have been developed from information clearly presented as line items on the face of the financial statements.

Should the task force deem that View A of EITF Issue No. 06-1 is appropriate, a change in presentation would be required for Sirius' financial statements, which would result in the loss of transparency on the face of the GAAP financial statements if certain expenses such as hardware subsidies and commissions be recorded against revenue. With such a change, Sirius would need to present supplemental financial statements in the MD&A section of its quarterly and annual filings to provide investors and analysts with the proper insight into the economics of the business for the periods presented. In addition, the commentary in the MD&A would pertain to the supplemental income statement that more clearly presents the economics of the business and the results of operations and would not be easily correlated to the GAAP statement. The loss of transparency in the GAAP financial statements would appear to contradict Statement of Financial Accounting Concepts No. 2, "Qualitative Characteristics of Accounting Information," the purpose of which is to examine the characteristics that make accounting useful. According to this Statement, "the better choice [in choosing accounting alternatives] is the one that, subject to considerations of cost, produces among the available alternatives information that

is most useful for decision making.” Financial statement information must be relevant to investors, creditors, and others for investment, credit, and similar decisions, and such relevance is assessed by the ability of information to make a difference in a decision. Sirius believes that the current presentation is derived from the better choice in accounting alternatives which allows for the presentation of relevant financial information that is deemed useful to analysts and which is believed to be useful by investors in making investment decisions.

As stated previously, Sirius is not in business to sell radios. It is common practice for companies that provide any type of content to their subscribers to subsidize hardware costs due to the fact that the initial costs to produce hardware technology are typically high until economies of scale are reached. Over time, as the economies of scale are reached, the hardware costs decline, as do the corresponding subsidies. However, there is no direct correlation of the hardware price decline to the price of the service. The fair market value of the service remains the same. The fundamental operations of the business, and reporting of the economics, do not change. Net revenue reporting under View A could potentially mislead investors and analysts to think that the fundamentals of the business have changed because of accounting induced revenue volatility resulting from factors, such as declining costs that have no impact on the true drivers of the price of the service or the expansion of the customer base.

One final implication to consider is the structure of the actual agreements with automotive and retail partners. Certain provisions in Sirius’ contracts are based on calculations of amounts that appear as line items on the financial statements. For example, revenue share is calculated based on a percentage of revenues earned, determined using generally accepted accounting principles. Any change in the accounting that would result in net revenue reporting would significantly change the economics of these provisions/agreements and could potentially hurt relationships that currently exist with Sirius’ partners.

CONCLUSION AND RECOMMENDATION

As a public company with nearly 1 million shareholders, consistently one of the five most active stocks on NASDAQ, over 30 analysts covering Sirius and over \$67 billion of stock traded in the last 12 months, the company believes transparency in the financial statements should be of paramount concern. Over the last several years, public issuers of securities, the SEC and the accounting industry have worked hard together to improve the transparency and clarity of disclosure for the average investor. Sirius’ existing accounting in this area, which was specifically reviewed by the SEC in connection with the filing of its 2001 10-K, has been consistently applied by Sirius in all of the ’34 Act filings and numerous ’33 Act filings and has been opined upon by the independent accountants, is well understood by its investor base. Viewpoint B is appropriate from both an accounting standpoint in terms of the literature and from a financial statement user perspective.

In the event that you decide to change or re-interpret the applicable accounting rules, the utility of Sirius’ GAAP income statement will be greatly reduced for investors and Sirius will be compelled to provide substantial, supplemental financial information in order for the company to clearly portray the results of operations to investors and aid them in the development of their forecasts for Sirius’ business.

It is my hope that in your deliberations you will consider not only the issues of accounting theory, but also the practical effect a change in accounting would have on securities analysis and whether the proposed change would actually advance the average investors ability to use Sirius' or other similar content provider financial statements in making investment decisions. I thank you for the opportunity to comment on the EITF draft. If you have any questions please do not hesitate to contact me.

Sincerely,

/s/ David J. Frear

David J. Frear
Executive Vice President and Chief Financial Officer
Sirius Satellite Radio Inc.