

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K/A

(AMENDMENT NO. 1)

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-24710

CD RADIO INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>

<S>	DELAWARE	<C>	52-1700207
	(STATE OR OTHER JURISDICTION		(I.R.S. EMPLOYER
	OF INCORPORATION OR ORGANIZATION)		IDENTIFICATION NO.)
	SIXTH FLOOR, 1001 22ND STREET, N.W. WASHINGTON,		20037
	D.C.		
	(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)		(ZIP CODE)

</TABLE>

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (202) 296-6192

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<TABLE>

<CAPTION>	TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
	-----	-----
<S>	None	<C>
		None

</TABLE>

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, PAR VALUE \$0.001 PER SHARE  
(TITLE OF CLASS)

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

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

Aggregate market value of the Registrant's Common Stock held by  
non-affiliate as of March 12, 1997 was approximately \$39,867,376. The number of  
shares of the Registrant's Common Stock outstanding as of March 12, 1997, was  
10,300,391.

DOCUMENTS INCORPORATED BY REFERENCE

None.

P A R T I

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K constitute

forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For example, the Company's service, CD Radio, is in the planning and development stage and the descriptions set forth herein as to how the Company plans to implement, market and operate the service are forward-looking statements, and are subject to change based on future developments, the Company's experience, and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company's industry, to differ materially from the anticipated results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: risk of not receiving an FCC License in the scheduled auction; potential risk of delay; increased costs of construction and launch of necessary satellites; dependence on satellite construction and launch contractors; risk of launch failure; unproven market acceptance of the Company's services; the continuing losses of the Company; reliance on unproven technology; need for substantial additional financing and other risks and uncertainties described under "Business -- Risk Factors" in Part I of this Annual Report on Form 10-K. Certain of the forward-looking statements contained in this Annual Report are identified with cross references to this section and/or to specific risks identified under "Business -- Risk Factors."

#### ITEM 1. BUSINESS

The Company is a pioneer in the emerging satellite-to-car broadcasting industry ("satellite radio"). The Company is engaged in the development of a subscription based satellite radio system for the nationwide broadcast of 30 channels of commercial-free, compact disc quality music programming and up to 20 channels of all-news, all-sports, and all-talk programming. The Company's primary market is expected to be operators of cars and trucks throughout the continental United States. Government statistics indicate that there will be approximately 192 million registered vehicles in the United States in 1999, rising to approximately 200 million vehicles by 2004. The Company plans to broadcast its service, to be called CD Radio, via its own custom designed and built satellite system utilizing technology developed by the Company.

CD Radio is designed to offer:

(i) A programming selection of finely focused formats. In most markets radio broadcasters target their programming at broad audience segments, and even in the largest metropolitan markets, station formats are limited.

(ii) Widespread signal coverage throughout the continental United States. Terrestrial radio signal availability, in contrast, is generally limited to distances of approximately 30 miles before fading and loss occur.

(iii) Commercial-free music programming. Almost all radio stations are advertiser supported and contain significant amounts of commercial interruptions to programming.

(iv) CD quality stereo audio.

Upon commencing CD Radio service, the Company anticipates that it will offer CD Radio to subscribers for a monthly subscription fee of \$10 or less, which would entitle the subscriber to receive all channels.

CD Radio is designed to be broadcast via satellites over a new radio band, the S-band, which will augment the traditional AM/FM radio bands. In order to receive CD Radio, subscribers will need satellite band radios which are not currently commercially available. The Company anticipates that satellite radios will be manufactured by existing manufacturers of consumer electronics and automakers, and when manufactured in quantity will be somewhat more expensive than today's car radios. See "Forward-Looking Statements." The Company expects that satellite car radios will be similar in size and appearance to today's AM/FM car radios, and will include the AM/FM bands, as well as the satellite band. In addition, the Company expects these radios to include a digital display capable of showing the CD Radio channel number, music format, song

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title, recording artist and album title. See "Forward-Looking Statements." Each satellite radio will require a satellite dish antenna in order to receive the satellite signal. The Company has developed what it believes is the world's smallest satellite dish, which measures approximately 1/8 inch thick and 2 inches in diameter (approximately the size and shape of a silver dollar) and can fit unobtrusively in a variety of locations on a vehicle. Although the Company does not intend to manufacture or distribute satellite radios or dish antennas, it intends to foster their development by communicating to such manufacturers the specifications needed for the reception of CD Radio.

In order to provide CD Radio, the Company will need to build and launch into geosynchronous orbit two fully dedicated satellites designed to operate at special frequencies. The Company has entered into an agreement with Space Systems/Loral, pursuant to which Space Systems/Loral has agreed to construct the two satellites and, at the Company's option, a third spare satellite. The

Company has reserved launches with Arianespace for its two satellites during the period extending from November 1, 1999 through April 30, 2000.

The Company has applied to the FCC for a license (the "FCC License") to permit it to build, launch and operate its satellites to provide a satellite radio service. The period for filing such applications expired in December 1992 and the Company is one of four remaining applicants. The FCC is scheduled to auction two satellite radio licenses among the four applicants on April 1, 1997. There can be no assurance that the Company will be a winning bidder in the auction.

Since its formation in 1990, the Company has concentrated its activities on pursuit of necessary regulatory approvals, strategic planning, technology development and market research. The Company plans to continue these activities and to work cooperatively with consumer electronics manufacturers and automakers in order to foster the development of satellite radios. Once the Company obtains its FCC License, it intends to begin construction of its satellites and currently has targeted the second half of 1999 for launch of its two satellites and commencement of operations. The Company's ability to meet that objective will depend on several factors, including the timely receipt of necessary governmental approvals, the successful financing, construction and launch into orbit of two geosynchronous satellites, the rapid creation of an organization and management of growth. See "Forward-Looking Statements."

#### THE RADIO MARKET

The potential market for CD Radio includes the owners of approximately 192 million motor vehicles expected to be registered in the United States in 1999, rising to approximately 200 million vehicles by 2004. Other potential markets include owners of portable, walkman, and home radios.

Broadcasting industry sources indicate that American adults listen to an average of three hours of radio per day. In addition, such sources estimate that automobile commuters spend 97% of their drivetime listening to the radio.

Music programming dominates the radio airwaves, with FM radio stations exceeding AM stations in listenership. According to broadcasting industry sources, in 1996, approximately 79% of total radio listening was to FM stations. FM stations primarily concentrate on music programming, while AM stations have an increased proportion of their programming devoted to talk and news.

CD Radio will be available in automobiles only to persons who install satellite radios in their vehicles or purchase automobiles with factory installed satellite radios. Accordingly, to assess potential initial demand for CD Radio, the Company has examined data concerning consumer purchases of aftermarket and new car autosound equipment and the commitment of consumers to receiving high quality audio entertainment in their vehicles. According to industry sources, U.S. consumers spend approximately \$2.3 billion on aftermarket autosound equipment for installation in their vehicles annually, which includes approximately 5 million AM/FM radios. Additionally, automotive industry sources report that over 14 million new cars and light trucks were sold in the United States in 1996, almost all of which contained radios.

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#### THE CD RADIO SERVICE

The Company intends to offer 30 channels of commercial-free, all-music programming and up to 20 additional channels of other formats that do not require compact disc quality audio, such as all-news, all-sports and all-talk programming. Each music channel will have a specific format, intended to cater to a finely segmented subscriber taste. It is anticipated that upon commencement of CD Radio the monthly subscription fee for the receipt of all CD Radio channels will be \$10 or less.

CD Radio will offer (i) multichannel "narrowcast" programming formats; (ii) widespread signal coverage; (iii) commercial-free music programming; and (iv) compact disc quality stereo audio.

In most markets, radio broadcasters target their programming at broad audience segments. The Company's multichannel narrowcast programming is designed to provide focused formats generally available only in major metropolitan areas, and in many cases, unavailable even in these areas.

Regardless of area, terrestrial radio reception is limited to short distances of approximately 30 miles, after which reception fades and is lost. Additionally, terrestrial radio reception is subject to a fluctuating, broad range of quality.

The Company's preliminary market research indicates that the principal complaint of commuters interviewed about radio is commercials. When in the car, many listeners attempt to avoid commercial interruptions by switching stations at the outset of a string of commercials. The amount of radio advertising varies with the time of day, station format and market size, but a broadcasting industry source indicates that, on average, every hour of music programming

during morning and evening commutes is interrupted by 10 to 12 minutes of commercials.

While terrestrial radio stations currently do not broadcast compact disc quality stereo sound, the Company believes that FM radio stations may be in a position to do so before the time the Company's service becomes operational. Consumers would be unable to receive these new broadcasts on existing radios and would require new digital radios to do so. The Company does not believe that such a sound upgrade to digital broadcasting would affect conventional broadcasters' ability to address the other advantages of CD Radio.

Programming will be managed by the Company's staff, with guidance from continuous market research. The Company intends to recruit program managers from the recording, broadcasting and entertainment industries to manage the development of daily programming for each channel. Music programming will be produced from the Company's music library and will be sourced from compact discs. It is contemplated that this music library will consist of an extremely broad range of recorded music, and will be updated as new recordings are released. See "Forward-Looking Statements" and "Risk Factors -- Music Royalty Payments."

The Company believes that CD Radio represents an opportunity for the recording industry to expose, research, and promote new releases and artists to targeted listener groups nationwide. The Company plans to solicit promotional copies of new recordings, and contemplates showcasing these releases as part of a service to be developed for record companies. The Company's intends to work with the recording industry and performing artists to develop programming of mutual benefit.

The Company believes that compact discs and cassettes are used in automobiles as supplements to radio rather than as substitutes, and that these media are used primarily as backup when radio reception is unavailable or unsatisfactory, or when desired programming is unavailable or unsatisfactory. Compact discs and cassettes lack the convenience of radio, as well as the spontaneity and freshness that characterizes radio programming. According to Arbitron, commuters spend 97% of their drivetime listening to radio. Accordingly, the Company does not view its service as directly competitive with these media.

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The following channel list (which employs terminology common to the music industry) has been prepared by the Company to illustrate the manner in which the Company's narrowcast programming might be marketed. The Company intends to vary channel formats from time-to-time to reflect changing subscriber tastes.

1. Symphonic  
Music from the masters, Bach, Mozart and Handel. The world's greatest classical composers broadcast in brilliant CD fidelity.
2. Chamber Music  
Elegant music performed by small ensembles of solo instruments such as the cello, violin and woodwind.
3. Opera  
Experience the drama and spectacle of the greats. Verdi, Puccini and Wagner.
4. Today's Country  
The down home sounds of today's country stars including Vince Gill, Alan Jackson, Wynonna Judd and Garth Brooks.
5. Traditional Country  
All of your favorite country & western legends are here. Stars like George Strait, Loretta Lynn, Hank Williams, Jr. and George Jones.
6. Contemporary Jazz  
The syncopated rhythms of today's jazz music. The cool sounds of Kenny G, The Yellowjackets and David Sanborn.
7. Classical Jazz  
Listen as musicians like Duke Ellington, Miles Davis and John Coltrane experiment and expand the sounds of jazz.
8. Blues  
The foundation of rock. B.B. King, Muddy Waters and Robert Cray.
9. Big Band/Swing  
Relive the memories with the sounds of Tommy Dorsey, Glenn Miller and Artie Shaw.
10. Top of the Charts  
Today's hits from recording artists such as Whitney Houston, Mariah Carey and Boyz II Men.

11. Classic Rock  
The greatest hits from the 60's and 70's -- an entire generation of great rock music. The Who, Rolling Stones and Eric Clapton.
12. 50's Oldies  
Tune in and experience the 50's all over again with Chuck Berry, Little Richard and Elvis Presley.
13. 60's Oldies  
The great pop sounds of Motown, the British Invasion and Surfer Rock.
14. Folk Rock  
Thoughtful, inspired melodies from performers like Joni Mitchell, James Taylor and Joan Baez.
15. Latin Ballads  
The romantic sounds of Latino vocalists. Julio Iglesias, Nino Bravo and Roberto Carlos.
16. Latin Rhythms  
Move to the music of Latino superstars such as Sergio Mendes, Juan Luis Guerra and the legendary Tito Puente.
17. Reggae  
Pulsating rhythm from the musically prolific island of Jamaica, from the Skatelites through Bob Marley and Shabba Ranks.
18. Hip-Hop & Rap  
The forefront of contemporary music. RUN-DMC, Cypress Hill and Dr. Dre.
19. Dance  
Music by today's hottest artists, including Madonna, Janet Jackson and George Michael.
20. Songs of Love  
Romantic ballads and music from some of the world's most popular artists.
21. Singers & Strings  
Legends like Frank Sinatra, Barbra Streisand and Nat King Cole.
22. Beautiful Instruments  
Memorable melodies of contemporary music orchestrated with a full, lush and easy sound.
23. Heavy Metal  
Driving, hard charging rock-and-roll by bands such as Guns N' Roses, Metallica and Danzig.
24. Album Rock  
The best songs from today's top rock artists. Pearl Jam, U2 and John Mellencamp.
25. Alternative Rock  
Modern rock from such diverse bands as the Red Hot Chili Peppers, Midnight Oil and Smashing Pumpkins.
26. New Age  
Soft and soothing acoustics. Enjoy the relaxing music of Yanni, Kitaro and Brian Eno.
27. Broadway's Best  
Hits from the Great White Way. Rodgers and Hammerstein, Marvin Hamlisch and Andrew Lloyd Webber.
28. Gospel  
Soulful gospel sounds of joy. Mahalia Jackson, Al Green and the Winans.
29. Children's Entertainment  
Songs and storytelling at their most magical. Disney classics and Sesame Street.
30. World Beat  
The Beat goes on . . . all over the world. Follow the sun with the music of Lucky Dube, Mahotella Queens and Outback.

#### MARKETING STRATEGY

The Company plans to engage in extensive marketing, advertising and promotional activities to increase consumer awareness of satellite radio and CD Radio programming, to promote the sale of satellite radios and to generate subscriptions to CD Radio.

The Company's market research program will assist the Company in refining

the design of its service, programming formats and content, and advertising and promotional programs. Initial market research efforts will focus on further defining the attitudes of different categories of consumers toward the various attributes of CD Radio.

The Company plans to work closely with radio manufacturers, radio retailers, and automakers to market CD Radio. Upon satellite launch, the Company intends to commence a nationwide media campaign to advertise and promote CD Radio and to implement a cooperative media campaign with satellite radio manufacturers.

Some of the Company's promotional plans include: (i) extensive use of radio commercial advertising; (ii) print advertisements; (iii) outdoor billboards; (iv) cooperative radio and print advertising; (v) CD Radio service in rental cars equipped with satellite radios; (vi) tie-ins with the recording industry targeting compact disc purchasers of niche music categories; (vii) demonstration kiosks in retail locations; and (viii) training programs and sales literature developed for retail personnel. See "Forward-Looking Statements" and "Risk Factors -- Unavailability of Satellite Radios."

As was the case with cellular telephone service in its early years, the Company believes that satellite radio service will be symbolized by its antenna. The Company believes that the proliferation of satellite radio dishes on cars will create a significant amount of consumer awareness of satellite radio.

#### THE CD RADIO DELIVERY SYSTEM

The Company has designed the CD Radio delivery system to transmit an identical signal from two satellites to address the problem of signal blockage caused by variations in terrain, buildings and other obstructions. The system is designed to permit CD Radio to be received by motorists in nearly all outdoor locations where the vehicle is on an unobstructed line-of-sight with one or both of the Company's satellites. In certain areas with high concentrations of tall buildings such as Manhattan, or in tunnels, signals from both satellites will be blocked and reception will be adversely affected. In such cases, the Company may implement terrestrial repeating transmitters. See "Risk Factors -- Reliance on Unproven Technology."

The CD Radio delivery system will consist of three principal components: (i) satellite radios; (ii) the satellites; and (iii) the national broadcast studio.

#### SATELLITE RADIOS

In order to receive CD Radio, subscribers will need to obtain a new generation of radios capable of receiving the satellite band. The Company anticipates that these radios will initially be manufactured by existing radio manufacturers and sold by consumer electronics outlets for automotive aftermarket installation and later will be manufactured and installed in new cars and trucks by automakers. See "Forward-Looking Statements." Although the Company will not manufacture or distribute satellite band radios or their dish antennas, it intends to communicate the required specifications to such manufacturers and automakers. The availability and pricing of satellite radios will be an important factor in determining the success of CD Radio. See "Risk Factors -- Unavailability of Satellite Radios."

The Company anticipates that radios capable of receiving CD Radio will be similar to conventional AM/FM radios in size and appearance, but will have the added capability of receiving digital satellite transmissions as well as AM and FM signals. In order to accommodate subscription satellite radio services, each radio will contain a security circuit with an electronically encoded identification number. Upon verification of subscriber billing information, the Company will transmit a digital signal to activate the radio's

satellite band operation. This feature will enable the Company to protect against piracy of CD Radio and to discontinue the service to subscribers who are delinquent in paying the monthly subscription fee. The Company expects that these radios will include a digital display, which when tuned to the satellite band, will indicate the channel and format the listener has selected, as well as the title, recording artist and album title of the song being played. As is the case currently, a number of these radios may also incorporate cassette or compact disc players. See "Forward-Looking Statements."

Because less than 10% of the U.S. vehicle fleet turns over annually, the Company expects aftermarket availability of satellite radios to be of prime importance to the Company's market penetration for the first several years following introduction of CD Radio. Representatives of the Company have held discussions with a number of major radio manufacturers that have expressed an interest in participating with the Company in planning and evaluating the Company's further market research. The Company will endeavor to synchronize the development of satellite radios with the Company's business planning so that satellite radios will be available at the time the Company commences operations. Failure of manufacturers to develop and market satellite radios at affordable

prices, or to develop and market such radios in advance of the date the Company proposes to commence CD Radio service, would have a materially adverse effect on the Company's business. The Company intends to license radio manufacturers to use CD Radio design technology in their radios.

The Company also plans to work with automakers to support the development of factory installed satellite radios in new cars. Representatives of the Company have held discussions with a number of major automakers that have expressed an interest in participating with the Company in planning and evaluating the Company's further market research.

Each satellite radio will require a satellite dish antenna in order to receive the satellite signal. The Company has developed what it believes is the world's smallest satellite dish. The dish is approximately the size and shape of a silver dollar, measuring 2" in diameter and 1/8" thick. The Company's dish design is "non-directional" -- it does not need to be pointed directly at a satellite in order to receive a satellite signal. All that is required is that the dish be positioned upward on an unobstructed line-of-sight with the Company's satellites. In the case of factory installed satellite radios in new cars, the Company believes the dish can be integrated into the roof panel.

For aftermarket installations, the dish can be attached to a vehicle's rear window in the same manner as a cellular antenna. In the event that a subscriber already has a cellular antenna on the rear window of a car, the cellular antenna could be unscrewed and the dish screwed on in its place. The dish then would serve as both a cellular and satellite radio antenna so that only the dish on the car is needed.

#### THE SATELLITES

The satellites to be used in the CD Radio system are scheduled to be built by Space Systems/Loral, one of the largest satellite manufacturers in the world. Although the satellites will be equipped with custom designed communications equipment, the Company believes that the construction and development of its satellites does not require the development of new technology.

Satellite control will be performed from the Company's national broadcast studio. Uplink frequencies are currently planned to be located in X-band. Downlink frequencies are planned to be in S-band. Each satellite will broadcast a signal covering the entire continental United States from a single antenna in a single beam. The expected life of each satellite is approximately 15 years.

Satellite Construction. The Company has entered into an agreement (the "Construction Contract") with Space Systems/Loral pursuant to which Space Systems/Loral has agreed to construct two satellites and, at the Company's option, a third satellite in accordance with stipulated specifications. Amendments to the Construction Contract are necessary to reflect technical changes and other developments since the contract was originally entered into in 1993. The Company has extended the Construction Contract on a monthly basis through April 30, 1997 while it negotiates with Space Systems/Loral to amend the contract's technical specifications, pricing and delivery terms. The Company may negotiate with Space Systems/Loral to extend

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the Construction Contract further or it may permit the contract to expire. The Company believes it will be able to negotiate a favorable contract with Space Systems/Loral for the construction of the satellites, although there can be no assurance that the Company will be able to do so.

Under the Construction Contract, Space Systems/Loral will not be liable for indirect or consequential damages or lost revenues or profits resulting from late delivery or other defaults. Title and risk of loss for each satellite is to pass to the Company at the time of launch. The Company has agreed to indemnify Space Systems/Loral for all costs and losses resulting from claims based upon Space System/Loral's alleged responsibility or liability for loss of, or damage to, the satellites occurring after launch, regardless of the cause. In the event of any delay in the construction of the satellites that is caused by the Company, the Construction Contract provides that the terms of the contract will be equitably adjusted.

Upon delivery of the satellites to the launch site, Space Systems/Loral is required to perform inspection and verification testing to insure that no damage occurred in shipment. After such inspection and testing, the Company will provide final acceptance of the satellites. Following their launch, Space Systems/Loral will conduct in-orbit checks of both satellites. In the event that such testing shows that a satellite is operating less than satisfactorily, Space Systems/Loral and the Company will negotiate a reasonable reduction in the amount paid by the Company. See "Forward-Looking Statements."

Launch Services. The Company has reserved two launch slots with Arianespace during the period extending from November 1, 1999 through April 30, 2000. If the Company's satellites are not available for launch during this period, the Company will arrange to launch the satellites on the first launch dates available after the satellites are completed. See "Forward-Looking

Statements." While the Company has been able to reschedule launch dates with Arianespace in the past, there can be no assurance that it will be able to do so in the future. In order to maintain its launch slots, the Company will need to enter into a definitive agreement with Arianespace by May 31, 1997, providing for the launch of its satellites. The final terms and conditions of any launch agreement are subject to negotiations between the Company and Arianespace.

Satellite launches are subject to significant risks, including satellite destruction or damage during launch or failure to achieve proper orbital placement. According to industry sources, approximately 15% of insured commercial satellite launches by all launch contractors since 1965 have resulted in total loss. Launch failure rates vary from period to period and from contractor to contractor. Arianespace is one of the world's leading commercial satellite launch service companies. Arianespace has advised the Company that as of March 18, 1997 it has successfully completed 81 of 86 launches (approximately 94%), since beginning commercial operations in 1984. See "Risk Factors -- Dependence upon Satellites and Contractors; Risk of Launch Failure."

Risk Management and Insurance. Two custom-designed, fully dedicated satellites are required to broadcast CD Radio. A single satellite is incapable of delivering the service. The Company has selected a launch service supplier that has achieved the most reliable launch record in its class in the industry. Each of the company's two operational satellites will be launched separately. The Company intends to obtain launch insurance for each launch vehicle from its launch vehicle provider. The Construction Contract provides for the construction of a spare satellite, to be used in the event of loss of one of its two operational satellites. If the Company is required to launch the spare satellite due to failure of the launch of one of the operational satellites, its operational timetable would be delayed for approximately six months or more. The launch or in-orbit failure of two satellites would require the Company to arrange for additional satellites to be built and could delay the commencement or continuation of the Company's operations for three years or more. See "Risk Factors -- Dependence upon Satellites and Contractors; Risk of Launch Failure."

Once properly deployed and operational, the historical risk of premature total satellite failure has been less than one percent for U.S. geosynchronous commercial satellites. Insurance against in-orbit failure is presently available and is typically purchased after the satellite is checked out in orbit and prior to the expiration of launch insurance. In recent years, annual premiums have ranged from 1.3% to 2.5% of coverage.

Satellites are designed to minimize the adverse effects of transmission component failure through the incorporation of redundant components which activate automatically or by ground command upon failure. If

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multiple component failures occur as the satellite ages, and the supply of redundant components is exhausted, the satellite generally will continue to operate at reduced capacity. In that event, signal quality may be preserved by reducing the number of channels broadcast until a replacement satellite could be launched.

#### NATIONAL BROADCAST STUDIO

The Company intends to establish its national broadcast studio to provide origination and transmission of programming; transmission of commands to activate/deactivate service of subscriber radios; and tracking, telemetry, and control of the in-orbit satellites. The facility will incorporate redundant electronics and backup power generators.

#### TESTS AND DEMONSTRATIONS

The Company conducted a series of tests and demonstrations from May through December 1994, involving the transmission of S-band signals to a prototype satellite radio installed in a car to simulate certain transmission techniques the Company intends to employ. Since there are currently no commercial satellites in orbit capable of transmitting S-band frequencies to the United States, the Company constructed a terrestrial emulation of its planned system. For this purpose, the Company selected a test range covering several kilometers in suburban Washington, D.C. which included areas shadowed by buildings, trees and overpasses. The Company placed S-band transmitters on the rooftops of a number of tall buildings in such a way as to simulate the signal power and angle of satellite transmissions to be used for its proposed service. The Company also modified the standard factory installed sound system of a Lincoln Mark VIII automobile to create a three-band radio covering AM, FM and S-band, and integrated the Company's satellite dish into the car roof. The demonstrations included the reception of 30 channels of CD quality stereo music by the prototype radio while the car was driven throughout the range. The Company believes that the results of these tests validated the technically significant portions of the CD Radio system. Prior to testing with orbiting satellites and satellite radios suitable for commercial production, however, there can be no assurance that the CD Radio system will function as intended. See "Risk Factors -- Reliance on Unproven Technology."

## COMPETITION

The Company's satellite radio service will face competition from two principal sources: (i) terrestrial AM/FM radio broadcasting, including, when available, terrestrial digital radio broadcasting; and (ii) another satellite radio broadcaster.

The AM/FM radio broadcasting industry is very competitive, and certain of the Company's competitors in this industry have substantially greater financial, management and technical resources than the Company. Unlike the Company, the radio industry has a well established market for its services and generally offers "free" reception paid for by commercial advertising rather than a subscription fee. In addition, certain AM and FM stations, such as National Public Radio, offer programming without commercial interruption. Many radio stations also offer information programming of a local nature, such as local news or traffic, which the Company will be unable to offer. CD Radio will compete with conventional radio stations on the basis of the variety and focus of its programming, its commercial-free formats, signal coverage throughout the continental United States, and digital CD stereo sound quality.

Currently, radio stations broadcast by means of analog signals, as opposed to digital transmission. The Company believes, however, that prior to the commencement of CD Radio, broadcasters may be in a position to implement technology that permits simultaneous transmission of both analog and digital signals on the AM and FM bands that will permit digital AM broadcasts to achieve monaural FM sound quality, and digital FM broadcasts to approach compact disc stereo sound quality. See "Forward-Looking Statements." In order to receive these digital AM/FM broadcasts, listeners would need to purchase new digital radios which are not currently commercially available. As a result, while the development of digital broadcasting would eliminate one of the advantages of CD Radio over FM radio, the Company does not believe it would affect broadcasters' ability to address the other advantages of CD Radio. In addition, the Company views the growth of terrestrial

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digital broadcasting as a positive force that would be likely to accelerate radio replacement and thereby facilitate the proliferation of satellite radios.

Existing communications satellite operators are not capable of delivering satellite radio for reception on tiny, non-directional automobile dishes. Specially designed satellites operating at different frequencies are needed.

The Company expects to compete directly with one other satellite radio broadcaster. Four applicants, including the Company, have applied for two FCC licenses to operate a national satellite radio service. See "Business -- Government Regulation." At least one of the applicants, a subsidiary of American Mobile Satellite Corporation, which is principally owned by the Hughes division of General Motors, has financial, management and technical resources that greatly exceed those of the Company. In their license applications to the FCC, two of the other applicants have stated an intention to offer a satellite radio service based, at least in part, on subscription fees and the remaining applicant intends to offer an advertiser supported "free" service. The Company believes that at present its technical and business planning is further advanced than the other applicants. There can be no assurance, however, that this will permit the Company to initiate a satellite radio service in advance of its competition. See "Risk Factors -- Competition."

The original satellite radio spectrum allocation internationally agreed upon by the United States and other nations would have accommodated four satellite radio licenses in the United States. The FCC subsequently allocated only half of this spectrum specifically for satellite radio, thereby accommodating only two licenses. The other half of the allocation is scheduled to be auctioned on April 15, 1997 and may be used to provide a broad range of services, including but not limited to satellite radio. The Company believes this spectrum is unlikely to be used for satellite radio, although no assurance can be made that this will be the case.

## TECHNOLOGY, PATENTS AND TRADEMARKS

The Company has been granted certain U.S. patents on various types of satellite radio technology. There can be no assurance, however, that any U.S. patent issued to the Company will not be circumvented or infringed by others, or that if challenged would be held to be valid. The Company has filed patent applications covering CD Radio system technology in Argentina, Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, South Korea, Mexico, the Netherlands, Spain, Switzerland and the United Kingdom. There can be no assurance that foreign patents will be awarded by all of such countries to the Company or, if any such patents are granted, that the laws of foreign countries will protect the Company's proprietary rights to its technology to the same extent as the laws of the United States. Although the Company believes that obtaining patent protection may provide benefits to the Company, the Company does not believe that its business is dependent on obtaining patent protection or successfully defending any such patents that may be obtained against infringement by others.

Certain of the Company's know-how and technology are not the subject of U.S. patents. To protect its rights, the Company requires certain employees, consultants, advisors and collaborators to enter into confidentiality agreements. There can be no assurance, however, that these agreements will provide meaningful protection for the Company's trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. In addition, the Company's business may be adversely affected by competitors who independently develop competing technologies.

The Company's proprietary technology was developed by Robert D. Briskman, the Company's Chief Technical Officer, and assigned to the Company. The Company believes that Mr. Briskman independently developed the technology covered by the Company's issued patents and that it does not violate the proprietary rights of any person. There can be no assurance, however, that third parties will not bring suit against the Company for patent infringement or for declaratory judgment to have any patents which may be issued to the Company declared invalid.

If a dispute arises concerning the Company's technology, litigation might be necessary to enforce the Company's patents, to protect the Company's trade secrets or know-how or to determine the scope of the proprietary rights of others. Any such litigation could result in substantial cost to, and diversion of effort by,

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the Company, and adverse findings in any proceeding could subject the Company to significant liabilities to third parties, require the Company to seek licenses from third parties or otherwise adversely affect the Company's ability to successfully develop and market CD Radio.

In May 1994, the Company received a letter claiming that the Company's logo is confusingly similar to the registered trademark of a company engaged in the sale of pre-recorded music, and that the Company's continued use of its logo may constitute infringement of such mark. See "Business -- Legal Proceedings."

#### GOVERNMENT REGULATION

##### Communications Laws

As a proposed operator of a privately owned satellite system, the Company is subject to the regulatory authority of the FCC under the Communications Act of 1934 (the "Communications Act"). The FCC is the government agency with primary authority in the United States over satellite radio communications. The Company is currently subject to regulation by the FCC principally with respect to (i) the licensing of its satellite system; (ii) preventing interference with other users of radio frequencies; and (iii) compliance with rules that the FCC has established specifically for United States satellites and rules that the FCC has established for providing satellite radio service.

On May 18, 1990, the Company proposed that the FCC establish a satellite radio service and applied for the FCC License. This application was opposed by the National Association of Broadcasters, an industry trade group that seeks to promote the interests of the television and AM/FM broadcast industries.

In the fall of 1992, the FCC called for license applications from any parties other than the Company who might be interested in being licensed to provide a satellite radio service. The cutoff date for these applications was December 15, 1992. Five other applicants filed applications by that deadline, two of which have subsequently been withdrawn, leaving the Company and three other applicants. Petitions have been filed on behalf of third parties to deny the applications filed by the Company and the three other applicants.

On March 3, 1997, the FCC adopted satellite radio licensing rules (the "Licensing Rules") and implemented a spectrum plan that will accommodate only two national satellite radio licenses, both of which are scheduled to be auctioned among the Company and the other three applicants on April 1, 1997. There can be no assurance that the Company will be successful in obtaining one of the two licenses or that the cost of obtaining it would not be material to the Company's operations. See "Risk Factors -- Government Regulation; No Assurance of FCC License."

Pursuant to the Licensing Rules, the auction is scheduled to be held among the four existing applicants on April 1, 1997. Prior to the commencement of the auction each applicant must deposit \$3 million with the FCC. The minimum opening bid for each FCC License is \$8 million. The bidding will continue until only two bidders remain. Within 10 business days following the announcement of winning bidders, each auction winner must deposit with the FCC twenty percent of its winning bid. The \$3 million initial deposit will be applied toward the twenty percent down payment. The winning bidders will also be required to supplement their applications on file with the FCC within 30 days after the close of bidding. After the FCC has confirmed receipt of each winning bidder's twenty percent payment and acceptance of each winning bidder's application, the FCC will accept petitions to deny the winning bidders' applications. There can be no

assurance that the FCC will dismiss these and previously filed petitions. If the FCC dismisses these petitions and previously filed petitions, the winning bidders will have 10 business days to submit payment of the balance of their winning bids.

Pursuant to the Licensing Rules, the winning bidder that receives an FCC License will be required to meet certain progress milestones. Licensees would be required to begin satellite construction within one year; to launch and begin operating their first satellite within four years; and to begin operating their entire system within six years. Failure to meet those milestones could result in revocation of the FCC License. On March 27, 1997, a third party requested reconsideration of the Licensing Rules, seeking, among other things, that the time period allotted for these milestones be shortened.

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On July 30, 1991, the Company filed a request for a Pioneer's Preference and on January 23, 1992 and June 2, 1993, filed supplements to that request. A Pioneer's Preference would have given the Company an exclusive right to an FCC License without having to bid in an auction, although the Company would still have had to pay for its license. In November 1996, an FCC appointed panel recommended that no Pioneer's Preference be granted. The Company subsequently withdrew its application for a Pioneer's Preference.

Satellite orbit locations are registered internationally for each country. To the Company's knowledge, no other nations in the Western Hemisphere are seeking to use the S-band for satellite radio, and the Company does not anticipate any difficulty in obtaining international registration, or renewing or extending such registrations. See "Forward-Looking Statements." However, there can be no assurance that such registrations will be obtained.

The spectrum allocated for satellite radio is used in Canada and Mexico for terrestrial microwave links, mobile telemetry, and other purposes. The United States government must coordinate United States' use of this spectrum with the Canadian and Mexican governments before any United States satellite may become operational. The Company has performed analyses which show that its proposed use will not cause undue interference to most Canadian stations and can be coordinated with others by various techniques. The Licensing Rules require that the licensees complete detailed frequency coordination with existing operations in Canada and Mexico. There can be no assurance that the United States, Canadian and Mexican governments can coordinate the use of this spectrum or will do so in a timely manner.

In order to operate its satellites, the Company also will have to obtain a license from the FCC to operate its uplink facility. Normally, such approval is sought after issuance of the FCC License. Although there can be no assurances at this time, if the Company obtains the FCC License, the Company would not expect difficulties in obtaining a feeder link frequency and ground station approval in the ordinary course.

The issuance by the Company of the Common Stock pursuant to the Company's initial public offering, considered together with other transactions in the stock of the Company since the cutoff date established by the FCC for satellite radio service applications, could have resulted in the ownership of 50 percent or more of the voting stock of the Company by parties who were not stockholders on the cutoff date. Consequently, such stock issuance may have required the filing of a "major amendment" to the Company's license application. As a result, the Company requested and obtained from the FCC an exemption from the previously established cutoff date, in order to avoid the assignment of a new file number and the consequent loss of entitlement to processing concurrently with the other three remaining applications that were filed on or before the cutoff date ("cut-off protection"). On June 8, 1994, the FCC released an order granting the requested exemption conditioned on the current stockholders and officers of the Company remaining in actual control of Satellite CD Radio, Inc. Additional equity financings and sales of common stock by persons who were shareholders on the cutoff date could require the Company to obtain an exemption from the FCC to permit the Company's license application to be processed concurrently with those of the other three applicants. If such an exemption were required and not granted, the Company's application would not be considered concurrently with those of the other three remaining applicants and could be dismissed.

The Communications Act prohibits the issuance of a license to a foreign government or a representative thereof, and contains limitations on the ownership of common carrier, broadcast, and certain other radio licenses by non-U.S. citizens. Pursuant to the Licensing Rules, the licensees will be permitted to choose whether they wish to be classified as broadcasters, common carriers or private carriers. As a private carrier, the Company would not be subject to the current provisions of the Communications Act restricting ownership in the Company by non-U.S. private citizens or organizations. Further, as a private carrier, the Company would be free to set its own prices and serve customers according to its own business judgment, without economic regulation.

The foregoing discussion reflects the application of current communications law, FCC regulations and international agreements to the Company's proposed service in the United States. Changes in law, regulations or international

agreements relating to communications policy generally or to matters affecting specifically the services proposed by the Company could adversely affect the Company's ability to obtain its FCC License or

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the manner in which its proposed service would be regulated. Further, actions of the FCC are subject to judicial review and there can be no assurance that if challenged, such actions would be upheld.

#### Other Regulatory Matters

The Company's business operations as presently contemplated may require a variety of permits, licenses and authorizations from governmental authorities other than the FCC, but the Company has not identified any such permit, license or authorization that it believes could not be obtained in the ordinary course of business.

#### PERSONNEL

As of December 31, 1996, the Company had three employees, of whom one was involved in technology development, one in business development and one in administration. In addition, the Company relies upon a number of consultants and other advisors. After receipt of the FCC License, the Company expects to increase the number of its employees to approximately twenty-five, of whom nine are expected to be involved in technical development, ten in business development and six in administration. See "Forward-Looking Statements." The extent and timing of the increase in staffing will depend on the availability of qualified personnel and other developments in the Company's business. None of the Company's employees are represented by a labor union, and the Company believes that its relationship with its employees is good.

#### FINANCIAL CONSULTANTS

Pursuant to an agreement dated October 21, 1992 (the "Agreement"), the Company retained the services of Batchelder & Partners, Inc., a financial advisory firm ("Batchelder"), to provide certain financial consulting services to the Company. The Agreement provides, among other things, for the payment in cash to Batchelder of (i) \$25,000 per month during the term of the Agreement and (ii) fees equal to (A) two percent (2%) of the gross proceeds from each equity financing (other than equity financings to existing shareholders of the Company on the date of the Agreement and certain equity financings before December 15, 1992) and (B) one percent (1%) of the gross proceeds from each debt financing, during the term of the Agreement and for a period of two years following termination of the Agreement by the Company. During the three-month period ending December 31, 1994, Batchelder agreed to waive all financial consulting fees payable under the Agreement. In addition, pursuant to the Agreement, the Company has granted an option to Batchelder to purchase 260,000 shares of Common Stock at a price of \$6.25 per share as follows: 60,000 shares upon execution of the Agreement and four 50,000 share increments upon the successful completion of equity and/or debt financings of certain specified amounts during the term of the Agreement and for a period of two years following termination of the Agreement by the Company. Each option expires three years from the date such option becomes exercisable. The option to purchase 60,000 shares granted to Batchelder upon execution of the Agreement expired unexercised on October 21, 1995. The Agreement is terminable by either the Company or Batchelder upon notice to the other party. Since inception of the Agreement, Batchelder has earned \$1,178,063 in consulting fees. Additionally, Batchelder has earned equity financing fees of \$149,400 in connection with private placements of 1,494,000 shares of Common Stock of the Company at an aggregate offering price of \$7,470,000, fees of \$129,194 in connection with the Company's public offering of units in 1994 and fees of \$92,261 in 1996 in connection with the exercise of warrants to purchase the Company's Common Stock. No additional options to purchase shares of Common Stock became exercisable by Batchelder on the closing of the Company Offering. Batchelder purchased 200,000 shares in the Company's initial public offering at the initial public offering price.

The foregoing is a summary of the principal terms of the agreement described above and does not purport to be complete. Reference is made to the copies of such agreement, which is filed as an exhibit hereto.

#### RISK FACTORS

Prospective investors should consider carefully the following factors, as well as all of the other information set forth herein, in evaluating an investment in the Company's Common Stock.

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#### Development Stage Company; Continuing Losses

The Company's proposed service, CD Radio, is in its initial stage of development. Since its inception, the Company's activities have been concentrated on applying for necessary licenses, technology development, strategic planning, and market research. The Company has incurred aggregate net

losses of approximately \$18,535,860, from its inception on May 17, 1990 through December 31, 1996, including net losses of approximately \$2,830,595 or \$0.29 per share, during the year ended December 31, 1996. The Company anticipates that it will not achieve any revenue from operations until the second half of 1999 at the earliest, and that revenue from operations, if and when achieved, will not be sufficient to cover operating expenses until the second half of 2000 at the earliest. The ability of the Company to begin to achieve profitability will depend upon a number of factors, including timely receipt of all necessary FCC authorizations, successful and timely construction and deployment of its satellite system, the development and manufacture of satellite radios by consumer electronics manufacturers and the successful marketing of CD Radio. There can be no assurance that any of the foregoing will be accomplished, that CD Radio will be placed in operation, that the Company will attain a satisfactory market share or that the Company will achieve profitability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

#### Need for Substantial Additional Financing

The FCC has scheduled an auction among the four existing applicants to auction two FCC Licenses on April 1, 1997. The Company believes it has sufficient working capital to fund its planned operations through the receipt of the FCC License. From the date the FCC License is received, approximately \$500 million or more will be required to complete the construction and launch of the Company's satellite system and to fund its first full year of operations, assuming the FCC License is received in the first half of 1997. See "Forward-Looking Statements." The amount does not include the amount to be paid by the Company for the FCC License in the auction. Additional funds, however, would be required in the event of delay, cost overruns, launch failure or other adverse developments. The Company anticipates funding its projected cash requirements through the completion of additional public or private equity and debt financings. The Company does not have financing commitments in place sufficient to fund the implementation of CD Radio service, and there can be no assurance that the Company will be able to obtain additional financing on favorable terms, if at all, or that it will be able to do so on a timely basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources." Failure to secure necessary financing on a timely basis could result in delays and increases in the cost of satellite construction or launch or other activities necessary to put CD Radio in operation, could cause the Company to default on its commitments to its satellite construction or launch contractors or others, could render the Company unable to put CD Radio in operation and could force the Company to discontinue operations or seek a purchaser. See "-- Risk of Delay; Effect of Delay on Financing Requirements." The issuance by the Company of additional equity securities could cause substantial dilution of the existing stockholders' interest in the Company.

#### Risk of Delay; Effect of Delay on Financing Requirements

The Company is currently targeting the second half of 1999 for the commencement of CD Radio. The Company's ability to meet that objective will depend on several factors, including receipt of the FCC License by the first half of 1997. There can be no assurance as to whether or at what date the FCC License will be received. A significant delay in the timely development, construction, launch and commencement of operation of CD Radio could have a material adverse effect on the Company. Delay could result from a variety of causes, including delays associated with FCC authorizations, inability to obtain necessary financing in a timely manner, delays in design, development, construction or testing of satellites, the national broadcast studio or other aspects of the CD Radio system, changes of technical specifications, delay in commercial availability of satellite radios, failure of the Company's vendors to perform as anticipated or a delayed or unsuccessful satellite launch. During any period of delay, the Company would continue to have significant cash requirements, including capital expenditures, administrative and overhead costs, contractual obligations and debt service that could materially increase the aggregate amount of funding required to complete the

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preparations necessary to permit the Company to commence operating CD Radio. Financing may not be available on favorable terms or at all during periods of delay. Delay also could cause the Company to be placed at a competitive disadvantage in relation to competitors who succeed in beginning operations earlier than the Company, or prevent the Company from putting CD Radio into service.

#### Government Regulation; No Assurance of FCC License

The receipt of an FCC License to construct, launch and operate its satellites is a prerequisite to the Company's ability to offer CD Radio. The Company must bid in an auction for the FCC License and there is no assurance that the Company will be successful in the auction or that the cost of the FCC License will not be material.

Changes in ownership of the Company's stock since the cutoff date for

satellite radio license applications, including the sale of the shares of Common Stock in the Company's initial public offering, required the Company to obtain an exemption from the FCC to permit the Company's license application to be processed concurrently with those of the other three applicants. The Company applied for such an exemption on February 2, 1994, and the FCC released a ruling granting the request on June 8, 1994, conditioned on the current stockholders and officers of the Company remaining in actual control of Satellite CD Radio, Inc. Additional equity financings and sales of common stock by persons who were shareholders on the cutoff date could also result in further changes in ownership of the Company's stock and could require the Company to obtain an exemption from the FCC to permit the Company's license application to be processed concurrently with those of the other three applicants. If such an exemption were required and not granted, the Company's application would not be considered concurrently with those of the other three remaining applicants and could be dismissed.

In addition to its general authority over satellite operations, the FCC regulates two types of satellite communications activities: common carriage and broadcasting. Common carriers offer their customers the ability to transmit messages of the customer's own choosing and are subject to economic regulation and alien ownership rules. Broadcasters are not subject to economic regulation, but are subject to certain content, reporting and alien ownership rules. Pursuant to the Licensing Rules, the licensees will be permitted to choose whether they wish to be classified as broadcasters, common carriers or private carriers. As a private carrier, the current provisions of the Communications Act restricting ownership in the Company by non-U.S. private citizens or organizations would not apply to the Company, and the Company would not be subject to economic regulation.

Changes in law, FCC regulations or international agreements relating to communications policy generally or to matters relating specifically to the services proposed by the Company could affect the Company's ability to obtain its FCC License or the manner in which its proposed service would be regulated. See "Business -- Government Regulation."

#### Proposed 5% Delayed Convertible Preferred Stock

The Company's Board of Directors has authorized the sale of 5% Delayed Convertible Preferred Stock ("5% Preferred Stock") and the Company has received commitments to purchase a substantial amount of 5% Preferred Stock, subject to certain conditions, including conditions involving the results of the auction for the FCC license. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." The terms of the 5% Preferred Stock provide that it is convertible to Common Stock at discounts from future market prices of the Common Stock, which could result in substantial dilution to holders of Common Stock. The terms of issuance of the 5% Preferred Stock also require payments in the amount of 3% of the aggregate liquidation preference per month if the Company fails within certain prescribed periods, to increase the number of authorized shares of Common Stock; to reserve a number of shares of Common Stock for issuance upon conversion of the 5% Preferred Stock equal to 1.5 times the number of shares into which the 5% Preferred Stock is convertible from time to time; to obtain any governmental approvals necessary for the conversion of 5% Preferred Stock; or to maintain an effective registration statement under the Securities Act of 1933 with respect to the resale of Common Stock issuable upon conversion of the 5% Preferred Stock. The

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terms of the 5% Preferred Stock also require the Company to repurchase some or all of the 5% Preferred Stock upon the occurrence of certain specified events. If payment or repurchase obligations were to arise under the terms of the 5% Preferred Stock, the Company's financial condition could be materially adversely affected.

#### Reliance on Unproven Technology

The CD Radio system is designed to use two satellites in geosynchronous orbit that transmit identical signals to a new generation of satellite radios in cars and trucks. The Company has conducted satellite simulation testing and demonstrations of CD Radio with a prototype satellite receiver installed in an automobile. The satellite system and other aspects of the CD Radio service, however, will use certain technology that has yet to be tested using orbiting satellites or a satellite radio suitable for commercial production. While management believes that the technology developed by the Company will allow the service to operate as planned, there can be no assurance that the CD Radio system will function as currently contemplated. See "Business -- Satellite Radios" "Business -- The Satellites" and "Business -- Technology Trademarks and Patents."

#### Dependence upon Satellites and Contractors; Risk of Launch Failure

The Company's business will depend upon the successful construction and launch of its satellites which will be used to transmit CD Radio. The Company will rely upon its satellite vendor, Space Systems/Loral, for the timely delivery of its satellites. Failure of Space Systems/Loral to deliver

functioning satellites in a timely manner could materially adversely affect the Company's business.

The Company is also dependent on its satellite launch vendor, Arianespace, for the construction of launch vehicles and the successful launch of its satellites. Satellite launches are subject to significant risks, including satellite destruction or damage during launch or failure to achieve proper orbital placement. According to an insurance industry source, approximately 15% of insured commercial satellite launches by all launch contractors since 1965 have resulted in total loss. Launch failure rates vary from period to period and from contractor to contractor. While past experience is not necessarily indicative of future performance, Arianespace has advised the Company that as of March 18, 1997 it has successfully completed 81 of 86 launches (approximately 94%) since beginning commercial operations in 1984. See "Business -- The Satellites." Satellites also could be defective or could be damaged or fail in orbit. As part of its risk management program, the Company plans to construct a third (back-up) satellite and to obtain insurance covering failed launch vehicle replacement. The launch of a replacement satellite would delay the commencement or continuation of the Company's operations for not less than six months, which could have an adverse effect on the demand for the Company's services, as well as the Company's revenues and results of operations. The launch or in-orbit failure of two of the Company's satellites could delay the commencement or continuation of the Company's operations for three years or more, which would have a material adverse effect on the Company.

#### Uncertain Market Acceptance

There are currently no satellite radio services such as CD Radio in commercial operation in the United States. As a result, the extent of the potential demand for such services and the degree to which the Company's proposed service will meet that demand cannot be estimated with certainty, and there can be no assurance that there will be sufficient demand for CD Radio service to enable the Company to achieve profitable operations. The success of CD Radio in gaining market acceptance will be affected by a number of factors beyond the Company's control, including consumers' willingness to pay subscription fees to obtain satellite radio broadcasts, the cost, availability and consumer acceptance of satellite radios, marketing and pricing strategies of competitors, development of alternative technologies and general economic conditions. See "Business -- The Radio Market" and "Business -- Competition."

#### Unavailability of Satellite Radios

The Company's business strategy requires that subscribers to CD Radio purchase satellite radios to receive the service. See "Business -- Satellite Radios." Satellite radios are not currently commercially

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available and the Company is unaware of any manufacturer currently developing such radios for commercial sale. The ultimate success of the Company's service will therefore depend in significant part on the willingness of at least one consumer electronics manufacturer to develop and manufacture these radios. Although the Company intends to foster the development of commercially available satellite radios, there can be no assurance that a manufacturer will develop such radios in a timely manner or at all, or that if commercially developed such radios will be affordable in price. The failure of one or more consumer electronics manufacturers to develop satellite radios for commercial sale in a timely manner would have a material adverse effect on the Company's business. See "Business -- Satellite Radios" and "Business -- Technology Patents and Trademarks".

#### Music Royalty Payments

In connection with its proposed music programming, the Company will be required to negotiate and enter into royalty arrangements with copyright owners of sound recordings and with performing rights societies, such as the American Society of Composers, Authors and Publishers ("ASCAP"), Broadcast Music, Inc. ("BMI"), SESAC, Inc. ("SESAC"), and with recording owners under the Digital Recordings Act of 1995. The amount of these royalties is yet to be negotiated and there can be no assurance that any royalty arrangements negotiated by the Company will be on terms favorable to the Company. See "Business -- The CD Radio Service."

#### Development of Business and Management of Growth

The Company has not yet commenced CD Radio service. To operate successfully, the Company must develop and implement systems for operational and financial management, programming, marketing, subscriber registration and management, billing and collection of subscriber fees and other functions, and must hire and train personnel to perform these functions. The Company expects to experience significant and rapid growth in the scope and complexity of its business as it proceeds with the development of its satellite radio system and the commencement of CD Radio service. Growth is likely to place a substantial strain on the Company's management, operational, financial and accounting resources. Failure to develop and implement effective systems for the

performance of all of the functions necessary to the effective provision of its service and management of its subscriber base and business, and failure to manage growth effectively, would have a material adverse effect on the Company's business.

#### Competition

The Company will be seeking market acceptance of its proposed service in a new, untested market and will compete with established conventional radio stations, which do not rely on subscription fees for their operations. Many radio stations also offer information programming of a local nature such as local news or traffic which the Company will be unable to offer. The Company also expects to compete directly with one other satellite radio operator. See "Forward-Looking Statements." A total of four proposed satellite radio operators, including the Company, have applied to be licensed by the FCC. See "Business -- Government Regulation." At least one of these prospective satellite radio operators, American Mobile Satellite Corporation, which is principally owned by the Hughes division of General Motors has financial, management and technical resources which greatly exceed those of the Company. See "Business -- Competition."

#### Dependence on Chief Executive Officer

The Company is highly dependent during its development phase on the services of David Margolese, Chairman and Chief Executive Officer, who is responsible for the Company's operations and strategic planning. The loss of the services of Mr. Margolese during the development stage of the Company could have a material adverse effect upon the business and prospects of the Company. See "Business -- Government Regulation" and "Directors and Executive Officers of the Company."

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#### Proposed Business Dependent Upon Regulatory Approval

The Company has concentrated its efforts on the development and preparation of its proposed service, CD Radio. The timely receipt of an FCC License to construct, launch and operate its satellites is a prerequisite to the Company's ability to offer CD Radio. If the Company is not a winning bidder in the auction, the Company would be forced to identify an alternative business plan and use for any remaining capital resources. Such an alternative plan could involve a change in focus to a related or unrelated business activity, or dissolution of the Company. No consideration has been given to any alternative activity or use of funds. There can be no assurance that the Company would be able to identify or effectively pursue any such alternative in a manner that would benefit the Company or its stockholders.

#### Uncertain Patent Protection

The Company has been granted certain U.S. patents covering various types of satellite radio technology. There can be no assurance, however, that the Company's U.S. patents will not be challenged, invalidated or circumvented by others. Litigation, which could result in substantial cost to the Company, may be necessary to enforce the Company's patents or to determine the scope and validity of other parties' proprietary rights, and there can be no assurance of success in any such litigation.

Although the Company believes that patent protection may provide benefits to the Company, the Company does not believe that its business is dependent on obtaining patent protection or successfully defending any such patents against infringement by others.

#### Limited Prior Public Market; Potential Volatility of Stock Price

The Company's Common Stock has been traded on the NASDAQ Small Cap Market since September 13, 1994. There can be no assurance that an active public market will continue for the Common Stock, or that the market price for the Common Stock will not decline below its current price. Such price may be influenced by many factors, including, but not limited to, investor perception of the Company and its industry and general economic and market conditions. The trading price of the Common Stock could be subject to wide fluctuations in response to announcements of business and technical developments by the Company or its competitors, quarterly variations in operating results, and other events or factors. In addition, stock markets have experienced extreme price volatility in recent years. This volatility has had a substantial effect on the market prices of development stage companies, at times for reasons unrelated to their operating performance. Such broad market fluctuations may adversely affect the price of the Common Stock.

#### Possible Delisting of Common Stock from NASDAQ; Possible Adverse Effect on Trading Market

The Common Stock is quoted on the NASDAQ Small Cap Market. There are a number of continuing requirements that must be met in order for the Common Stock to remain eligible for quotation on the NASDAQ Small Cap Market. In order to

continue to be quoted on NASDAQ, a company must maintain \$2 million in total assets, a \$200,000 market value of the public float and \$1 million in total capital and surplus. In addition, continued quotation requires two marketmakers and a minimum bid price of \$1.00 per share; provided, however, that if a company falls below such a minimum bid, it will remain eligible for continued quotation on NASDAQ if the market value of the public float is at least \$3 million and the company has \$2 million in capital and surplus. The failure to meet these maintenance criteria in the future could result in the delisting of the Company's Common Stock from NASDAQ. In such event, trading, if any, in the Common Stock may then continue to be conducted in the non-NASDAQ over-the-counter market. As a result, an investor may find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, the Company's Common Stock. In November 1996, NASDAQ approved changes to its quantitative and qualitative standards for issuers listing on NASDAQ, subject to public comment and approval by the Commission. Among the proposed changes are the elimination of the alternative test for issuers failing to meet the minimum bid price of \$1.00, an increase in the quantitative standards for both the NASDAQ National Market and the NASDAQ SmallCap Market, and the corporate governance requirements applicable to the NASDAQ National Market would be applicable to the NASDAQ SmallCap Market.

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In addition, if the Common Stock were delisted from trading on NASDAQ and the trading price of the Common Stock were less than \$5.00 per share, trading in the Common Stock would also be subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934, which require additional disclosure by broker dealers in connection with any trades involving a stock defined as a penny stock (generally, any non-NASDAQ equity security that has a market price of less than \$5.00 per share, subject to certain exceptions). Such rules require the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith, and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally institutions). For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. The additional burdens imposed upon broker-dealers may discourage broker-dealers from effecting transactions in penny stocks, which could reduce the liquidity of the shares of Common Stock and thereby have a material adverse effect on the trading market for the securities.

#### Possible Adverse Effect of State Blue Sky Restrictions on Secondary Trading of Common Shares

The Company believes that its Common Stock is eligible for sale on a secondary market basis in most states based on various exemptions to state qualification requirements. Limitations on, or the absence of those exemptions, will under certain circumstances restrict the ability of a holder to transfer the Common Stock to non-institutional buyers in some states. This could adversely affect the liquidity of the Common Stock.

#### Anti-takeover Provisions

The Company's Board of Directors has the authority to issue up to 10,000,000 shares of Preferred Stock in one or more series and to determine the price, rights, preferences and privileges of those shares without any further vote or action by the stockholders. Any issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock. The Company has received commitments to purchase convertible preferred stock, convertible into shares of common stock. and such issuance could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company. In addition, the Company may become subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which could have the effect of delaying or preventing a change of control of the Company or adversely affect the market price of the Company's Common Stock. In addition, the severance provisions of employment agreements with certain members of the Company's management provide for payments that could discourage an attempted change in control of the Company.

#### ITEM 2. PROPERTIES

The Company's executive offices are located at Sixth Floor, 1001 22nd Street, N.W., Washington, D.C. 20037, and are leased pursuant to a lease agreement that will expire October 31, 1998.

#### ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material litigation.

In May 1994, the Company received a letter claiming that the Company's logo is confusingly similar to the registered trademark of a company engaged in the sale of pre-recorded music, and that the Company's continued use of its logo may constitute infringement of such mark. No claim of damages has been asserted and

the Company knows of no basis for the assertion of any damages with respect to the use of its logo. At the present time, the Company does not have sufficient information to assess the likelihood of success in any action that may arise in connection with the claim. If the claim is adversely determined, the Company does not believe that the loss of its logo would have a material adverse effect on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCK MATTERS

The Common Stock began trading on the NASDAQ SmallCap Market on September 13, 1994 under the symbol "CDRD" and has been trading there since that time. The following table sets forth the high and low closing bid price for the Common Stock, as reported by NASDAQ, for the periods indicated below. The prices set forth below reflect interdealer quotations, without retail markups, markdowns, fees or commissions and do not necessarily reflect actual transactions.

<TABLE>  
<CAPTION>

	HIGH ----- <C>	LOW ----- <C>
Year Ended December 31, 1996		
First Quarter.....	9 1/8	2 15/16
Second Quarter.....	13 3/4	7 1/8
Third Quarter.....	9 5/8	6 3/4
Fourth Quarter.....	8 1/2	3 7/16
Year Ended December 31, 1995		
First Quarter.....	4 5/8	1 7/8
Second Quarter.....	3 15/16	2 5/8
Third Quarter.....	4 5/8	2 15/16
Fourth Quarter.....	4 3/8	2 15/16
Year Ended December 31, 1994		
Third Quarter (commencing September 13, 1994).....	4 1/2	3 3/4
Fourth Quarter.....	3 7/8	1 5/8

</TABLE>

On March 12, 1997, the closing bid price of the Company's Common Stock on NASDAQ was \$6.875 per share. At March 12, 1997, there were approximately 102 record holders of the Company's Common Stock. The Company has never paid cash dividends on its capital stock. The Company currently intends to retain earnings, if any, for use in its business and does not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data for the Company set forth below with respect to the statements of operations for the years ended December 31, 1994, 1995 and 1996 and with respect to the balance sheets at December 31, 1995 and 1996 are derived from the consolidated financial statements of the Company, audited by Coopers & Lybrand L.L.P., independent accountants, included in Item 8 of this filing. The selected consolidated financial data for the Company with respect to the balance sheets at December 31, 1992, 1993, and 1994 and with respect to the statement of operations data for the years ended December 31, 1992 and 1993, are derived from audited consolidated financial statements, which are not included herein. The selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in Item 8 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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STATEMENT OF OPERATIONS DATA  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1992 ----- <C>	1993 ----- <C>	1994 ----- <C>	1995 ----- <C>	1996 ----- <C>
Operating revenues.....	\$ --	\$ --	\$ --	\$ --	\$ --
Net loss.....	\$(1,551)	\$(6,568)	\$(4,065)	\$(2,107)	\$(2,831)
Net loss per share.....	\$ (.23)	\$ (.79)	\$ (.48)	\$ (.23)	\$ (.29)
Weighted average common shares and common share					

equivalents outstanding.....	6,715	8,284	8,398	9,224	9,642
------------------------------	-------	-------	-------	-------	-------

BALANCE SHEET DATA  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	DECEMBER 31				
	1992	1993	1994	1995	1996
<S>	<C>	<C>	<C>	<C>	<C>
Cash and cash equivalents.....	\$ 1,883	\$ 777	\$ 3,400	\$ 1,800	\$ 4,584
Working capital (deficit).....	\$ 1,399	\$ (250)	\$ 2,908	\$ 1,741	\$ 4,442
Total assets.....	\$ 2,292	\$ 1,663	\$ 3,971	\$ 2,334	\$ 5,065
Deficit accumulated during the					
development stage.....	\$ (2,965)	\$ (9,533)	\$ (13,598)	\$ (15,705)	\$ (18,536)
Stockholders' equity (deficit) (1).....	\$ 1,791	\$ 505	\$ 3,431	\$ 1,991	\$ 4,898

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company was organized in May 1990 and is in its development stage. The Company's principal activities to date have included technology development, pursuing regulatory approval for CD Radio, initiation of discussions with radio manufacturers and automakers, market research, design, development, contract negotiations with satellite and launch vehicle contractors, technical efforts with respect to standards and specifications, development of a mobile demonstration program and securing adequate working capital. The Company has been unprofitable to date and expects to continue to incur substantial losses through at least the first full year of CD Radio service. Since its inception, the Company has not derived any revenues from operations and does not expect to generate any revenues from operations prior to the commencement of CD Radio, which is not expected to occur before the second half of 1999 at the earliest. In order to commence CD Radio service, the Company will require the FCC License and substantial additional funds to finance construction of its satellite system, to plan and implement its service, to provide working capital and to sustain its operations until it generates positive cash flows from operations.

The FCC has scheduled an auction among the four existing applicants to auction two FCC Licenses on April 1, 1997. The Company believes it has sufficient working capital to fund its planned operations through the receipt of the FCC License. Upon receipt of the FCC License in the auction, the Company will require substantial additional financing in connection with the purchase price of the FCC License and to complete the construction and launch of its satellite system and to fund the first full year of CD Radio service.

RESULTS OF OPERATIONS

1996 Compared to 1995

The Company recorded net losses of \$2,831,000 (\$.29 per share) and \$2,107,000 (\$.23 per share) for the years ended December 31, 1996 and 1995, respectively. The Company's total operating expenses were \$2,930,000 in 1996 compared to \$2,230,000 in 1995.

Legal, consulting and regulatory fees increased in 1996 to \$1,582,000 from \$1,046,000 in 1995, as the result of increased efforts to obtain the FCC License.

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Research and development costs were \$117,000 in 1996, compared with \$122,000 in 1995. Non-recurring costs associated with the design and development of the CD Radio demonstration system were substantially completed in 1993. Costs incurred in subsequent years relate to the operations of the demonstration system, including leasing satellite time, taking transmission measurements, and testing multipath fading.

Other general and administrative expenses increased in 1996 to \$1,231,000 from \$1,062,000 in 1995. The increase is due to the Company requiring general administrative support for the effort to obtain the FCC License.

Interest income decreased to \$113,000 in 1996 from \$143,000 in 1995 as a result of the Company having a higher average cash balance in 1995. Proceeds relating to the exercise of stock warrants were not received until late 1996 and therefore, did not generate a significant amount of interest income. Interest expense decreased from \$20,000 in 1995 to \$13,000 in 1996 as a result of the

Company repaying a promissory note due to an officer of the Company in 1996.

1995 Compared to 1994

The Company recorded net loss of \$2,107,000 (\$.23 per share) and \$4,065,000 (\$.48 per share) for the years ended December 31, 1995 and 1994, respectively. The Company's total operating expenses were \$2,230,000 in 1995 compared to \$4,076,000 in 1994.

Legal, consulting and regulatory fees decreased from \$1,245,000 in 1994 to \$1,046,000 in 1995 as the Company continued to reduce costs while awaiting action by the FCC on the Company's application for an FCC License.

Other general and administrative expenses also decreased from \$2,455,000 in 1994 to \$1,062,000 in 1995 reflecting a reduction of costs such as payroll, rent and compensation expense in connection with issuance of stock options.

The Company completed the majority of the research and development necessary for product development prior to FCC licensing by 1994 which was reflected in the decrease of research and development costs from \$375,000 in 1994 to \$122,000 in 1995.

The increase in interest income from \$51,000 in 1994 to \$143,000 in 1995 was the result of a higher average cash balance in 1995. The cash and cash equivalents on hand were originally obtained from the Company's initial public offering in September 1994.

#### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1996, the Company had working capital of approximately \$4,442,000, compared to \$1,741,000 at December 31, 1995. The increase in working capital was primarily the result of proceeds approximating \$4.6 million received from the exercise of common stock warrants in 1996. Should the Company receive its FCC License, the Company will require substantial additional financing to complete the construction and launch of its satellite system and to fund the first full year of CD Radio service.

The Company estimates that upon receipt of the FCC License it will require cash in the aggregate amount of at least \$500 million, plus the cost of the FCC License, to fund the construction and launch of the Company's satellites and the commencement of CD Radio and to provide cash reserves for the first year of service.

The Company believes that its working capital is sufficient to fund planned operations through the auction for the FCC License. There can be no assurance, however, that the Company's actual cash requirements will not exceed its anticipated pre-auction cash requirements, that additional cash requirements will not arise or that additional financing will not be required prior to the receipt of the FCC License should the auction be delayed. Upon receipt of the FCC License, the Company intends to seek additional financing through further debt and equity financings. However, there can be no assurance that the Company will be able to raise additional financing on favorable terms, if at all, or that it will be able to do so on a timely basis. If such financing were not available on a timely basis, the Company would be required to delay satellite and/or launch vehicle construction in order to conserve cash to fund continued operations, which would cause delays in commencement of its operations and increased costs.

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The Company's estimated cash requirements do not include any amounts that the Company may be required to pay to receive an FCC License in the auction. There can be no assurance that the Company will be a successful bidder in the FCC auction, and the Company is unable to predict the amount that the Company may be required to pay to receive an FCC License by being a successful bidder in an auction. The winning bidders in the FCC Auction will be required to deposit 20 percent of the amount of the winning bid within ten business days after the close of the auction, and to pay the balance of the winning bid after revised license applications are finalized and assuming petitions to deny the License are dismissed. See "Business -- Government Regulation." The Company has submitted a deposit of \$3 million to the FCC, which will be applied against the 20 percent deposit requirement if it is a winning bidder, and which will be returned if it is not a winning bidder.

The Company's estimates of its cash requirements are forward looking statements that involve a number of risks and uncertainties. Such estimates assume that the FCC License is received by the first half of 1997, that operation of CD Radio commences in the second half of 1999 and do not include the price that the Company will have to pay for the FCC License in the auction. The Company's actual future cash requirements will depend upon numerous factors, including the costs associated with the construction and deployment of the satellite system and the rate of growth of its business subsequent to commencing service. Additional funds would be required in the event of delay, cost overruns, launch failure, launch services or satellite system change orders, or any shortfalls in estimated levels of operating cash flow, or to meet

unanticipated expenses, or to pay the cost of the FCC License in the auction.

The Company anticipates funding its projected cash requirements through the completion of additional debt and equity financings. There can be no assurance that the Company will be able to obtain financing on favorable terms, if at all, or that it will be able to do so on a timely basis.

The Company's Board of Directors has authorized the sale pursuant to a private placement of 5% Delayed Convertible Preferred Stock, convertible to common stock at conversion prices based on discounts to future market prices. The Company announced commitments to purchase \$62.5 million in 5% Preferred Stock in October 1996, and has received additional commitments since that time. The purpose of the sale is to finance the payment of the purchase price for the FCC License and for working capital prior to the completion of subsequent financings if the Company is the winning bidder for the FCC License. There can be no assurance that the amount of the commitment will be sufficient to permit the Company to submit the winning bid for the FCC License. Closing the sale of Preferred Stock is subject to a number of conditions, including conditions relating to the Company's application for the FCC License, and the agreement contains limitations on the Company's use of proceeds and other corporate actions. There can be no assurance that the agreement for this transaction will not be amended or terminated, or that any of the Preferred Stock will be sold pursuant thereto. Failure to close the sale of the Preferred Stock could result in a default by the Company of payment obligations relating to the FCC License.

The Company's Chairman and Chief Executive Officer and a principal stockholder have from time to time advanced funds to the Company for use as working capital and to enable the Company to satisfy cash requirements. As of December 31, 1995, approximately \$273,000, was owed to the Company's Chairman and Chief Executive Officer for a loan made and accrued interest thereon. Such loan was repaid in 1996.

#### 5% Delayed Convertible Preferred Stock

On March 19, 1997, the Board of Directors authorized the issuance of up to 8,000,000 shares of the 5% Delayed Convertible Preferred Stock (the "5% Preferred Stock"), and the Company has received substantial commitments from investors to purchase the 5% Preferred Stock subject to the satisfaction of certain conditions, but as of March 31, 1997, none has been issued or sold. Set forth below is a brief description of the 5% Preferred Stock.

Dividends. Each share of the 5% Preferred Stock is entitled to receive dividends at the rate of \$1.25 per annum, payable semi-annually on April 15 and October 15 of each year, in preference to any payment made on any other shares of capital stock of the Company. Any dividend payable on the 5% Preferred Stock may be paid, at the option of the Company, either (i) in cash or (ii) by adding the amount of such dividend to the Liquidation Preference (as defined below). Each share of the 5% Preferred Stock is also entitled to a

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liquidation preference of \$25 per share, plus all accrued but unpaid dividends (the "Liquidation Preference"), in preference to any other class or series of capital stock of the Company. Other than the consent rights described below with respect to certain corporate actions, and except as otherwise provided by applicable law, holders of the 5% Preferred Stock have no voting rights.

Conversion. The 5% Preferred Stock is convertible into shares of Common Stock at any time, provided that the Company is not obligated to honor any request for conversion of the 5% Preferred Stock at any time certain governmental approvals of the issuance of the Common Stock upon such conversion have not been obtained. If such approvals (other than with respect to a holder or group of holders holding more than 50% of the voting securities of the Company) are not obtained by 360 days after the First Closing date, the Company shall, at the request of any holder, repurchase the shares of the 5% Preferred Stock held by such holder at a purchase price per share equal to the sum of the Liquidation Preference plus any other cash payments due to such holder ("Cash Payments"), divided by 72.125% (the "Maximum Price"). The number of shares of Common Stock issuable upon conversion of the shares of the 5% Preferred Stock will equal the Liquidation Preference of the shares being converted plus any Cash Payments divided by the then-effective conversion price applicable to the Common Stock (the "Conversion Price"). The Conversion Price, as of any date up to and including November 15, 1997, is determined in accordance with a formula based on market prices of the Common Stock or actual prices at which the converting holder sold the Common Stock, in either case multiplied by an amount equal to 1 minus the Applicable Percentage. At any date after November 15, 1997, the Conversion Price is determined in accordance with a formula based on market prices of the Common Stock between October 15, 1997 and November 15, 1997, market prices of the Common Stock during the three consecutive trading days immediately preceding the date of conversion or actual prices at which the converting holder sold the Common Stock, in any case multiplied by 72.125%. The Applicable Percentage is as follows:

<TABLE>  
<CAPTION>

CONVERSION AFTER THE FOLLOWING DATE	APPLICABLE PERCENTAGE
-----	-----
<S>	<C>
4/15/97	14.375%
5/15/97	18.125%
6/15/97	19.875%
7/15/97	21.625%
8/15/97	23.250%
9/15/97	24.875%
10/15/97	25.000%
11/15/97	27.875%

</TABLE>

The 5% Preferred Stock is at all times subject to adjustment for customary anti-dilution events such as stock splits, stock dividends, reorganizations and certain mergers affecting the Common Stock. Three years or more after the date of original issuance of the 5% Preferred Stock, the Company may require the holders of the 5% Preferred Stock to convert such shares into Common Stock at the then applicable Conversion Price and all Cash Payments due on a date specified in the notice of forced conversion. However, the conversion shall not occur if the Company has commenced bankruptcy proceedings, ceased operations or shall be in default for money borrowed in excess of \$50 million.

**Required Redemption.** The Company must also reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the 5% Preferred Stock, at least such number of its Common Stock that is the greater of (i) 10 million shares and (ii) 1.5 times the number as shall from time to time be sufficient to effect the conversion of all outstanding shares of the 5% Preferred Stock. The Company has agreed to take such corporate action necessary to increase its number of authorized shares of Common Stock to at least 100 million shares on or before the 90th calendar day after the First Closing. If the Company does not have sufficient shares of Common Stock reserved to effect such conversion and fails to take such corporate action necessary to authorize or reserve sufficient shares of Common Stock, then at any time at the request of any holder of shares of the 5% Preferred Stock, the Company shall purchase from such holder the number of shares of the 5% Preferred Stock equal to such holder's pro-rata share of the number of shares of the 5% Preferred Stock that would not be able to be

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converted due to an insufficient number of shares of Common Stock reserved for such purpose at the Maximum Price. In addition, if prior to the earlier of April 21, 1998 or the closing of a Qualifying Offering (as defined below), the FCC awards more than two licenses permitting the licensee to provide satellite digital audio radio services and more than two licensees commence or announce an intention to commence satellite digital audio radio services, then upon the request of the holders of more than one-third of the outstanding shares of the 5% Preferred Stock, the Company shall purchase one-half of the shares of the 5% Preferred Stock held by each requesting shareholder at a purchase price per share equal to the sum of the Liquidation Preference plus any Cash Payments divided by 1 minus the Applicable Percentage. If a reorganization occurs, each holder of the 5% Preferred Stock may require the Company to redeem the 5% Preferred Stock at the Maximum Price. A Reorganization is defined as any reorganization or any reclassification of the Common Stock or other capital stock of the Company or any consolidation or merger of the Company with or into any other corporation or corporations or a sale of all or substantially all of the assets of the Company. If the holder chooses not to require the Company to redeem such holder's shares, the shares will be convertible into the number of shares or other property to which a holder of the number of shares of Common Stock deliverable upon conversion of such share of 5% Preferred Stock not so redeemed would have been entitled upon the reorganization.

**Redemption.** The 5% Preferred Stock may be redeemed in whole but not in part at the Maximum Price by the Company at any time beginning on the date that is 10 months after the date of original issuance of the 5% Preferred Stock, plus one day for each day during which (x) a registration statement has not been declared effective with respect to the Common Stock issuable upon conversion of the 5% Preferred Stock by the 90th calendar day after the original issuance of the 5% Preferred Stock or (y) any such registration statement is suspended or the related prospectus is not current, complete or otherwise usable. The Company may not exercise its right of redemption unless (i) the average closing price of the Common Stock as reported in the Wall Street Journal for the 20 consecutive trading days prior to the notice of redemption shall equal or exceed \$18 per share (subject to adjustments) and (ii) the shares of Common Stock issuable upon conversion of the 5% Preferred Stock are registered for resale by an effective registration under the Securities Act of 1933, as amended. The Company also may redeem the 5% Preferred Stock in whole but not in part at the Maximum Price if the Company sells Common Stock for cash in an amount not less than \$100 million in a registered underwritten public offering prior to October 15, 1997 ("Qualifying Offering").

**Dilution of Common Stock.** The exact number of shares issuable upon conversion of all of the 5% Preferred Stock cannot currently be estimated but,

generally, such issuances of Common Stock will vary inversely with the market price of the Common Stock. The holders of Common Stock ownership interest will be materially diluted by conversion of the 5% Preferred Stock, which dilution will depend on, among other things, the future market price of the Common Stock and conversion elections made by holders of the 5% Preferred Stock. The terms of the 5% Preferred Stock do not provide for any limit on the number of shares of Common Stock which the Company may be required to issue in respect thereof.

Cash Payments. The private placement agreement relating to the sale of the 5% Preferred Stock specifies certain circumstances in which the Company must make a cash payment to each holder of the 5% Preferred Stock (or underlying securities issued or issuable upon conversion of the 5% Preferred Stock). The Company must make a cash payment equal to 3% of the Liquidation Preference per month to each holder if the Company fails: (i) within 90 days of the date of the First Closing to increase the number of authorized shares of Common Stock to at least 100 million shares; (ii) within 90 days of the date of the First Closing to file and cause to be declared effective a registration statement under the Securities Act of 1933 with respect to the resale of Common Stock issuable upon conversion of the 5% Preferred Stock; (iii) within 90 days of the date of the First Closing to obtain any governmental approvals necessary for the conversion of the 5% Preferred Stock; (iv) to honor any request for conversion of the 5% Preferred Stock except as permitted by the terms and conditions of the 5% Preferred Stock; or (v) to maintain the listing of the Common Stock on Nasdaq, the New York Stock Exchange or the American Stock Exchange. A similar cash payment must be made if, after effecting a registration statement with respect to the resale of Common Stock issuable upon conversion of the 5% Preferred Stock, the use of the prospectus is suspended for more than 60 cumulative days in the aggregate in any twelve month period. In addition, if the Company fails at any time to reserve a sufficient number of shares of Common Stock for issuance upon conversion of the 5% Preferred Stock, it must

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make a cash payment equal to 3% of the Liquidation Preference (proportionately reduced by the amount of shares that are so authorized and reserved) per month to the holders of the 5% Preferred Stock. The private placement agreement also provides that prior to the completion of a Qualifying Offering, the Company may not undertake to conduct any debt or equity financing that is not pari passu or junior to the 5% Preferred Stock in seniority, structure and maturity.

Consent of the holders of a majority of the 5% Preferred Stock is required before the Company may take certain corporate actions or pay dividends on Common Stock and certain other corporate actions taken in connection with a partial repurchase of 5% Preferred Stock require the consent of all holders of 5% Preferred Stock.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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F-1

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders  
CD Radio Inc.

We have audited the accompanying consolidated balance sheets of CD Radio Inc. and Subsidiary (A Development Stage Enterprise) as of December 31, 1995 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996 and for the period May 17, 1990 (date of inception) to December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CD Radio Inc. and Subsidiary as of December 31, 1995 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 and for the period May 17, 1990 (date of inception) to December 31, 1996 in conformity with generally accepted accounting principles.

/s/ COOPERS & LYBRAND L.L.P.

-----  
COOPERS & LYBRAND L.L.P.

Washington, D.C.  
March 26, 1997

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)  
CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	1995	1996
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 1,799,814	\$ 4,583,562
Prepaid expense and other.....	8,781	9,368
	-----	-----
Total current assets.....	1,808,595	4,592,930
	-----	-----
Property and equipment, at cost:		
Technical equipment.....	254,200	254,200
Office equipment and other.....	89,220	89,220
Demonstration equipment.....	38,664	38,664
	-----	-----
	382,084	382,084
Less accumulated depreciation.....	(160,498)	(213,344)
	-----	-----
	221,586	168,740
Deposits.....	303,793	303,793
	-----	-----
Total assets.....	\$ 2,333,974	\$ 5,065,463
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses.....	\$ 46,521	\$ 131,118
Other.....	20,716	20,174
	-----	-----
Total current liabilities.....	67,237	151,292
Loan from officer.....	240,000	--
Deferred rent and other.....	35,967	15,795
	-----	-----
Total liabilities.....	343,204	167,087
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized; 4,000,000 shares designated as 5% Delayed Convertible Preferred Stock; none issued or outstanding...	--	--
Common stock, \$0.001 par value; 50,000,000 shares authorized; 9,305,960 and 10,300,391 shares issued and outstanding as of December 31, 1995 and 1996, respectively.....	9,306	10,300
Additional paid-in capital.....	18,006,729	23,423,936
Deficit accumulated during the development stage.....	(15,705,265)	(18,535,860)
Deferred compensation on stock options granted.....	(320,000)	--
	-----	-----
Total stockholders' equity.....	1,990,770	4,898,376
	-----	-----
Total liabilities and stockholders' equity.....	\$ 2,333,974	\$ 5,065,463
	=====	=====

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

	FOR THE YEARS ENDED DECEMBER 31,			CUMULATIVE FOR
	1994	1995	1996	THE PERIOD
				MAY 16, 1986
				(DATE OF INCEPTION)
				TO DECEMBER 31,
				1996
<S>	<C>	<C>	<C>	<C>
Revenue.....	\$ --	\$ --	\$ --	\$ --
Expenses:				
Legal, consulting and regulatory fees.....	1,245,472	1,045,562	1,582,091	7,248,964
Other general and administrative.....	2,455,393	1,062,343	1,230,748	7,532,763
Research and development.....	374,668	122,210	117,299	1,916,355
Write-off of investment in Sky-Highway Radio Corp. ....	--	--	--	2,000,000
Total expenses.....	4,075,533	2,230,115	2,930,138	18,698,082
Other income (expense)				
Interest income.....	50,921	142,549	112,811	328,672
Interest expense.....	(40,155)	(19,783)	(13,268)	(166,450)
	10,766	122,766	99,543	162,222
Net loss.....	\$ (4,064,767)	\$ (2,107,349)	\$ (2,830,595)	\$ (18,535,860)
Net loss per common share.....	\$ (0.48)	\$ (0.23)	\$ (0.29)	
Weighted average common shares outstanding.....	8,397,668	9,224,431	9,642,048	

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STATE ENTERPRISE)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>  
<CAPTION>

	COMMON STOCK					
	CLASS B		CLASS A		CLASS B	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Initial Sale of no par value common stock, \$5.00 per share, May 17, 1990.....	11,080	\$ 55,400	--	\$ --	--	\$ --
Initial issuance of common stock in satisfaction of due to related party, \$5.00 per share.....	28,920	144,600	--	--	--	--
Conversion of no par value common stock to Class A and Class B no par value common stock.....	(40,000)	(200,000)	2,000,000	169,492	360,000	
Sale of Class B common stock, \$0.4165 per share.....	--	--	--	--	442,000	
Issuance of Class B common stock in						

satisfaction of due to related party, \$0.4165 per share.....	--	--	--	--	24,000
10,000					
Net loss.....	--	--	--	--	--
-----					
Balance, December 31, 1990.....	--	--	2,000,000	169,492	826,000
224,609					
Sale of Class B common stock, \$0.50 per share.....	--	--	--	--	610,000
305,000					
Issuance of Class B common stock in satisfaction of due to related party, \$0.50 per share.....	--	--	--	--	300,000
150,000					
Net Loss.....	--	--	--	--	--
-----					
Balance, December 31, 1991.....	--	--	2,000,000	169,492	1,736,000
679,609					
Sale of Class B common stock, \$0.50 per share.....	--	--	--	--	200,000
100,000					
Issuance of Class B common stock in satisfaction of due to related party, \$0.50 per share.....	--	--	--	--	209,580
104,790					
Conversion of note payable to related party to Class B common stock, \$0.4165.....	--	--	--	--	303,440
126,380					
Conversion of Class A and Class B common stock to no par value common stock.....	4,449,020	1,180,271	(2,000,000)	(169,492)	(2,449,020)
(1,010,779)					
Sale of no par value common stock, \$1.25 per share.....	1,600,000	2,000,000	--	--	--
--					
Conversion of no par value common stock to \$.001 par value common stock.....	--	(3,174,222)	--	--	--
--					
Sale of \$.001 par value common stock, \$5.00 per share.....	315,000	315	--	--	--
--					
Net loss.....	--	--	--	--	--
-----					
Balance, December 31, 1992.....	6,364,020	\$ 6,364	--	\$ --	-- \$
--					

<CAPTION>

	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	DEFERRED COMPENSATION ON STOCK OPTIONS GRANTED	TOTAL
<S>	<C>	<C>	<C>	<C>
Initial Sale of no par value common stock, \$5.00 per share, May 17, 1990.....	\$ --	\$ --	\$ --	\$ 55,400
Initial issuance of common stock in satisfaction of due to related party, \$5.00 per share.....	--	--	--	144,600
Conversion of no par value common stock to Class A and Class B no par value common stock.....	--	--	--	--
Sale of Class B common stock, \$0.4165 per share.....	--	--	--	184,101
Issuance of Class B common stock in satisfaction of due to related party, \$0.4165 per share.....	--	--	--	10,000
Net loss.....	--	(838,911)	--	(838,911)
-----				
Balance, December 31, 1990.....	--	(838,911)	--	(444,810)
Sale of Class B common stock, \$0.50 per share.....	--	--	--	305,000
Issuance of Class B common stock in satisfaction of due to related party, \$0.50 per share.....	--	--	--	150,000
Net Loss.....	--	(574,963)	--	(574,963)
-----				
Balance, December 31, 1991.....	--	(1,413,874)	--	(564,773)
Sale of Class B common stock, \$0.50 per share.....	--	--	--	100,000

Issuance of Class B common stock in satisfaction of due to related party, \$0.50 per share.....	--	--	--	104,790
Conversion of note payable to related party to Class B common stock, \$0.4165.....	--	--	--	126,380
Conversion of Class A and Class B common stock to no par value common stock.....	--	--	--	--
Sale of no par value common stock, \$1.25 per share.....	--	--	--	2,000,000
Conversion of no par value common stock to \$.001 par value common stock.....	3,174,222	--	--	--
Sale of \$.001 par value common stock, \$5.00 per share.....	1,574,685	--	--	1,575,000
Net loss.....	--	(1,550,802)	--	(1,550,802)
Balance, December 31, 1992.....	\$ 4,748,907	\$ (2,964,676)	\$ --	\$ 1,790,595

(table continues on following page)

The accompanying notes are an integral part of the consolidated statements.

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STATE ENTERPRISE)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY -- (CONTINUED)

<TABLE>  
<CAPTION>

CLASS B	COMMON STOCK				
	SHARES	AMOUNT	CLASS A SHARES	CLASS A AMOUNT	CLASS B SHARES
AMOUNT					
<S>	<C>	<C>	<C>	<C>	<C>
Sale of \$.001 par value common stock, \$5.00 per share, net of commissions.....	1,029,000	\$ 1,029	--	\$ --	-- \$
Compensation expense in connection with issuance of stock options.....	--	--	--	--	--
Common stock issued in connection with conversion of note payable at \$5.00 per share.....	60,000	60	--	--	--
Common stock issued in satisfaction of commissions payable, \$5.00 per share.....	4,000	4	--	--	--
Net loss.....	--	--	--	--	--
Balance, December 31, 1993.....	7,457,020	7,457	--	--	--
Sales of \$.001 par value common stock, \$5.00 per share, net of commissions.....	250,000	250	--	--	--
Initial public offering of Units, consisting of two shares of \$.001 par value common stock and one warrant, \$10.00 per Unit, net expenses.....	1,491,940	1,492	--	--	--
Deferred compensation on stock options granted.....	--	--	--	--	--
Forfeiture of stock options by Company officer.....	--	--	--	--	--
Compensation expense in connection with issuance of stock options.....	--	--	--	--	--
Amortization of deferred compensation.....	--	--	--	--	--
Net loss.....	--	--	--	--	--
Balance, December 31, 1994.....	9,198,960	9,199	--	--	--
Common stock issued for services rendered,					

between \$3.028 and \$3,916 per share.....	107,000	107	--	--	--
--					
Amortization of deferred compensation.....	--	--	--	--	--
--					
Net loss.....	--	--	--	--	--
--					
-----					
Balance, December 31, 1995.....	9,305,960	9,306	--	--	--
--					
Exercise of stock warrants at \$6.00 per share.....	791,931	792	--	--	--
--					
Exercise of stock options by Company officers, between \$1.00 and \$5.00 per share.....	135,000	135	--	--	--
--					
Common stock issued for services rendered, between \$5.76 and \$12.26 per share.....	67,500	67	--	--	--
--					
Common stock options granted for services rendered, to purchase 60,000 shares at \$4.50 a share.....	--	--	--	--	--
--					
Amortization of deferred compensation.....	--	--	--	--	--
--					
Net loss.....	--	--	--	--	--
--					
-----					
Balance, December 31, 1996.....	10,300,391	\$ 10,300	--	\$ --	-- \$
--					
=====					

<CAPTION>

	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	DEFERRED COMPENSATION ON STOCK OPTIONS GRANTED	TOTAL
<S>	<C>	<C>	<C>	<C>
Sale of \$.001 par value common stock, \$5.00 per share, net of commissions.....	\$ 4,882,163	\$ --	\$ --	\$ 4,883,192
Compensation expense in connection with issuance of stock options.....	80,000	--	--	80,000
Common stock issued in connection with conversion of note payable at \$5.00 per share.....	299,940	--	--	300,000
Common stock issued in satisfaction of commissions payable, \$5.00 per share.....	19,996	--	--	20,000
Net loss.....	--	(6,568,473)	--	(6,568,473)
-----				
Balance, December 31, 1993.....	10,031,006	(9,533,149)	--	505,314
Sales of \$.001 par value common stock, \$5.00 per share, net of commissions.....	1,159,125	--	--	1,159,375
Initial public offering of Units, consisting of two shares of \$.001 par value common stock and one warrant, \$10.00 per Unit, net expenses.....	4,833,922	--	--	4,835,414
Deferred compensation on stock options granted.....	1,730,000	--	(1,730,000)	--
Forfeiture of stock options by Company officer.....	(207,000)	--	207,000	--
Compensation expense in connection with issuance of stock options.....	112,500	--	--	112,500
Amortization of deferred compensation.....	--	--	883,000	883,000
Net loss.....	--	(4,064,767)	--	(4,064,767)
-----				
Balance, December 31, 1994.....	17,659,553	(13,597,916)	(640,000)	3,430,836
Common stock issued for services rendered, between \$3.028 and \$3,916 per share.....	347,176	--	--	347,283
Amortization of deferred compensation.....	--	--	320,000	320,000
Net loss.....	--	(2,107,349)	--	(2,107,349)
-----				
Balance, December 31, 1995.....	18,006,729	(15,705,265)	(320,000)	1,990,770
Exercise of stock warrants at \$6.00 per share.....	4,588,296	--	--	4,589,088
Exercise of stock options by Company officers, between \$1.00 and \$5.00 per share.....	154,865	--	--	155,000
Common stock issued for services rendered, between \$5.76 and \$12.26 per share.....	554,226	--	--	554,293
Common stock options granted for services				

rendered, to purchase 60,000 shares at \$4.50 a share.....	119,820	--	--	119,820
Amortization of deferred compensation.....	--	--	320,000	320,000
Net loss.....	--	(2,830,595)	--	(2,830,595)
	-----	-----	-----	-----
Balance, December 31, 1996.....	\$ 23,423,936	\$ (18,535,860)	\$ --	\$ 4,898,376
	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of the consolidated statements.

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF CASH FLOWS

INCEPTION) 31,	FOR THE YEARS ENDED DECEMBER 31,			CUMULATIVE FOR THE PERIOD MAY 16, 1986 (DATE OF
	1994	1995	1996	TO DECEMBER 1996
	-----	-----	-----	-----
	<C>	<C>	<C>	<C>
Cash flows from development stage activities:				
Deficit accumulated during the development stage.....	\$ (4,064,767)	\$ (2,107,349)	\$ (2,830,595)	\$ (18,535,860)
Adjustments to reconcile deficit accumulated during the development stage to net cash used in development stage activities:				
Depreciation expense.....	48,847	57,593	52,846	224,043
Write off of investment in Sky-Highway Radio Corp. ....	--	--	--	2,000,000
Compensation expense in connection with issuance of stock options.....	995,500	320,000	320,000	1,715,500
Common stock issued for services rendered.....	--	347,283	554,293	901,576
Common stock options granted for services rendered.....	--	--	119,820	119,820
Increase (decrease) in cash and cash equivalents resulting from changes in assets and liabilities:				
Prepaid expense and other.....	56,806	(7,465)	(587)	(9,368)
Due to related party.....	--	--	--	350,531
Deposits.....	41,456	--	--	(303,793)
Accounts payable and accrued expenses.....	(13,773)	(189,755)	84,597	206,357
Accrued executive compensation.....	(378,000)	--	--	--
Other liabilities.....	(266,203)	(6,930)	(20,714)	35,969
	-----	-----	-----	-----
Net cash used in development stage activities.....	(3,580,134)	(1,586,623)	(1,720,340)	(13,295,225)
	-----	-----	-----	-----
Cash flows from investing activities:				
Capital expenditures.....	(22,228)	(13,824)	--	(392,783)
Acquisition of Sky-Highway Radio Corp.....	--	--	--	(2,000,000)
	-----	-----	-----	-----
Net cash used in investing activities.....	(22,228)	(13,824)	--	(2,392,783)
	-----	-----	-----	-----
Cash flows from financing activities:				
Proceeds from issuance of Units and common stock, net.....	5,434,789	--	--	14,557,482
Proceeds from exercise of stock options by company officers.....	--	--	155,000	155,000
Proceeds from exercise of stock warrants.....	--	--	4,589,088	4,589,088
Proceeds from issuance of promissory note.....	200,000	--	--	200,000
Proceeds from issuance of promissory notes to related parties.....	560,000	--	--	2,965,000
Repayment of promissory note.....	(200,000)	--	--	(200,000)
Repayment of promissory notes to related parties.....	(200,000)	--	(240,000)	(2,435,000)
Loan from officer.....	240,000	--	--	440,000
Deferred offering costs.....	190,776	--	--	--
	-----	-----	-----	-----
Net cash provided by financing activities....	6,225,565	--	4,504,088	20,271,570

-				
Net increase (decrease) in cash and cash equivalents.....	2,623,203	(1,600,447)	2,783,748	4,583,562
Cash and cash equivalents at the beginning of period.....	777,058	3,400,261	1,799,814	--
-				
Cash and cash equivalents at the end of period....	\$ 3,400,261	\$ 1,799,814	\$ 4,583,562	\$ 4,583,562
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest.....	\$ 2,559	\$ --	\$ 42,666	\$ 82,729
Supplemental disclosure of non-cash financing activities:				
Common stock issued in satisfaction of notes payable to related parties, including accrued interest.....	\$ 572,072	\$ --	\$ --	\$ 998,452
Common stock issued in satisfaction of due to related parties including accrued interest....	\$ --	\$ --	\$ --	\$ 409,390

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND FINANCING

Business

CD Radio Inc. (the "Company") was originally incorporated in the State of Delaware on May 17, 1990, under the name Satellite CD Radio, Inc. On December 7, 1992, the Company changed its name to CD Radio Inc. The Company shortly thereafter formed a wholly-owned subsidiary, Satellite CD Radio, Inc. (SCDR) which is capitalized with nominal assets. On April 29, 1993, the Company acquired all of the outstanding shares of stock of Sky-Highway Radio Corp., a Colorado corporation ("SHRC"), and on December 23, 1994, SHRC was liquidated and dissolved. SCDR and SHRC were formed primarily to apply for certain Federal Communications Commission ("FCC") licenses. CD Radio Inc., SCDR, and SHRC are hereinafter collectively referred to as the "Company."

The Company is a pioneer in the development of a service for broadcasting compact-disc-quality music programming via satellites to subscribers' motor vehicle radios, as well as to portable and home receivers. The Company intends to focus exclusively on providing a consumer service, and anticipates that the equipment required to receive its broadcasting will be manufactured by consumer electronics manufacturers and automakers.

In October 1992, in response to a request from the Company, the FCC voted unanimously to propose the establishment of satellite digital audio radio service ("satellite radio"). At that time, the FCC established a December 15, 1992 cutoff date for FCC License applications. The Company has filed an application to utilize a portion of the frequency spectrum that was allocated for satellite radio by the FCC in January 1995. Subsequent to its acquisition of SHRC, the Company caused SHRC to withdraw its pending application. The Company is currently one of four remaining applicants which have the right to participate in the auction for spectrum scheduled for April 1, 1997.

Auction of Spectrum

On March 3, 1997, the FCC adopted satellite radio licensing rules (the "Licensing Rules") and implemented a spectrum plan that will accommodate only two national satellite radio licenses, both of which are scheduled to be auctioned to the Company and the other three applicants on April 1, 1997. There can be no assurance that the Company will be successful in obtaining one of the two licenses or that the cost of obtaining it would not be material to the Company's operations.

Pursuant to the Licensing Rules, the auction is scheduled to be held among the four existing applicants on April 1, 1997. Prior to the commencement of the auction each applicant must deposit \$3 million with the FCC. The minimum opening bid for each FCC License is \$8 million. The bidding will continue until only two bidders remain. Within 10 business days following the announcement of winning bidders, each auction winner must deposit with the FCC twenty percent of its winning bid. The \$3 million initial deposit is applied toward the twenty percent down payment. The winning bidders will also be required to supplement their applications on file with the FCC within 30 days after the close of bidding.

After the FCC has confirmed receipt of each winning bidder's twenty percent payment and acceptance of each winning bidder's application, the FCC will accept petitions to deny the winning bidders' applications. If the FCC dismisses the petitions, the winning bidders will have 10 business days to submit the balance of their winning bids.

Pursuant to the Licensing Rules, certain progress milestones would be required. Licensees would be required to begin satellite construction within one year; and to launch and begin operating their first satellite within four years and begin operating their entire system within six years. Failure to meet those milestones could result in revocation of the FCC License.

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1. BUSINESS AND FINANCING -- (CONTINUED)

The Company is in the process of obtaining monetary commitments to allow it to be, in the opinion of management, competitive in the auction process. These commitments include subscriptions to purchase 5% Delayed Convertible Preferred Stock contingent upon the Company's success in the auction.

Financing requirements

In order to commence CD Radio service, the Company will require, among other things, an FCC License to construct, launch and operate its satellites (the "FCC License") and substantial funds, approximately \$500 million or more, to finance construction of its satellite system, to plan and implement its service, to provide working capital and to sustain its operations until it generates positive cash flows from operations. The Company will participate in the auction for spectrum scheduled for April 1, 1997. As noted above, the minimum opening bid for each license will be \$8 million. The Company has not commenced construction of its satellites and will require substantial additional financing before it is able to do so. Failure to obtain an FCC License and/or inability to attract the required long-term financing will prevent the Company from realizing its objective of providing satellite-delivered radio programming to vehicular radios. Management's plan to fund operations and capital expansion includes the additional sale of debt and equity securities through public and private sources. In absence of the FCC License, the Company believes that its working capital at December 31, 1996 is sufficient to fund planned operations through the first quarter of 1998.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements include the accounts of CD Radio Inc. and its wholly-owned subsidiaries, SCDR and SHRC (through the date of SHRC's dissolution, December 23, 1994). Intercompany transactions are eliminated in consolidation. The Company's activities to date principally have been planning and organization, the process of obtaining an FCC License, initiating research and development programs, conducting market research and securing adequate equity capital for the development of its proposed service. Accordingly, the Company's financial statements are presented as those of a development stage enterprise, as prescribed by Statement of Financial Accounting Standards No. 7, "Accounting and Reporting by Development Stage Enterprises".

Use of estimates

The preparation of financial statements in conformity with 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. The estimates involve judgments with respect to, among other things, various future factors which are difficult to predict and are beyond the control of the Company. Therefore, actual amounts could differ from these estimates.

Depreciation

Depreciation of office equipment is computed on the straight-line method over three to five years based upon estimated useful lives. Depreciation of technical equipment, primarily satellite communications equipment, is computed on the straight-line method based on an estimated useful life of ten years. Depreciation of demonstration equipment, primarily an automobile used in a prototype system, is computed on the straight-line method based on an estimated useful life of four years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Cash equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk

The Company has invested its excess cash in a money market fund with a major bank. These investments are collateralized by the underlying assets of the fund. The fund invests in government securities or short-term interest or dividend-bearing investment-grade securities. The Company has not experienced any losses on its investments.

Income taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts 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. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the sum of tax payable for the period and the change during the period in deferred tax assets and liabilities.

Net loss per share

Net loss per common share is based on the weighted average number of common shares and dilutive common share equivalents outstanding during the periods. Options and warrants granted by the Company have not been included in the calculation of net loss per share because such items were anti-dilutive.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (FAS 128) to improve the EPS information provided in financial statements. FAS 128 simplifies the existing computational guidelines of Accounting Principles Board Opinion No. 15, "Earnings Per Share," revises the disclosure requirements, and increases the comparability of earnings per share (EPS) data on an international basis. To simplify the EPS computations, the presentation of primary EPS is eliminated and replaced with basic EPS, with the principal difference being that common stock equivalents are not considered in computing basic EPS. In addition, FAS 128 requires dual presentation of basic and diluted EPS regardless of whether they are same. FAS 128 is effective for financial statements issued for periods ending after December 15, 1997. As long as the Company continues to experience net losses, there will be no impact to its net loss per share computation since its common stock equivalents are anti-dilutive and are already not considered in computing loss per share, as noted above.

3. CAPITAL STOCK

Preferred stock

The Board of Directors has the authority to issue shares of preferred stock and fix the terms thereof, without any further vote or action by the stockholders of the Company. In October 1996, in connection with the execution of the Preferred Stock Investment Agreement, the Board of Directors authorized the designation of 5% Delayed Convertible Preferred Stock (the "5% Preferred"). The rights and performance of the 5% Preferred include: (a) cumulative dividends at the rate of \$1.25 per share per annum, payable semi-annually, when and as declared by the Board of Directors; (b) liquidation preference equal to issuance price

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. CAPITAL STOCK -- (CONTINUED)

plus any accrued but unpaid dividends; (c) certain redemption and lock-up rights granted to the Company; and (d) certain conversion and registration rights granted to the holders of 5% Preferred.

Warrants

In connection with the Company's initial public offering and the partial exercise of the underwriters' over-allotment option, the Company issued warrants to purchase 745,970 shares of the Company's Common Stock. Additionally, the

Company issued to the underwriters as consideration warrants to purchase 123,560 shares of the Company's Common Stock. Each warrant originally entitled the holder to purchase one share of Common Stock at a purchase price of \$5.00 per share until March 20, 1995 and at a purchase price of \$6.00 per share during the six-month period thereafter. In September 1995, the Company extended the expiration date of the warrants to March 20, 1996, at a purchase price of \$6.00 per share. Then, in March 1996, the Company extended the expiration date of these warrants to September 20, 1996 at a purchase price of \$6.00 per share. In September 1996 the Company received proceeds of \$4,589,088 relating to the exercise of 864,848 warrants. The remaining 4,682 warrants expired unexercised. Of the warrants exercised, 764,848 shares of common stock were issued in exchange for cash and 27,083 shares of common stock were issued in a cashless exercise of 100,000 warrants held by the underwriters.

#### Stock options and bonuses

Under an amended and restated employment agreement effective June 2, 1992, the Company, on July 30, 1993, granted an officer options to purchase 20,000 shares of the Company's Common Stock at \$1.00 per share, exercisable for 7 years from date of grant. This officer also transferred to the Company, for nominal consideration, his rights in connection with certain patent applications. Additionally, on December 23, 1994, in accordance with this agreement, the Company granted this officer options to purchase 112,500 shares of its Common Stock under the terms of the 1994 Stock Option Plan at an exercise price of \$1.00 per share, as a result of the completion of a certain specified milestone. The Company has recorded salary expense and additional paid-in-capital in the amount of \$112,500, reflecting the difference between the fair market value per share of Common Stock at the measurement date and the exercise price. These options were immediately vested and exercisable. In 1996 this officer was granted options to purchase an additional 60,000 shares of Common Stock under the terms of the 1994 Stock Option Plan at an exercise price of \$8.5625. The options granted in 1996 vest based on certain milestones which were not met as of December 31, 1996. If this officer is terminated for any reason other than cause, as defined in the agreement, the Company is obligated to pay to this officer an amount equal to 50% of his annual salary and, at this officer's option, to repurchase all of his shares of Common Stock at a price of \$1.25 per share. In 1996, this officer exercised options to purchase 80,000 shares of the Company's Common Stock.

During 1996, options to purchase 400,000 shares of common stock at \$8.5625 per share were granted to the Company's Chairman and Chief Executive Officer. These options vest based on a certain milestone which was not met as of December 31, 1996.

In October 1992, the Company entered into a financial consulting services agreement with a financial advisory firm. Pursuant to this agreement, the Company has granted the investment advisory firm an option to purchase 260,000 shares of the Company's Common Stock at \$6.25 per share as follows -- 60,000 shares upon execution of the agreement and four 50,000 share increments upon the successful completion of equity and/or debt financing of certain specified amounts during the term of the agreement and for a period of two years following termination of the agreement by the Company. Each option expires three years from the date such option becomes exercisable. As of December 31, 1996 under this agreement, 60,000 options for shares had expired unexercised and none of the remaining options were exercisable. Additionally, the agreement provides,

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#### CD RADIO INC. AND SUBSIDIARY (A DEVELOPMENT STAGE ENTERPRISE)

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 3. CAPITAL STOCK -- (CONTINUED)

among other things, for the payment in cash to this firm of fees equal to (i) two percent (2%) of the gross proceeds from each equity financing after December 15, 1992 and (ii) one percent (1%) of the gross proceeds from each debt financing, during the term of the agreement and for a period of two years following termination of the agreement by the Company.

In 1995, the Company adopted the 1995 Stock Compensation Plan ("Compensation Plan") from which up to 175,000 shares of the Company's Common Stock could be issued in lieu of cash compensation to employees and or consultants. During 1995 and 1996, respectively, 95,000 and 67,500 shares of the Company's Common Stock were issued pursuant to this Compensation Plan.

#### Stock option plans

In February 1994, the Company adopted its 1994 Stock Option Plan (the "1994 Plan") and its 1994 Directors' Nonqualified Stock Option Plan (the "Directors' Plan"). Options granted under the 1994 Plan generally vest over a four-year period and generally are exercisable for a period of ten years from the date of grant. In 1996, the Board of Directors voted to increase the number of shares of Common Stock available for issuance pursuant to the 1994 Plan and the Directors'

Plan by 350,000 shares. As of December 31, 1996 there are an aggregate of 1,600,000 shares of Common Stock authorized for issuance.

A summary of option activity under the 1994 Plan, the Directors' Plan, and of all other option activity follows:

	1994 PLAN		DIRECTORS' PLAN		OTHER	
	OPTION	PRICE PER SHARE	OPTION	PRICE PER SHARE	OPTION	PRICE
Outstanding at January 1, 1994.....	--	<C>	--	<C>	410,000	\$4.33
Granted.....	707,500	\$3.81	15,000	\$ 5.00	--	
Exercised.....	--		--		--	
Cancelled.....	(90,000)	\$5.00	--		--	
Outstanding at December 31, 1994.....	617,500	\$3.63	15,000	\$ 5.00	410,000	\$4.33
Granted.....	--		110,000	\$ 3.11	--	
Exercised.....	--		--		--	
Cancelled.....	--		--		(60,000)	\$6.25
Outstanding at December 31, 1995.....	617,500	\$3.63	125,000	\$ 3.34	350,000	\$4.00
Granted.....	545,000	\$8.10	40,000	\$ 6.875	--	
Exercised.....	(80,000)	\$1.00	--		(55,000)	\$1.36
Cancelled.....	--		--		--	
Outstanding at December 31, 1996.....	1,082,500	\$6.08	165,000	\$ 4.20	295,000	\$4.56

</TABLE>

<TABLE>  
<CAPTION>

	1994 PLAN	DIRECTORS' PLAN	OTHER
As of December 31, 1996:			
Range of exercise prices.....	\$1.00-\$8.5625	\$2.125-\$6.875	\$1.00-\$6.25
Weighted average remaining contractual life for options outstanding (years).....	8.45	8.67	5.71

</TABLE>

The weighted average fair value of options granted during 1995 and 1996 was \$1.383 and \$4.366, respectively.

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. CAPITAL STOCK -- (CONTINUED)

An aggregate of 272,500 shares of Common Stock remain available for grant pursuant to either the 1994 Plan or the Directors' Plan. The Company has reserved a total of 1,815,000 shares of Common Stock issuable upon the exercise of outstanding options and options available for issuance pursuant to the Company's stock option plans. As of December 31, 1996, 857,500 options were vested and exercisable.

As a result of certain option grants in 1994 at exercise prices below fair market value, the Company recorded deferred compensation, which is reflected as a component of stockholders' equity on the balance sheets. Deferred compensation is being amortized over the vesting period of the related options. Deferred compensation related to options that were forfeited has been charged to additional paid-in capital. As of December 31, 1996 all deferred compensation relating to the 1994 issuance of stock options had been amortized.

The Company has adopted the disclosure-only provisions of Statement of

Financial Accounting Standards No. 123 (FAS 123) as they pertain to financial statement recognition of compensation expense attributable to option grants. If the Company had elected to recognize compensation cost for the option grants consistent with FAS 123, the Company's net loss and net loss per share on a pro-forma basis would have been.

<TABLE>  
<CAPTION>

	1995	1996
	-----	-----
<S>	<C>	<C>
Net loss -- as reported.....	\$ (2,107,349)	\$ (2,830,595)
Net loss -- pro-forma.....	\$ (2,259,434)	\$ (4,428,995)
Net loss per share -- as reported.....	\$ (0.23)	\$ (0.29)
Net loss per share -- pro-forma.....	\$ (0.24)	\$ (0.46)

</TABLE>

The pro-forma expense related to the stock options is recognized over the vesting period, generally four years. The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions for each year:

<TABLE>  
<CAPTION>

	1995	1996
	-----	-----
<S>	<C>	<C>
Risk-free interest rate.....	5.81%	6.00%
Expected life of options -- years.....	2.77	2.79
Expected stock price volatility.....	75%	75%
Expected dividend yield.....	N/A	N/A

</TABLE>

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

4. RELATED PARTIES

Since inception, the Company has relied upon related parties for certain consulting, legal and management services. Total expenses incurred in transactions with related parties are as follows:

<TABLE>  
<CAPTION>

	FOR THE YEARS ENDED DECEMBER 31,			FOR THE PERIOD MAY 17, 1990 (DATE OF INCEPTION) TO DECEMBER 31, 1996
	-----	-----	-----	-----
	1994	1995	1996	1996
<S>	<C>	<C>	<C>	<C>
Consulting fees.....	\$ 47,772	\$ 34,575	\$187,820	\$ 713,210
Legal fees.....	171,523	74,761	70,582	727,550
Management fees.....	--	--	--	361,800
Interest expense.....	25,361	19,783	13,268	113,474
Office space.....	--	--	--	40,500
Patent and FCC fees.....	--	--	--	56,600
Other.....	--	--	--	26,750
	-----	-----	-----	-----
	\$244,656	\$129,119	\$271,670	\$ 2,039,884
	=====	=====	=====	=====

</TABLE>

Of the \$187,820 in consulting fee expenses for the year ended December 31, 1996, \$119,820 relate to issuance of common stock options to a related party for consulting services performed for the Company.

During the period May 17, 1990 (date of inception) to December 31, 1996, the Company issued Common Stock in lieu of cash in settlement of certain liabilities and expenses as follows:

<TABLE>  
<CAPTION>

	FOR THE YEARS ENDED DECEMBER 31,			FOR THE PERIOD MAY 17, 1990 (DATE OF INCEPTION) TO DECEMBER 31, 1996
	-----	-----	-----	-----
	1994	1995	1996	1996
<S>	<C>	<C>	<C>	<C>
Consulting fees.....	\$ --	\$ 36,330	\$ 32,550	\$ 168,880

Legal fees.....	--	310,953	521,743	1,028,227
Management fees.....	--	--	--	60,000
Interest expense.....	--	--	--	14,259
Patent and FCC fees.....	--	--	--	39,600
	-----	-----	-----	-----
	\$ --	\$347,283	\$554,293	\$ 1,310,966
	=====	=====	=====	=====

</TABLE>

Liabilities settled through the issuance of Common Stock in lieu of cash are reflected in the statements of stockholders' equity.

In April 1994, an officer loaned the Company \$240,000 payable on April 1, 1995 and accruing simple interest at the rate of 8% per annum. This loan and accrued interest was repaid in 1996. If this officer is terminated for any reason other than cause, as defined in his amended employment and noncompetition agreement dated June 8, 1994, the Company is obligated to pay this officer \$300,000 plus any and all amounts then owed to him by the Company. This officer waived his compensation for the fourth quarter of 1994.

During the second quarter of 1994, a principal stockholder of the Company loaned the Company \$560,000 payable on demand and accruing simple interest at the rate of 8% per annum. The principal balance

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

4. RELATED PARTIES -- (CONTINUED)

of this note and accrued interest thereon, totaling \$572,000, was exchanged for 57,200 Units in connection with the Company's public offering.

5. INCOME TAXES

The types of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts that give rise to the deferred tax assets and deferred tax liability and are as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	1995	1996
	-----	-----
<S>	<C>	<C>
Capitalized start-up costs.....	\$ 4,312,000	\$ 5,377,000
Net operating loss carryforwards.....	1,517,500	1,511,300
Deferred compensation.....	509,800	542,300
Accrual to cash adjustments.....	38,400	60,500
	-----	-----
Valuation allowance.....	(6,377,700)	(7,491,100)
	-----	-----
Net deferred tax asset.....	\$ --	\$ --
	=====	=====

</TABLE>

Realization of the net deferred tax asset at the balance sheet date is dependent upon future earnings which are uncertain. Accordingly, a full valuation allowance was recorded against the asset.

At December 31, 1996, the Company has net operating loss carryforwards of approximately \$3,713,800 for federal and state income tax purposes available to offset future taxable income. The net operating loss carryforwards expire at various dates beginning 2005. There may be limitations on the annual utilization of these net operating losses as a result of certain changes in ownership that have occurred since the Company's inception. In addition, a significant portion of costs incurred have been capitalized for tax purposes as a result of the Company's status as a start-up enterprise. Once the Company begins its active trade or business, these capitalized costs will be amortized over 60 months. The total capitalized start-up costs of \$5,546,000 include \$169,000 which when realized would not affect financial statement income but will be recorded directly to shareholders' equity.

6. COMMITMENTS AND CONTINGENCIES

Lease commitment

In October 1992, the Company entered into a lease with an unaffiliated property management company for the office space that the Company previously subleased from a company controlled by a former director and executive officer

of the Company. The lease term extends through October 1998. The lease provided for the abatement of rental payments for the first three months of each of the first two years of the lease term. Also, in addition to the base rental payments, the Company will pay a monthly allocation of the building's operating expenses. Minimum annual rental commitments under this lease are as follows for the year ended December 31:

<TABLE>	
<S>	<C>
1997.....	\$219,000
1998.....	176,000
	-----
	\$395,000
	=====

</TABLE>

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CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

6. COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

Total rent expense for the years ended December 31, 1994, 1995 and 1996 and the period May 17, 1990 (date of inception) to December 31, 1996 was \$325,798, \$274,653, \$301,765 and \$1,205,008, respectively.

Satellite construction

The Company has entered into an agreement (the "Construction Contract") with Space Systems/Loral pursuant to which Space Systems/Loral has agreed to construct two satellites and, at the Company's option, a third satellite in accordance with stipulated specifications. The Company has extended the Construction Contract on a monthly basis through April 30, 1997 while it negotiates with Space Systems/Loral to amend the contract's technical specifications, pricing and delivery terms. The Company may negotiate with Space Systems/Loral to extend the Construction Contract further or it may permit the contract to expire. The Company believes it will be able to negotiate a favorable contract with Space Systems/Loral for the construction of the satellites, although there can be no assurance that the Company will be able to do so. An initial payment of \$100,000 was made by the Company at the time the contract was signed, which is included in Deposits on the balance sheets as of December 31, 1995 and 1996.

Launch services

The Company has reserved two launch slots with Arianespace during the period extending from November 1, 1999 through April 30, 2000. If the Company's satellites are not available for launch during this period, the Company will arrange to launch the satellites on the first launch dates available after the satellites are completed. In order to maintain its launch slots, the Company will need to enter into a definitive agreement with Arianespace by May 31, 1997, providing for the launch of its satellites. The final terms and conditions of any launch agreement are subject to negotiations between the Company and Arianespace. Satellite launches are subject to significant risks, including satellite destruction or damage during launch or failure to achieve proper orbital placement. In connection with this agreement, the Company paid a non-refundable launch date reservation fee of \$100,000. This amount, which is included in Deposits on the balance sheets as of December 31, 1995 and 1996 will be credited against the cost of the launch services.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information as to the executive officers and directors of the Company.

<TABLE>		
<CAPTION>		
NAME	AGE	POSITION
-----	---	-----
<S>	<C>	<C>
David Margolese.....	39	Chairman, Chief Executive Officer and Director
Robert D. Briskman.....	64	Vice President, Chief Technical Officer and Director
Lawrence F. Gilberti.....	46	Director and Secretary

Peter K. Pitsch.....	45	Director
Jack Z. Rubinstein.....	48	Director
Ralph V. Whitworth.....	41	Director

</TABLE>

All directors hold office until the next annual meeting of stockholders and the election and qualification of their successors. Officers are elected by the Board of Directors and serve at the discretion of the Board.

DAVID MARGOLESE. Mr. Margolese was elected Chief Executive Officer of the Company in November 1992 and Chairman in August 1993 and has served as a director since August 1991. Prior to his involvement with the Company, Mr. Margolese was a founder of Cantel Inc., Canada's national cellular telephone company, and of Canadian Telecom Inc., a radio paging company, serving as that company's President until its sale in 1987. From 1987 until August 1991, Mr. Margolese was a private investor. In 1991, Mr. Margolese founded a consortium with AT&T and Hutchison Telecommunications Ltd. to bid for Israel's national cellular telephone license and served as Chairman of this consortium until June 1993.

ROBERT D. BRISKMAN. Mr. Briskman has served as a director, Vice President and Chief Technical Officer of the Company since October 1991 and as President of Satellite CD Radio, Inc., a subsidiary of the Company, since September 1994. In addition, Mr. Briskman served as Chief Executive Officer from April to November 1992. From March 1991 to June 1992, Mr. Briskman was President of Telecommunications Engineering Consultants, which provided engineering and consulting services to the Company. From March 1986 to March 1991, Mr. Briskman was Senior Vice President, Engineering and Operations at Geostar Corp., responsible for the development, design, implementation and operation of a nationwide satellite message communication service. Prior to 1986, Mr. Briskman held senior management positions at Communications Satellite Corporation ("COMSAT"), where he was employed for over 20 years. Prior to joining COMSAT, Mr. Briskman was a communications specialist with IBM and NASA. Mr. Briskman holds a bachelors degree in engineering from Princeton and a masters degree in electrical engineering from the University of Maryland. He has published over 40 technical papers, holds a number of U.S. patents, and is a Fellow of the Institute of Electrical and Electronics Engineers and the American Institute of Aeronautics and Astronautics.

LAWRENCE F. GILBERTI. Mr. Gilberti was elected Secretary of the Company in November 1992 and has served as a director since September 1993. In addition, since December 1992, he has been the Secretary and sole director of, and from December 1992 to September 1994 the President of, Satellite CD Radio, Inc. From 1985 to August 1994, Mr. Gilberti was an attorney with the law firm of Goodman Phillips & Vineberg. Mr. Gilberti is a partner in the law firm of Fischbein Badillo Wagner Harding and has provided legal services to the Company since 1992. He holds a bachelors degree from Princeton University and a law degree from New York University.

PETER K. PITSCH. Mr. Pitsch became a director of the Company in January 1995. Since September 1989, Mr. Pitsch has been the principal of Pitsch Communications, a telecommunications law and economic consulting firm that has rendered legal services to the Company since 1991. From April 1987 to August 1989, he served as Chief of Staff at the Federal Communications Commission. From November 1981 to April 1987, he served as Chief of the Office of Plans and Policy at the Federal Communications Commission. He is an adjunct fellow at the Hudson Institute. Mr. Pitsch holds a bachelor's degree from the University of Chicago and a law degree from Georgetown University.

JACK Z. RUBINSTEIN. Mr. Rubinstein became a director of the Company in January 1995. Since May 1991, Mr. Rubinstein has been the General Partner of Dica Partners, a Hartsdale, N.Y. based hedge fund. From September 1988 to October 1990, Mr. Rubinstein was a consultant to institutional clients at Morgan Stanley & Co. From February 1978 to September 1988, he was an Associate Director at Bear Stearns, Inc., responsible for corporate insider portfolio management. From December 1971 to November 1977, he was a securities analyst with Shearson Haydon Stone, Inc. covering the business services industry. Mr. Rubinstein holds a bachelor's degree from Cornell University and a Masters of Business Administration from New York University.

RALPH V. WHITWORTH. Mr. Whitworth became a director of the Company in March 1994. Since 1988, he has been President of Whitworth and Associates, a Washington, D.C. based consulting firm. In January 1997, Mr. Whitworth became a partner of Batchelder & Partners, Inc., a financial advisory firm. Mr. Whitworth was President of United Shareholders Association from its founding in 1986 to 1993. From 1989 to 1992, he served as President of Development of United Thermal Corporation, the owner of the district heating systems for the cities of Baltimore, Philadelphia, Boston and St. Louis. Mr. Whitworth holds a bachelor's degree from the University of Nevada and a law degree from Georgetown University.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE. Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's

officers, directors and 10 percent shareholders to file reports of ownership and changes in ownership with the SEC. Officers, directors and 10 percent shareholders are required by SEC regulations to furnish the Company with all Section 16(a) reports they file.

Based on the Company's review of such reports the Company received and written representations from the Company's officers and directors, the Company believes that all required reports were timely filed in fiscal 1996.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the compensation for services rendered during the three-year period ending December 31, 1996 for the executive officers of the Company whose 1996 salary and bonus exceeded \$100,000.

SUMMARY COMPENSATION TABLE

<TABLE>  
<CAPTION>

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS
		SALARY	BONUS	OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING OPTIONS
<S>	<C>	<C>	<C>	<C>	<C>
David Margolese.....	1996	\$ 95,833	\$ --	\$ --	400,000
Chairman of the Board	1995	\$100,000	\$ --	\$ --	--
and Chief Executive Officer	1994	\$122,000 (1)	\$ --	\$ 26,052 (2)	300,000
Robert D. Briskman.....	1996	\$106,249	\$20,000	\$190,938	60,000
Vice President and	1995	\$100,000	\$ --	\$ 1,340	--
Chief Technical Officer	1994	\$122,000	\$ --	\$ --	192,500

</TABLE>

(1) In October 1994, Mr. Margolese waived his base salary payable for the three month period ended December 31, 1994.

(2) The Company reimbursed Mr. Margolese for the following expenses incurred in establishing residency in the United States: \$18,521 for tax advice, \$2,311 for moving expenses and \$5,220 for real estate commissions.

COMPENSATION OF DIRECTORS

Commencing in 1994, directors of the Company who are not full time employees of the Company were entitled to receive a director's fee of \$20,000 per year for serving on the Company's Board of Directors. In June 1994, all directors entitled to receive directors' fees agreed to forego any payments for their services as directors of the Company. Pursuant to the Company's 1994 Directors' Nonqualified Stock Option Plan (the "Directors' Plan"), each director who is not a full-time employee of the Company is entitled to an option to purchase 15,000 shares of Common Stock upon becoming a director (or upon the effective date of the plan in the case of non-employee directors who become directors prior to the effective date) and to an automatic annual grant of an option to purchase 10,000 shares of Common Stock. The exercise price for annual grants is fair market value of the Company's Common Stock on the date of grant. Prior to the implementation of the Directors' Plan, the Company from time to time granted options to certain non-employee directors. See "Management -- Employee and Director Stock Options." The Company reimburses each director for reasonable expenses incurred in attending meetings of the Board of Directors.

The Company has retained Pitsch Communications to provide legal services to the Company for a monthly retainer of \$5,000. The retainer may be terminated by either party at any time. The principal of Pitsch Communications, Peter K. Pitsch, is a director of the Company.

The Company has retained Jack Z. Rubinstein to provide consulting services to the Company for a monthly retainer of \$5,000. The retainer may be terminated by either party at any time. Jack Z. Rubinstein is a director of the Company.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with Messrs. Margolese and Briskman.

Effective January 1, 1994, the Company entered into an employment agreement to employ David Margolese as Chairman and Chief Executive Officer of the Company for a term of five years. The agreement provided for an annual base salary of \$300,000, subject to increase from time to time by the Board of Directors. An amendment to this agreement, dated as of June 8, 1994, provided for an annual

\$100,000, effective June 8, 1994. Subsequently, Mr. Margolese waived his base salary payable for the three month period ended December 31, 1994. In January 1997, the Board of Directors increased Mr. Margolese's annual base salary to \$150,000. Under the agreement, the Company granted to Mr. Margolese an option to purchase 300,000 shares of Common Stock at \$5.00 per share, all of which are fully vested and exercisable. If Mr. Margolese is terminated without "cause," as defined in the agreement, or if Mr. Margolese resigns for "good reason," as defined in the agreement, the Company is obligated to pay to Mr. Margolese the sum of \$300,000. In January 1994, Mr. Margolese was paid \$162,000 for deferred salary earned in 1993 and \$216,000 in recognition of his service without pay in 1992. The employment agreement restricts Mr. Margolese from engaging in any business involving the transmission of radio programming in North America for a period of two years after the termination of his employment.

Effective January 1, 1994, the Company entered into an agreement to employ Robert Briskman as the Vice President and Chief Technical Officer of the Company. The agreement provided for an annual base salary of \$150,000. An amendment to this agreement, dated as of June 8, 1994, provided for an annual base salary of \$100,000, effective June 8, 1994. In October 1996, the Board of Directors increased Mr. Briskman's annual base salary to \$150,000 and in January 1997, extended the term of the agreement until January 1, 1998. In addition, under the agreement the Company granted to Mr. Briskman an option to purchase 80,000 shares of Common Stock at \$1.00 per share, all of which are fully vested and exercisable. The agreement also provides for the grant to Mr. Briskman of options to purchase 112,500 shares of Common Stock at \$1.00 per share upon completion of certain milestones prior to December 31, 1994. Such options were granted to Mr. Briskman on December 23, 1994 and were fully vested and exercisable. In January 1996, Mr. Briskman exercised options to purchase 80,000 shares of the Company's Common Stock. If Mr. Briskman's employment is terminated for any reason other than "cause," as defined in the agreement, the Company is obligated to pay to Mr. Briskman a sum equal to 50% of his annual salary and, at Mr. Briskman's option, to repurchase all of the shares of Common Stock then owned by Mr. Briskman at a price of \$1.25 per share. The Company has also entered into a proprietary information and non-competition agreement with Mr. Briskman. Under this agreement, Mr. Briskman may not (i) disclose any proprietary information of the Company during or after his employment with the Company or (ii) engage in any business directly competitive with any business of the Company in North America for a period of one year after termination of his employment.

#### EMPLOYEE AND DIRECTOR STOCK OPTIONS AND STOCK GRANTS

In February 1994, the Company adopted its 1994 Stock Option Plan (the "1994 Plan") and its Directors' Plan. The Director's Plan was amended by the Board of Directors in December 1994 and January 1995 and approved at the annual meeting of stockholders on June 27, 1995 to extend the exercise period of the option after termination for reason other than death or disability and to increase the initial option grants and annual option grants to non-employee directors.

The 1994 Plan, as amended, provides for options to purchase Common Stock and is administered by the Plan Administrator, which may be either the Company's Board of Directors or a committee designated by the Board of Directors. In accordance with the 1994 Plan, the Plan Administrator determines the employees to whom options are granted, the number of shares subject to each option, the exercise price and the vesting schedule of each option. Options generally vest over a four-year period, but may vest over a different period at the discretion of the Plan Administrator. Under the 1994 Plan, outstanding options vest, unless they are assumed by an acquiring entity, upon the occurrence of certain transactions, including certain mergers and other business combinations involving the Company. Options granted under the 1994 Plan are exercisable for a period of 10 years from the date of grant, except that incentive stock options granted to persons who own more than 10% of the Common Stock terminate after five years. Vested options terminate 90 days after the optionee's termination of employment with the Company for any reason other than death or disability, and one year after termination upon death or disability. Unless otherwise determined by the Plan Administrator, the exercise price of options granted under the 1994 Plan must be equal to or greater than the fair market value of the Common Stock on the date of grant. Upon exercise, the aggregate exercise price may be paid to the Company (i) in cash, (ii) upon approval of the Plan Administrator, by delivering to the Company shares of

Common Stock previously held by such Optionee, or (iii) by complying with any other payment mechanism approved by the Plan Administrator from time to time.

The Directors' Plan provides that current non-employee directors of the Company and persons who become non-employee directors of the Company shall be granted options to purchase 15,000 shares of Common Stock upon becoming directors (or upon the effective date of the Director's Plan in the case of non-employee directors who became directors prior to the effective date), and

thereafter shall annually be granted options to purchase 10,000 shares of Common Stock on the first business day following the Company's annual meeting. The exercise price for annual grants fair market of the Company's Common Stock on the date of grant value. Options granted under the Directors' Plan vest immediately upon grant. Options granted under the Directors' Plan are exercisable for a period of 10 years from the date of grant. Options terminate 18 months after a director's termination as a director of the Company for any reason other than death or disability, and one year after termination upon death or disability. Upon exercise, the exercise price may be paid (i) in cash, (ii) in shares of Common Stock, or (iii) by the Company withholding that number of shares of Common Stock with a fair market value on the date of exercise equal to the aggregate exercise price of the option.

In June 1995, the Company adopted its 1995 Stock Compensation Plan (the "Stock Compensation Plan"). Pursuant to the terms of the Stock Compensation Plan, all employees of the Company or a Related Company (as defined in the Stock Compensation Plan) are eligible to receive awards under the Stock Compensation Plan. Bonuses granted pursuant to the Stock Compensation Plan are made by a plan administrator. The plan administrator, in its absolute discretion, determines the employees to whom, and the time or times at which, Common Stock awards are granted, the number of shares within each award and all other terms and conditions of the awards. The terms, conditions and restrictions applicable to the awards made under the Stock Compensation Plan need not be the same for all recipients, nor for all awards. The plan administrator may grant to any officer of the Company the authority to make awards or otherwise administer the Stock Compensation Plan solely with respect to persons who are not subject to the reporting and liability provisions of Section 16 of the Exchange Act.

In September 1996, the Stock Compensation Plan was amended to allow the plan to be administered by the entire Board of Directors, and if so authorized by the Board of Directors, a committee of at least two non-employee directors. Prior to this amendment, the plan permitted the administration only by a committee of the Board of Directors. The purpose of the amendment was to more readily comply with the new rules under Section 16 of the Securities Act of 1933, as amended, which changed the eligibility requirements for these committees. The new rules under Section 16 allow either the entire Board of Directors or a committee composed of two or more "non-employee" directors to act as Plan Administrator. Amending the Stock Compensation Plan provided more flexibility for the Company in the administration of the stock Compensation Plan.

Awards under the Stock Compensation Plan may not exceed 175,000 shares of Common Stock in the aggregate, subject to certain adjustments. Shares awarded may be from authorized but unissued shares or from Company treasury shares of Common Stock. All shares of Common Stock received by employees pursuant to bonuses under the Stock Compensation Plan (except for shares received by executive officers or other persons who are subject to the reporting and liability provisions of Section 16 of the Exchange Act) are freely transferable. Nevertheless, the shares of Common Stock granted to recipients may be subject to such terms and conditions as the Committee, in its sole discretion, deems appropriate. During 1996, 67,500 shares of the Company's Common Stock were issued pursuant to this Compensation Plan.

An aggregate of 1,600,000 shares of Common Stock were available for issuance pursuant to the 1994 Plan and the Directors' Plan. As of December 31, 1996, options to purchase an aggregate of 1,327,500 shares of Common Stock have been granted pursuant to the 1994 Plan and the Directors' Plan and there remains an aggregate of 272,500 shares of Common Stock available for grant pursuant to the 1994 Plan and the Directors Plan.

As of December 31, 1996, 162,500 shares of Common Stock have been issued under the Stock Compensation Plan, and 12,500 shares of Common Stock remain available for issuance thereunder.

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#### STOCK OPTION INFORMATION

In April 1996, the Company granted to David Margolese pursuant to the 1994 Plan a stock option to purchase 400,000 shares of Common Stock which is exercisable upon the FCC's grant of a license to the Company. In April 1996, the Company also granted to Robert Briskman pursuant to the 1994 Plan a stock option to purchase 60,000 shares of Common Stock, 30,000 shares of which are exercisable upon the FCC's grant of a license to the Company and the remaining 30,000 shares of which are exercisable on September 18, 1997 if as of such date the FCC has granted a license to the Company and if Mr. Briskman is still employed by the Company.

The following table sets forth certain information for the fiscal year ended December 31, 1996, with respect to options granted to the individuals named in the Summary Compensation table above.

#### OPTION GRANTS IN LAST FISCAL YEAR

<TABLE>

<CAPTION>

NAME	INDIVIDUAL GRANTS			POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR STOCK TERM		
	NUMBER OF OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE PER SHARE	EXPIRATION DATE	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
David Margolese.....	400,000	87%	\$8.5625	4/24/06	\$2,398,624	\$5,848,148
Robert Briskman.....	60,000	13%	\$8.5625	4/24/06	\$ 359,794	\$ 877,222

The following table sets forth certain information with respect to the number of shares covered by both exercisable and unexercisable stock options held by the individuals named in the Summary Compensation table above as of the fiscal year ended December 31, 1996. Also reported are 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 the Common Stock as of December 31, 1996 (\$4.125 per share).

AGGREGATED OPTION EXERCISES IN THE LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

<TABLE>  
<CAPTION>

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF UNEXERCISED OPTIONS AT FISCAL YEAR END EXERCISABLE/UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END EXERCISABLE/UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>
David Margolese.....	0	\$ 0	300,000/400,000	\$0/\$0
Robert Briskman.....	80,000	\$202,500	132,500/60,000	\$414,063/\$0

LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS OF THE COMPANY

As permitted by the Delaware General Corporation Law, the Company's Amended and Restated Certificate of Incorporation provides that directors of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derives an improper personal benefit. In addition, the Company's By-Laws provide that the Company shall indemnify all directors and officers and may indemnify employees and certain other persons to the full extent and in the manner permitted by Section 145 of the Delaware General Corporation Law, as amended from time-to-time. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that, in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and, therefore, is unenforceable.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of the Company's Common Stock as of March 12, 1997 of (i) each stockholder known by the Company to be the beneficial owner of more than 5% of the outstanding Common Stock, (ii) each director of the Company, (iii) each executive officer of the Company and (iv) all directors and officers as a group. Except as otherwise indicated, the Company believes that the beneficial owners of the Common Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

<TABLE>  
<CAPTION>

NAMES AND ADDRESS OF BENEFICIAL OWNER(1)	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENT OF TOTAL BENEFICIALLY OWNED
<S>	<C>	<C>
Darlene Friedland..... 110 Wolseley Road Point Piper 2027 Sydney, Australia	2,834,500	27.5%

David Margolese (2).....	1,900,000	17.9%
c/o CD Radio Inc. Sixth Floor 1001 22nd Street, N.W. Washington, D.C. 20037		
Robert D. Briskman (3).....	132,500	1.3%
Jack Z. Rubinstein (4).....	227,000	2.2%
Peter K. Pitsch (5).....	70,000	*
Lawrence F. Gilberti (6).....	35,000	*
Ralph V. Whitworth (7).....	35,000	*
All Executive Officers and Directors as a Group (6 persons) (8).....	2,399,500	21.7%

</TABLE>

- - - - -  
\* Less than 1%

- (1) This table is based upon information supplied by Directors, officers and principal stockholders. Percentage of ownership is based on 10,300,391 shares of Common Stock outstanding on March 12, 1997. Unless otherwise indicated, the address of the Beneficial Owner is the Company.
- (2) Includes 300,000 shares issuable pursuant to stock options that are exercisable within 60 days. Does not include 400,000 shares issuable pursuant to stock options that are not exercisable within 60 days of such date.
- (3) Includes 132,500 shares of Common Stock issuable pursuant to stock options exercisable within 60 days. Does not include 60,000 shares issuable pursuant to stock options that are not exercisable within 60 days of such date.
- (4) Includes 195,000 shares of Common Stock issuable pursuant to stock options exercisable within 60 days and 7,700 shares of Common Stock held in trust for his daughters. Excludes 40,000 shares held by DICA Partners of which Mr. Rubinstein is the General Partner.
- (5) Includes 35,000 shares of Common Stock issuable pursuant to stock options exercisable within 60 days.
- (6) Includes 35,000 shares of Common Stock issuable pursuant to stock options exercisable within 60 days.
- (7) Includes 35,000 shares of Common Stock issuable pursuant to stock options exercisable within 60 days.
- (8) Includes 732,500 shares of Common Stock issuable pursuant to stock options exercisable within 60 days. Does not include 460,000 shares issuable pursuant to options that are not exercisable within 60 days of such date.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On June 27, 1995, the Company granted to Peter K. Pitsch pursuant to the 1994 Plan a stock option to purchase 25,000 shares of Common Stock at an exercise price of \$2.875 per share in consideration of legal

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services rendered to the Company. These options are exercisable for a period of 10 years from the date of grant and terminate 18 months after the termination for any reason of Mr. Pitsch's service as a consultant to the Company. In 1996, the Company granted to Mr. Pitsch pursuant to the 1994 Plan a stock option to purchase 25,000 shares of Common Stock at an exercise price of \$8.25 which would have vested upon a certain milestone. The milestone was not met and consequently this option did not vest.

In March 1996, the Company granted to Mr. Rubinstein pursuant to the 1994 Plan a stock option to purchase 60,000 shares of Common Stock at an exercise price of \$4.50. The option is exercisable for a period of 10 years from the date of grant and terminates 18 months after the termination for any reason of Mr. Rubinstein's service as a consultant to the Company.

Pursuant to an agreement dated October 21, 1992 (the "Batchelder Agreement"), the Company retained the services of Batchelder & Partners, Inc., a financial advisory firm ("Batchelder"), to provide the Company with certain financial consulting services. On September 13, 1995, Batchelder entered into a separate agreement with Whitworth and Associates (the "Whitworth Agreement"), of which Ralph V. Whitworth is President, pursuant to which Whitworth is to provide consulting services to Batchelder for a fee equal to a percentage of the fee received by Batchelder from the Company under the Batchelder Agreement. In the fiscal year ended December 31, 1996, Whitworth and Associates received \$60,000 from the Whitworth agreement. In January 1997, Mr. Whitworth became a partner in Batchelder, and the Whitworth Agreement was terminated.

ITEM 14. EXHIBITS AND REPORTS ON FORM 8-K

a) The following documents are filed as a part of this report:

- 1) Consolidated Financial Statements and Report of Independent Accountants are included under Item 8, in Part II.
- 2) Consolidated Financial Statement Schedules and Report of Independent Public Accountants on those schedules are included as follows:

None.

3) Exhibits: The following exhibits are filed as part of this report.

<TABLE> <CAPTION> EXHIBIT	DESCRIPTION
<C>	<S>
3.1	Amended and Restated Certificate of Incorporation.
3.2	Amended and Restated By-Laws.
4.1	Description of Capital Stock contained in the Amended and Restated Certificate of Incorporation (see Exhibit 3.1).
4.2	Description of Rights of Security Holders contained in the Amended and Restated Bylaws (see Exhibit 3.2.).
4.3	Form of Certificate for Shares of Common Stock.
4.4	Form of Common Stock Purchase Warrant Agreement between the Company and Continental Stock Transfer and Trust Company.
4.5	Form of Common Stock Purchase Warrant Certificate.
4.6	Form of Representatives' Warrant Agreement among the Company, Yorkton Securities Inc., First Marathon (U.S.A.) Inc., First Marathon Securities Limited and Continental Stock Transfer and Trust Company.
4.7	Form of Representatives' Warrant Certificate.
10.1	Option Agreement, dated January 23, 1992, between the Company and New World Sky Media.

<TABLE> <CAPTION> EXHIBIT	DESCRIPTION
<C>	<S>
10.2	Lease Agreement, dated October 20, 1992, between 22nd & K Street Office Building Limited Partnership and the Company.
10.3	Letter Agreement, dated November 18, 1992, between the Company and Batchelder & Partners, Inc.
10.4.1	Proprietary Information and Non-Competition Agreement, dated February 9, 1993, for Robert Briskman.
10.4.2	Amendment No. 1 to Proprietary Information and Non-Competition Agreement between the Company and Robert Briskman.
+10.5.1	Satellite Construction Agreement, dated March 2, 1993, between Space Systems/Loral and the Company.
+10.5.2	Amendment No. 1 to Satellite Construction Agreement, effective December 28, 1993, between Space Systems/Loral and the Company.
+10.5.3	Amendment No. 2 to Satellite Construction Agreement, effective March 8, 1994, between the Space Systems/Loral and the Company.
10.5.4	Amendment No. 3 to Satellite Construction Agreement, effective February 12, 1996, between the Space Systems/Loral, Inc. and the Company.
10.5.5	Amendment No. 4 to Satellite Construction Agreement, effective June 18, 1996, between the Space Systems/Loral, Inc. and the Company. (Incorporated by reference to Exhibit 10.8.5 to the Company's Form 10-Q for the period ended September 30, 1996.)
10.5.6	Amendment No. 5 to Satellite Construction Agreement, effective August 26, 1996, between the Space Systems/Loral, Inc. and the Company. (Incorporated by reference to Exhibit 10.8.6 to the Company's Form 10-Q for the period ended September 30, 1996.)
10.5.7	Amendment No. 6 to Satellite Construction Agreement, effective August 26, 1996, between the Space Systems/Loral, Inc. and the Company.
10.5.8	Amendment No. 8 to Satellite Construction Agreement, effective January 29, 1997, between the Space Systems/Loral, Inc. and the Company.
10.5.9	Amendment No. 9 to Satellite Construction Agreement, effective February 26, 1997, between the Space Systems/Loral, Inc. and the Company.
10.5.10	Amendment No. 11 to Satellite Construction Agreement, effective March 24, 1997, between the Space Systems/Loral, Inc. and the Company.
10.6	Assignment of Technology Agreement, dated April 15, 1993, between Robert Briskman and the Company.
10.7	Demand Note and Grant of Warrant to Robert Friedland, dated April 28, 1993.
*10.8	Amended and Restated Option Agreement between the Company and Robert Briskman.
10.9	Demand Note and Grant of Warrant to Robert Friedland, dated October 13, 1993.
10.10.1	Launch Reservation Agreement, dated September 20, 1993, between the Company and Arianespace.
10.10.2	Modification of Launch Reservation Agreement, dated April 1, 1994, between the Company and Arianespace.

10.10.3	Second Modification of Launch Reservation Agreement, dated August 10, 1994, between the Company and Arianespace.
10.10.4	Third Modification of Launch Reservation Agreement, dated November 8, 1995, between the Company and Arianespace (Incorporated by reference to Exhibit 14.4 to the Company's Form 10-Q for the period ended September 30, 1996).
10.10.5	Fourth Modification of Launch Reservation Agreement, dated August 30, 1996, between the Company and Arianespace (Incorporated by reference to Exhibit 14.5 to the Company's Form 10-Q for the period ended September 30, 1995).
10.10.6	Fifth Modification of Launch Reservation Agreement, dated December 10, 1996, between the Company and Arianespace.
*10.11.1	Employment and Noncompetition Agreement between the Company and David Margolese.
*10.11.2	First Amendment to Employment Agreement between the Company and David Margolese.

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT

DESCRIPTION

<C>

<S>

*10.12.1	Employment and Noncompetition Agreement between the Company and Robert Briskman.
*10.12.2	First Amendment to Employment Agreement between the Company and Robert Briskman.
*10.12.3	Second Amendment to Employment Agreement between the Company and Robert Briskman.
10.13	Registration Agreement, dated January 2, 1994, between the Company and M.A. Rothblatt and B.A. Rothblatt.
*10.14	1994 Stock Option Plan.
*10.15	Amended and Restated 1994 Directors' Nonqualified Stock Option Plan.
10.16	Form of Lock-Up Agreement executed by certain holders of the Company's Common Stock.
10.17	Option Agreement, dated as of October 21, 1992, between the Company and Batchelder & Partners, Inc.
10.18	Settlement Agreement, dated as of April 1, 1994, among the Company, M.A. Rothblatt, B.A. Rothblatt and Marcor, Inc.
10.19.1	Demand Note, dated April 19, 1994, in favor of David Margolese.
10.19.2	Note, dated June 30, 1994, in favor of David Margolese.
10.20	Demand Note, dated April 19, 1994, between the Company and D. Friedland.
10.21	Form of Underwriting Agreement (Incorporated by reference from Exhibit 1.1 to the Registrant's Registration Statement on Form S-1, Commission file No. 33-74782)
10.22	Letter Agreement dated January 13, 1995, between the Company and Brenner Securities.
*10.23	1995 Stock Compensation Plan
**10.24	Form of Preferred Stock Investment Agreement dated October 23, 1996 between the Company and certain investors.
**10.24.1	Form of First Amendment to Preferred Stock Investment Agreement dated March 7, 1997 between the Company and certain investors.
**10.24.2	Form of Second Amendment to Preferred Stock Investment Agreement dated March 14, 1997 between the Company and certain investors.
11.1	Statement Re Computation of Historical Net Loss Per Share.
21.1	List of the Company's Subsidiaries.
**23.1	Consent of Coopers & Lybrand L.L.P.
27	Financial Data Schedule

</TABLE>

\* This document has been identified as a management contract or compensatory plan or arrangement.

\*\* Replaces previously filed exhibit.

+ Portions of these exhibits, which are incorporated by reference to Registration No. 33-74782, have been omitted pursuant to an Application for Confidential Treatment filed by the Company with the Securities and Exchange Commission pursuant to Rule 406 of the Securities Act of 1933, as amended.

b) Reports on Form 8-K

A report on Form 8-K was filed on October 2, 1996 with the Securities and Exchange Commission relating to the exercise of the Company's warrants.

A report on Form 8-K was filed on October 16, 1996 with the Securities and Exchange Commission relating to the Company's Pioneer's Preference application.

A report on Form 8-K was filed on October 30, 1996 with the Securities and Exchange Commission relating to the private placement agreement for the issuance of the 5% Delayed Convertible Preferred Stock.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 8, 1997

CD RADIO INC.

/s/ DAVID MARGOLESE

-----  
David Margolese  
Chairman and Chief Executive Officer

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CD RADIO INC.

INDEX TO EXHIBITS

<TABLE>  
<CAPTION>

EXHIBIT	DESCRIPTION	SEQUENTIAL PAGE NO.
<C>	<S>	<C>
*3.1	Amended and Restated Certificate of Incorporation.	
*3.2	Amended and Restated By-Laws.	
*4.1	Description of Capital Stock contained in the Amended and Restated Certificate of Incorporation (see Exhibit 3.1).	
*4.2	Description of Rights of Security Holders contained in the Amended and Restated Bylaws (see Exhibit 3.2.).	
*4.3	Form of Certificate for Shares of Common Stock.	
*4.4	Form of Common Stock Purchase Warrant Agreement between the Company and Continental Stock Transfer and Trust Company.	
*4.5	Form of Common Stock Purchase Warrant Certificate.	
*4.6	Form of Representatives' Warrant Agreement among the Company, Yorkton Securities Inc., First Marathon (U.S.A.) Inc., First Marathon Securities Limited and Continental Stock Transfer and Trust Company.	
*4.7	Form of Representatives' Warrant Certificate.	
*10.1	Option Agreement, dated January 23, 1992, between the Company and New World Sky Media.	
10.2	Lease Agreement, dated October 20, 1992, between 22nd & K Street Office Building Limited Partnership and the Company (Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (File No. 33-74782) (the "Registration Statement").	
10.3	Letter Agreement, dated November 18, 1992, between the Company and Batchelder & Partners, Inc. (Incorporated by reference to Exhibit 10.4 to the Registration Statement)	
10.4.1	Proprietary Information and Non-Competition Agreement, dated February 9, 1993, for Robert Briskman (Incorporated by reference to Exhibit 10.8.1 to the Registration Statement).	
10.4.2	Amendment No. 1 to Proprietary Information and Non-Competition Agreement between the Company and Robert Briskman (Incorporated by reference to Exhibit 10.8.2 to the Registration Statement).	
+10.5.1	Satellite Construction Agreement, dated March 2, 1993, between Space Systems/Loral and the Company (Incorporated by reference to Exhibit 10.9.1 to the Registration Statement).	
+10.5.2	Amendment No. 1 to Satellite Construction Agreement, effective December 28, 1993, between Space Systems/Loral and the Company (Incorporated by reference to Exhibit 10.9.2 to the Registration Statement).	
+10.5.3	Amendment No. 2 to Satellite Construction Agreement, effective March 8, 1994, between the Space Systems/Loral and the Company (Incorporated by reference to Exhibit 10.9.3 to the Registration Statement).	
10.5.4	Amendment No. 3 to Satellite Construction Agreement, effective February 12, 1996, between the Space Systems/Loral, Inc. and the Company (Incorporated by reference to Exhibit 10.9.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (the "1995 Form 10-K"))	
10.5.5	Amendment No. 4 to Satellite Construction Agreement, effective June 18, 1996, between the Space Systems/Loral, Inc. and the Company. (Incorporated by reference to Exhibit 10.8.5 to the Company's Form 10-Q for the period ended September 30, 1996.)	
10.5.6	Amendment No. 5 to Satellite Construction Agreement, effective August 26, 1996, between the Space Systems/Loral, Inc. and the Company. (Incorporated by reference to Exhibit 10.8.6 to the Company's Form 10-Q for the period ended September 30, 1996.)	
10.5.7	Amendment No. 6 to Satellite Construction Agreement, effective August 26, 1996, between the Space Systems/Loral, Inc. and the Company.	

</TABLE>

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<TABLE>  
<CAPTION>

SEQUENTIAL

EXHIBIT	DESCRIPTION	PAGE NO.
<C>	<S>	<C>
10.5.8	Amendment No. 8 to Satellite Construction Agreement, effective January 29, 1997, between the Space Systems/Loral, Inc. and the Company.	
10.5.9	Amendment No. 9 to Satellite Construction Agreement, effective February 26, 1997, between the Space Systems/Loral, Inc. and the Company.	
10.5.10	Amendment No. 11 to Satellite Construction Agreement, effective March 24, 1997, between the Space Systems/Loral, Inc. and the Company.	
10.6	Assignment of Technology Agreement, dated April 15, 1993, between Robert Briskman and the Company (Incorporated by reference to Exhibit 10.10 to the Registration Statement).	
10.7	Demand Note and Grant of Warrant to Robert Friedland, dated April 28, 1993 (Incorporated by reference to Exhibit 10.12 to the Registration Statement).	
10.8	Amended and Restated Option Agreement between the Company and Robert Briskman (Incorporated by reference to Exhibit 10.13 to the Registration Statement).	
10.9	Demand Note and Grant of Warrant to Robert Friedland, dated October 13, 1993 (Incorporated by reference to Exhibit 10.14 to the Registration Statement).	
10.10.1	Launch Reservation Agreement, dated September 20, 1993, between the Company and Arianespace (Incorporated by reference to Exhibit 10.15.1 to the Registration Statement).	
10.10.2	Modification of Launch Reservation Agreement, dated April 1, 1994, between the Company and Arianespace (Incorporated by reference to Exhibit 10.15.2 to the Registration Statement).	
10.10.3	Second Modification of Launch Reservation Agreement, dated August 10, 1994, between the Company and Arianespace (Incorporated by reference to Exhibit 10.15.3 to the Registration Statement).	
10.10.4	Third Modification of Launch Reservation Agreement, dated November 8, 1995, between the Company and Arianespace (Incorporated by reference to Exhibit 10.14.4 to the Company's Form 10-Q for the period ended September 30, 1996).	
10.10.5	Fourth Modification of Launch Reservation Agreement, dated August 30, 1996, between the Company and Arianespace (Incorporated by reference to Exhibit 10.14.5 to the Company's Form 10-Q for the period ended September 30, 1995).	
10.10.6	Fifth Modification of Launch Reservation Agreement, dated December 10, 1996, between the Company and Arianespace.	
10.11.1	Employment and Noncompetition Agreement between the Company and David Margolese (Incorporated by reference to Exhibit 10.18.1 to the Registration Statement).	
10.11.2	First Amendment to Employment Agreement between the Company and David Margolese (Incorporated by reference to Exhibit 10.18.2 to the Registration Statement).	
10.12.1	Employment and Noncompetition Agreement between the Company and Robert Briskman (Incorporated by reference to Exhibit 10.19.1 to the Registration Statement).	
10.12.2	First Amendment to Employment Agreement between the Company and Robert Briskman (Incorporated by reference to Exhibit 10.19.2 to the Registration Statement).	
10.12.3	Second Amendment to Employment Agreement between the Company and Robert Briskman.	
10.13	Registration Agreement, dated January 2, 1994, between the Company and M.A. Rothblatt and B.A. Rothblatt (Incorporated by reference to Exhibit 10.20 to the Registration Statement).	
10.14	1994 Stock Option Plan (Incorporated by reference to Exhibit 10.21 to the Registration Statement).	

</TABLE>

<TABLE>  
<CAPTION>

EXHIBIT	DESCRIPTION	SEQUENTIAL PAGE NO.
<C>	<S>	<C>
10.15	Amended and Restated 1994 Directors' Nonqualified Stock Option Plan (Incorporated by reference to Exhibit 10.22 to the 1995 Form 10-K).	
10.16	Form of Lock-Up Agreement executed by certain holders of the Company's Common Stock (Incorporated by reference to Exhibit 10.23 to the Registration Statement).	
10.17	Option Agreement, dated as of October 21, 1992, between the Company and Batchelder & Partners, Inc. (Incorporated by reference to Exhibit 10.24 to the Registration Statement).	
10.18	Settlement Agreement, dated as of April 1, 1994, among the Company, M.A. Rothblatt, B.A. Rothblatt and Marcor, Inc. (Incorporated by reference to Exhibit 10.27 to the Registration Statement).	
10.19.1	Demand Note, dated April 19, 1994, in favor of David Margolese (Incorporated by reference to Exhibit 10.28.1 to the Registration Statement).	
10.19.2	Note, dated June 30, 1994, in favor of David Margolese (Incorporated	

	by reference to Exhibit 10.28.2 to the Registration Statement).
10.20	Demand Note, dated April 19, 1994, between the Company and D. Friedland (Incorporated by reference to Exhibit 10.29 to the Registration Statement).
10.21	Form of Underwriting Agreement (Incorporated by reference from Exhibit 1.1 to the Registration Statement)
10.22	Letter Agreement dated January 13, 1995, between the Company and Brenner Securities (Incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 (the "1994 Form 10-K").
10.23	1995 Stock Compensation Plan (Incorporated by reference to Exhibit 10.37 to the 1995 Form 10-K).
**10.24	Form of Preferred Stock Investment Agreement dated October 23, 1996 between the Company and certain investors.
**10.24.1	Form of First Amendment to Preferred Stock Investment Agreement dated March 7, 1997 between the Company and certain investors.
**10.24.2	Form of Second Amendment to Preferred Stock Investment Agreement dated March 14, 1997 between the Company and certain investors.
11.1	Statement Re Computation of Historical Net Loss Per Share.
21.1	List of the Company's Subsidiaries (Incorporated by reference to Exhibit 21.1 to the 1994 Form 10-K).
**23.1	Consent of Coopers & Lybrand L.L.P.
27	Financial Data Schedule
</TABLE>	

- -----  
\* Incorporated by reference to the same exhibit number of the Company Registration Statement on Form S-1, Commission File No. 33-74782.

\*\* Replaces previously filed exhibit.

+ Portions of these exhibits, which are incorporated by reference to Registration No. 33-74782, have been omitted pursuant to an Application for Confidential Treatment filed by the Company with the Securities and Exchange Commission pursuant to Rule 406 of the Securities Act of 1933, as amended.

AMENDMENT NO. 6  
TO  
CONTRACT NO. SS/L-TP93002-01  
AND  
SPACE SYSTEMS/LORAL  
FOR  
DELIVERY OF CD RADIO DARS SYSTEM

THIS CONTRACT AMENDMENT NO. 6 (the "Amendment") is entered into effective as of the 26th day of August 1996, between CD RADIO INC. (the "Purchaser") and SPACE SYSTEMS/LORAL, INC. (the "Contractor").

WHEREAS, Contractor and Purchaser are parties to Contract No. SS/L-TP93002- 01 dated March 2, 1993, as amended by the parties thereto, most recently pursuant to Contract Amendment No. 5 dated August 26, 1996 (as so amended, the "Contract").

WHEREAS, Contractor and Purchaser desire to amend the Contract,

NOW, THEREFORE, in consideration of the mutual covenants and conditions in this Amendment and in the Agreement, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The page from the Contract, attached to this Amendment as Exhibit A and incorporated herein by reference, are hereby substituted for existing pages in the Contract, in their entirety, as follows:

Existing Page (Remove)	Replacement Page (Attached)
71	71

2. All capitalized terms in this Amendment, not otherwise defined herein, shall have the meanings ascribed to them in the Contract.

3. The Contract, as modified by the express terms of this Amendment, is hereby ratified and affirmed by Purchaser and Contractor, and shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the date first above written.

<TABLE>	
<S>	<C>
CONTRACTOR:	PURCHASER:
SPACE SYSTEMS/LORAL, INC.	CD RADIO INC.
By: /s/ R.A. Haley	By: /s/ R.D. Briskman
-----	-----
Name: R.A. Haley	Name: R.D. Briskman
-----	-----
Title: Vice President & CFO	Title: President
-----	-----
	CD Radio Systems
</TABLE>	

EXHIBIT A - AMENDMENT 6

ARTICLE 44 AGREEMENT EXPIRATION

It is agreed between the Parties that if CD Radio Inc. has not been granted a license and construction permit from the Federal Communication Commission by January 31, 1997, then the provisions of this Contract shall become null and void, and the Parties shall have no further obligation whatsoever to each other, and no financial obligation shall exist by either Party to the other Party.

AMENDMENT NO. 8  
TO  
CONTRACT NO. SS/L-TP93002-01  
AND  
SPACE SYSTEMS/LORAL  
FOR  
DELIVERY OF CD RADIO DARS SYSTEM

THIS CONTRACT AMENDMENT NO. 8 (the "Amendment") is entered into effective as of the 29th day of January 1997, between CD Radio Inc. (the "Purchaser") and SPACE SYSTEMS/LORAL, INC. (the "Contractor")

WHEREAS, Contractor and Purchaser are parties to Contract No. SS/L-TP93002-01 dated March 2, 1993, as amended by the parties thereto, most recently pursuant to Contract Amendment No. 6 dated August 26, 1996 (as so amended, the "Contract").

WHEREAS, Contractor and Purchaser desire to amend the Contract,

NOW, THEREFORE, in consideration of the mutual covenants and conditions in this Amendment and in the Agreement, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The page from the Contract, attached to this Amendment as Exhibit A and incorporated herein by reference, are hereby substituted for existing pages in the Contract, in their entirety, as follows:

Existing Page (Remove)	Replacement Page (Attached)
71	71

2. All capitalized terms in this Amendment, not otherwise defined herein, shall have the meanings ascribed to them in the Contract.

3. The Contract, as modified by the express terms of this Amendment, is hereby ratified and affirmed by Purchaser and Contractor, and shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the date first above written.

<TABLE>		<C>	
<S>			
CONTRACTOR:		PURCHASER:	
SPACE SYSTEMS/LORAL, INC.		CD RADIO INC.	
By: /s/ R.A. Haley	-----	By: /s/ R.D. Briskman	-----
Name: R.A. Haley	-----	Name: R.D. Briskman	-----
Title: Vice President & CFO	-----	Title: President	-----
		CD Radio Systems	
</TABLE>			

EXHIBIT A - AMENDMENT 8

ARTICLE 44 AGREEMENT EXPIRATION

It is agreed between the Parties that if CD Radio Inc. has not been granted a license and construction permit from the Federal Communications Commission by the end of February 28, 1997, then the provisions of this Contract shall become null and void, and the Parties shall have no further obligation whatsoever to each other, and no financial obligation shall exist by either Party to the other Party.

AMENDMENT NO. 9  
TO  
CONTRACT NO. SS/L-TP93002-01  
AND  
SPACE SYSTEMS/LORAL  
FOR  
DELIVERY OF CD RADIO DARS SYSTEM

THIS CONTRACT AMENDMENT NO. 9 (the "Amendment") is entered into effective as of the 26th day of February 1997, between CD Radio Inc. (the "Purchaser") and SPACE SYSTEMS/LORAL, INC. (the "Contractor").

WHEREAS, Contractor and Purchaser are parties to Contract No. SS/L-TP93002-01 dated March 2, 1993, as amended by the parties thereto, most recently pursuant to Contract Amendment No. 8 dated 29 January 1997 (as so amended, the "Contract").

WHEREAS, Contractor and Purchaser desire to amend the Contract,

NOW, THEREFORE in consideration of the mutual covenants and conditions in this Amendment and in the Agreement, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The page from the Contract, attached to this Amendment as Exhibit A and incorporated herein by reference, are hereby substituted for existing pages in the Contract, in their entirety, as follows:

Existing Page (Remove)	Replacement Page (Attached)
71	71

2. All capitalized terms in this Amendment, not otherwise defined herein, shall have the meanings ascribed to them in the Contract.

3. The Contract, as modified by the express terms of this Amendment, is hereby ratified and affirmed by Purchaser and Contractor, and shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the date first above written.

<TABLE>		<C>	
<S>			
CONTRACTOR:		PURCHASER:	
SPACE SYSTEMS/LORAL, INC.		CD RADIO INC.	
By:	/s/ R.A. Haley	By:	/s/ R.D. Briskman
----	-----	----	-----
Name:	R.A. Haley	Name:	R.D. Briskman
----	-----	----	-----
Title:	Vice President & CFO	Title:	President
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</TABLE>			

EXHIBIT A - AMENDMENT 9

ARTICLE 44 AGREEMENT EXPIRATION

It is agreed between the Parties that if CD Radio Inc. has not been granted a license and construction permit from the Federal Communications Commission by the end of March 31, 1997, then the provisions of this Contract shall become null and void, and the Parties shall have no further obligation whatsoever to each other, and no financial obligation shall exist by either Party to the other Party.

AMENDMENT NO. 11  
TO  
CONTRACT NO. SS/L-TP93002-01  
AND  
SPACE SYSTEMS/LORAL  
FOR  
DELIVERY OF CD RADIO DARS SYSTEM

THIS CONTRACT AMENDMENT NO. 11 (the "Amendment") is entered into effective as of the 24th day of March 1997, between CD RADIO INC. (the "Purchaser") and SPACE SYSTEMS/LORAL, INC. (the "Contractor").

WHEREAS, Contractor and Purchaser are parties to Contract No. SS/L-TP93002- 01 dated March 2, 1993,

WHEREAS, Contractor and Purchaser desire to amend the Contract to (a) allow Contractor to commence long lead material procurement activities, and (b) to extend the term of the contract.

NOW, THEREFORE, in consideration of the mutual covenants and conditions in this Amendment and in the Agreement, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

A. Replace "RESERVED" at Article 16 with the following new article:

ARTICLE 16. EARLY START FOR LONG LEAD MATERIAL PROCUREMENT

A contract amendment between the parties is contemplated which will change the configuration of the satellites to the configuration described in the draft Amendment #10 dated 21 March 1997. In anticipation of the Parties' execution of such an amendment, upon Contractor's receipt of \$6.5 million, the Contractor shall commence to perform the work associated with the first five months of the program schedule, which consists primarily of long lead material procurement activity.

B. Change ARTICLE 44 AGREEMENT EXPIRATION to the following:

It is agreed between the Parties that if CD Radio Inc. has not been granted license and construction permit from the Federal Communication Commission by the end of April 30, 1997, then the provisions of this Contract shall become null and void, and the Parties shall have no further obligation whatsoever to each other, and no financial obligation shall exist by either Party to the other Party.

AMENDMENT NO. 11  
TO  
CONTRACT NO. SS/L-TP93002-01

C. All capitalized terms in this Amendment, not otherwise defined herein, shall have the meanings ascribed to them in the Contract.

D. The Contract, as modified by the express terms of this Agreement, is hereby ratified and affirmed by Purchaser and Contractor, and shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the date first above written.

<TABLE>

<S>	<C>
CONTRACTOR:	PURCHASER:
SPACE SYSTEMS/LORAL, INC.	CD RADIO INC.

By:	/s/ R.A. Haley	By:	/s/ R.D. Briskman
----	-----	----	-----
Name:	R.A. Haley	Name:	R.D. Briskman
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Title: Vice President & CFO  
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Title: President  
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</TABLE>

[ARIANESPACE LOGO]

SENIOR VICE-PRESIDENT  
MARKETING-CUSTOMER'S SERVICE  
AND INTERNATIONAL AFFIARS

Mr. Robert D. Briskman  
President, Systems Group  
CD RADIO INC.  
1001 22nd Street, NW  
Washington, DC 20037  
USA

Evry, December 10, 1996  
DGC/RJ/cpL96361

Subject: Launch Opportunity Reservation Agreement 95.5.921 between  
Arianespace and CD Radio (( the LORA ))

Dear Mr. Briskman,

As discussed, we are pleased to revise certain terms of the LORA as follows:

- The Launch Period reserved for CD Radio under Article 1 of the LORA is hereby changed to. 1 November 1999 up to and including 30 April 2000.
- Notwithstanding the terms of Article 6 of the LORA, the reservation for the Launch Period referred to hereabove shall be valid until 31 May 1997.
- The above amendments to the LORA are made notwithstanding the provisions of Article 5 of the LORA and all other terms thereof remain unchanged.

Could you kindly confirm your approval of the above terms by returning an executed copy of this letter.

Best Regards,

CD RADIO INC.

/s/ R.W. Jaeger  
-----  
Ralph-Werner Jaeger

/s/ Robert D. Briskman	Dec. 13, 1996
-----	-----
MR. ROBERT D. BRISKMAN	Date
President, Systems Group	

ARIANESPACE - BOULEVARD DE L'EUROPE - B.P. 177 - 91006 EVRY CEDEX / FRANCE -  
Tel. (33/1) 60 87 60 00 + - Telex ARESP 602 392  
S.A. au capital de 270.000.000 F - R.C.S. CORBEIL-ESSONNES B318516457

[CD RADIO LETTERHEAD]

January 28, 1997

Mr. Robert D. Briskman  
CD Radio Inc.  
1001 22nd Street, N.W.  
Washington, D.C. 20037

Re: Extension of Employment Agreement

Dear Rob:

By this letter CD Radio Inc. (the "Company") hereby confirms to you its extension of the term of your Employment and Noncompetition Agreement dated as of February 2, 1994 (the "Agreement") for an additional one (1) year period, with the term of the Agreement now to end as of January 1, 1998. It is understood that the terms and conditions of your employment will in all other respect continue to be controlled by the Agreement with the exception that all provisions of the Agreement (including any nondisclosure and noncompetition provisions included in therein or dependent thereon) are hereby deemed to be amended in any relevant respect as may be required to reflect that the end of your term of employment thereunder will now expire as of January 1, 1998.

Kindly confirm and acknowledge your agreement to the foregoing and your willingness to continue in the Company's employ on the terms and conditions of the Agreement as hereby amended by signing and returning to the Company the attached copy of this Letter.

Sincerely,

/s/ DAVID MARGOLESE

David Margolese  
Chairman and Chief  
Executive Officer

Confirmed and Acknowledged:

/s/ ROBERT D. BRISKMAN 1/30/97

-----

Robert D. Briskman

## CD RADIO INC.

## PREFERRED STOCK INVESTMENT AGREEMENT

PREFERRED STOCK INVESTMENT AGREEMENT ("AGREEMENT") dated as of October 23, 1996 between CD Radio Inc., a Delaware corporation ("CDRD"), and each entity listed as an investor on Schedule I attached to this Agreement (each individually an "INVESTOR" and collectively the "INVESTORS").

## W I T N E S S E T H:

WHEREAS, CDRD desires to sell and issue to the Investors, and the Investors wish to purchase from CDRD, up to an aggregate of 2,500,000 shares of CDRD's 5% Delayed Convertible Preferred Stock having the rights, designations and preferences set forth in the Certificate of Designations of CDRD (the "CERTIFICATE OF DESIGNATIONS") in the identical form and substance of Exhibit 1 attached to this Agreement (the "PREFERRED SHARES"), on the terms and conditions set forth in this Agreement;

WHEREAS, CDRD initially desires to sell to the Investors up to 1,250,000 of the Preferred Shares ("FIRST CLOSING SHARES") in the event that it, or its subsidiary, receives notice with respect to the authority to provide satellite digital audio radio services ("SATELLITE DARS LICENSE") that either: (i) the Federal Communications Commission ("FCC") has issued an order stating that CDRD has been chosen to receive a Satellite DARS License by virtue of its having been designated a pioneer and will not need to participate in competitive bidding for such license (the "PIONEER'S PREFERENCE ORDER"); or (ii) it is the winning bidder for a Satellite DARS License at the conclusion of an auction for Satellite DARS Licenses (a "WINNING BID"), all on the terms and conditions set forth in this Agreement;

WHEREAS, CDRD will have the option to sell to the Investors a number of Preferred Shares equal to the number of First Closing Shares ("SECOND CLOSING SHARES") after the First Closing Shares have been sold, subject to the terms and conditions set forth in this Agreement;

WHEREAS, the Preferred Shares will be convertible into shares of common stock, par value \$.001, of CDRD ("COMMON SHARES") and the Investors will have registration rights with respect to such Common Shares issuable upon conversion, and the Preferred Shares will be subject to certain rights of redemption of CDRD;

NOW, THEREFORE, in consideration of the foregoing premises and the covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

## ARTICLE I

## PURCHASE AND SALE OF PREFERRED SHARES

Section 1.1 Purchase and Sale of Preferred Shares. Upon the following terms and conditions, CDRD shall issue and sell to each Investor severally, and each Investor severally shall purchase from CDRD, the number of First Closing Shares and Second Closing Shares indicated next to such Investor's name on Schedule I attached hereto.

Section 1.2 Purchase Price. The purchase price for the Preferred Shares (the "PURCHASE PRICE") shall be \$25 per share; provided, however, that if any Warrants (as defined below) are issued pursuant to Section 3.2, the Purchase Price shall be allocated between the Preferred Shares and the Warrants such that the Warrants (or fraction thereof) issuable to Investors for each Preferred Share shall be deemed to have a purchase price of \$0.05.

Section 1.3 The First Closing. (a) The closing of the purchase and sale of the First Closing Shares (the "FIRST CLOSING"), shall take place at the offices of the Investors' counsel:

(i) at 10:00 am., local time on the latest of:

(A) the earlier of the date: (1) five business days after the Investors receive notice from CDRD that the FCC has adopted the Pioneer's Preference Order or (2) on which the funds placed in the Escrow Account (as defined below) are released in accordance with the terms and conditions of the Escrow Agreement (as defined below) in connection with a Winning Bid; and

(B) the date on which the last to be

fulfilled or waived of the conditions set forth in Article IV hereof and applicable to the First Closing shall be fulfilled or waived in accordance herewith; or

(ii) at such other time and place and/or on such other date as all of the Investors and CDRD may agree.

The date on which the First Closing occurs is referred to herein as the "FIRST CLOSING DATE."

(b) On the First Closing Date, CDRD shall deliver to each Investor certificates (with the number of and denomination of such certificates designated by such Investor) representing the First Closing Shares and, if Warrants are then issuable pursuant to Section 3.2, such Warrants, purchased by such Investor under this Agreement registered in the name of such Investor (or its nominee) or deposit such First Closing Shares and Warrants, if any, into accounts designated by such Investor, and such Investor shall deliver, or cause to be delivered, to CDRD the Purchase Price for the number of First Closing Shares and, if Warrants are then issuable pursuant to Section 3.2, such Warrants, purchased by such Investor under this

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Agreement, by wire transfer in immediately available funds, to such account as CDRD designates in writing to the Investors not later than 2 business days prior to the First Closing Date; provided that if the FCC shall not have adopted the Pioneer's Preference Order, such Purchase Price shall be paid into an escrow account ("ESCROW ACCOUNT") not later than the later of (x) 5 business days prior to the announced date, as specified in a written notice from CDRD to the Investors delivered not later than 2 business days prior to the date such payment is to be made, of the FCC auction of Satellite DARS Licenses and (y) the date on which the last to be fulfilled or waived of the conditions set forth in Section 4.2(a), (b), (c), (d), (f)(i), (g) and (j)(i) through (vii) hereof and applicable to the First Closing Date shall be fulfilled or waived in accordance herewith in each case (the "ESCROW DATE"), pursuant to the terms of that certain Escrow Agreement between CDRD and the escrow agent named therein ("ESCROW AGENT") substantially in the form of Exhibit 2 ("ESCROW AGREEMENT"); provided further that if the Purchase Price is required to be paid into the Escrow Account as specified in the immediately preceding proviso, CDRD shall deliver to the Investors copies of all documents and certificates required to be delivered to the Escrow Agent at least 2 business days prior to release of funds held in escrow as a condition to release of funds held in escrow in accordance with the Escrow Agreement. The Escrow Account shall be maintained at a financial institution reasonably acceptable to the Investors and shall be an interest bearing account, and the Escrow Agent shall be reasonably acceptable to the Investors.

(c) On the First Closing Date, CDRD shall pay the following fees:

- (i) the fees of the Escrow Agent; and
- (ii) a funding fee to each Investor in the amount of 2% of the aggregate amount of the Purchase Price paid or payable by such Investor for the First Closing Shares and Warrants, if any, which funding fee shall be paid directly or from amounts held under the Escrow Agreement in accordance with the terms and conditions of the Escrow Agreement.

Section 1.4 The Second Closing. (a) The closing of the purchase and sale of the Second Closing Shares (the "SECOND CLOSING"), shall take place at the offices of the Investors' counsel, at 10:00 am., local time on:

- (i) the latest of:
  - (A) ten days after written notice from CDRD electing to sell the Second Closing Shares to Investors ("SECOND CLOSING NOTICE"), which Second Closing Notice shall be delivered to the Investors not earlier than the First Closing Date and not later than fifteen days after the First Closing Date; and
  - (B) the date on which the last to be fulfilled or waived of the conditions set forth in Article IV hereof and applicable to the Second Closing shall be fulfilled or waived in accordance herewith,

provided such date is not later than 35 days after the First Closing Date; or

(ii) such other time and place and/or on such other date as the Investors and CDRD may agree.

The date on which the Second Closing occurs is referred to herein as the "SECOND CLOSING DATE."

(b) On the Second Closing Date, if any, CDRD shall deliver to each Investor certificates (with the number of and denomination of such certificates designated by such Investor) representing the Second Closing Shares and, if Warrants are then issuable pursuant to Section 3.2, such Warrants, purchased by such Investor under this Agreement registered in the name of such Investor (or its nominee) or deposit such Second Closing Shares and Warrants, if any, into accounts designated by such Investor, and such Investor shall deliver to CDRD the Purchase Price for the number of Second Closing Shares and Warrants, if any, purchased by such Investor under this Agreement by wire transfer in immediately available funds to such account as CDRD designates in writing to the Investors not later than two business days prior to the Second Closing Date.

Section 1.5 Covenant to Register.

(a) For purposes of this Agreement, unless the context otherwise requires, the following definitions shall apply:

(i) The terms "REGISTER," "REGISTERED," and "REGISTRATION" refer to a registration under the Securities Act of 1933, as amended (the "ACT"), effected by preparing and filing a registration statement or similar document in compliance with the Act, and the declaration or ordering of effectiveness of such registration statement, document or amendment thereto.

(ii) The term "REGISTRABLE SECURITIES" means the securities issuable upon conversion of the Preferred Shares sold to Investors by CDRD (other than Preferred Shares issuable upon exercise of the Libra Warrant (as defined in Section 7.1)), or otherwise issuable pursuant to the Certificate of Designations, and any securities of CDRD or securities of any successor corporation issued as, or issuable upon the conversion or exercise of any warrant, right or other security that is issued as a dividend or other distribution with respect to, or in exchange for, or in replacement of, the Preferred Shares sold to Investors by CDRD, which are held by a holder of Registrable Securities and which (i) have not been resold pursuant to an effective registration statement or pursuant to Rule 144 under the Act or (ii) are ineligible for resale pursuant to Rule 144(k) under the Act. For purposes of this Agreement, securities will be considered ineligible for resale pursuant to Rule 144(k) under the Act unless CDRD's transfer agent has accepted an instruction from CDRD specifying that such securities are eligible for sale pursuant to Rule 144(k).

(iii) The term "HOLDER OF REGISTRABLE SECURITIES" means any Investor, and any subsequent holder of Preferred Shares or Registrable Securities that purchases

in the aggregate, including purchases by funds or entities affiliated with such holder or managed by the same manager or advised by the same advisor as such holder, at least the lesser of (1) 10,000 of the Preferred Shares (or Underlying Shares (as defined below) issued upon the conversion of at least 10,000 Preferred Shares) sold to Investors by CDRD, (2) an amount equal to all of the Preferred Shares sold to an Investor by CDRD (or Underlying Shares issued upon conversion of all such Preferred Shares), and (3) all Preferred Shares (or Underlying Shares issued upon conversion of all such Preferred Shares) then held by an Investor.

(b) (i) CDRD shall, as expeditiously as possible following the First Closing, file a "shelf" registration statement with the SEC pursuant to Rule 415 of the Act on Form S-3, or if Form S-3 is not then available, another appropriate form, covering all the Registrable Securities (the "INITIAL REGISTRATION"), and shall use its best efforts to cause such "shelf" registration statement to become effective by the later of (A) the 90th calendar day after the First Closing Date and (B) February 15, 1997 (the "INITIAL REGISTRATION DEADLINE"). CDRD shall provide holders of Registrable Securities reasonable opportunity to review any such registration statement or amendment or supplement thereto prior to the filing thereof, but in no event

shall such period exceed seven days, and CDRD shall not file any such registration statement, amendment or supplement to which any holder of Registrable Securities shall reasonably have objected. If the Registrable Securities are registered initially on a form other than Form S-3, CDRD shall use its best efforts to register the Registrable Securities on Form S-3 as soon as use of such form is permissible.

(ii) Subject to Section 1.5(b)(iii) below, CDRD may suspend the effectiveness of the registration statement or the use of any prospectus used in connection with any such registration effected pursuant to this Subsection (b) only in the event, and for such period of time as, CDRD concludes in its reasonable judgment is required by applicable securities laws or the rules and regulations of the Securities and Exchange Commission ("SEC"). CDRD will use its best efforts to cause such suspension to terminate at the earliest possible date; provided that CDRD shall be permitted to maintain such suspension if, and only for so long as, the Board of Directors of CDRD shall, in good faith, determine that the failure to maintain such suspension is reasonably likely to be seriously detrimental (excluding detriment resulting from the price of the Common Stock or conversion of the Preferred Shares) to CDRD or would interfere with a material transaction CDRD is then contemplating.

(iii) If (A) the registration statement covering all Registrable Securities is not effective by the later of (1) the 90th calendar day after the First Closing Date and (2) February 15, 1997, (B) at any time after the later of (1) the 90th calendar day after the First Closing Date and (2) February 15, 1997, (x) CDRD fails to have a sufficient number of shares of Common Shares authorized or reserved to permit conversion of all of the then-outstanding Preferred Shares, (y) CDRD fails, for any reason, to honor any request for conversion of Preferred Shares except as permitted by the terms and conditions of Section 4 of the Certificate of Designations, or (z) the Common Shares fail to continue to be listed on the NASDAQ Small Capitalization Market, the NASDAQ National Market, the New York Stock Exchange or the American Stock Exchange, or (C) at any time after the registration statement has been declared effective, the SEC suspends the effectiveness of the registration statement or CDRD suspends the

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use of the prospectus used in connection with such registration statement for more than 60 cumulative days (the "CUMULATIVE SUSPENSION") in the aggregate in any twelve-month period (taking into account all such suspensions) then CDRD shall (in addition to any other remedies available to such holders at law or equity, including pursuant to the provisions of Section 7.2(a)) pay to each (in the case of (B) above) holder of Preferred Shares and (in the case of (A) or (C) above) holder of Registrable Securities (other than, in the case of (A) above, any holder all of whose shares of Registrable Securities were included in a registration statement declared effective by the date therein specified) a cash payment (the "REGISTRATION PAYMENT AMOUNT") in an amount per share equal to 3% of the Liquidation Preference (as defined in the Certificate of Designations) for all Preferred Shares or the equivalent in securities issued or issuable upon conversion (the "UNDERLYING SHARES") then held by such holder for each cumulative 30-day period thereafter until such registration statement is effective or such failure is rectified, or during which the effectiveness of the registration statement or use of the prospectus shall be suspended (taking into account all such suspensions); provided, however, that if (A) the registration statement with respect to the Qualifying Offering (as defined in the Certificate of Designations) is not declared effective on or before the fifth business day following the expected effective date specified in the Effective Date Notice (as defined in the Certificate of Designations), and (B) the Lock-up Request (as defined in the Certificate of Designations) requests that the Lock-up is to become effective prior to the effective date of the registration statement, then the number of days comprising the Cumulative Suspension Days shall be reduced by one day for each day that holders of Registrable Securities are subject to the Lock-up (as defined in the Certificate of Designations). Such cash payments shall accrue at the rate of 1/30th of Registration Payment Amount per day during which such event occurs. Any cash payment required to be made pursuant to this subsection (iii) shall be due and payable within 10 days of the end of any month in which any such event occurs.

(c) Whenever required under this Section to effect the registration of any Registrable Securities, including without limitation, the Initial Registration, CDRD shall, as expeditiously as reasonably possible:

(i) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration to become effective as provided in Section 1.5(b)(i), and upon the request of any holder of Registrable Securities keep such registration statement effective for so long as any holder of Registrable Securities desires to dispose of the securities covered by such registration statement, or, if earlier, until such Registrable Securities may

be sold under Rule 144(k) (provided that CDRD's transfer agent has accepted an instruction from CDRD to such effect).

(ii) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement and notify the holders of Registrable Securities of the filing and effectiveness of such registration statement and any amendments or supplements; provided that CDRD shall not be obligated to file more than two

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such supplements in any 30-day period to the extent they relate solely to a transfer by a holder of Registrable Securities.

(iii) Furnish to each holder of Registrable Securities such numbers of copies of a current prospectus conforming with the requirements of the Act, copies of the registration statement, any amendment or supplement thereto and any documents incorporated by reference therein and such other documents as such holder of Registrable Securities may reasonably require in order to facilitate the disposition of Registrable Securities owned by such holder of Registrable Securities; provided that CDRD shall not be obligated to furnish more than two such supplements in any 30-day period to the extent they relate solely to a transfer by a holder of Registrable Securities.

(iv) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or "Blue Sky" laws of such jurisdictions as shall be reasonably requested by the holder of Registrable Securities, provided that CDRD shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(v) Notify each holder of Registrable Securities immediately of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, and use its best efforts, subject to Section 1.5(b) (ii), promptly to update and/or correct such prospectus.

(vi) In connection with an underwritten offering, furnish, at the request of any holder of Registrable Securities, (1) an opinion of counsel of CDRD, dated the closing date of such offering, in form and substance reasonably satisfactory to such holder and its counsel and covering, without limitation, such matters as the due authorization and issuance of the securities being registered and compliance with securities laws by CDRD in connection with the authorization, issuance and registration thereof, and (2) a letter or letters of CDRD's independent public accountants in form and substance reasonably satisfactory to the holder, such holder's lead underwriter and their respective counsel, in each case, covering such matters as would customarily be covered in an underwritten public offering.

(vii) Use its best efforts to list the Registrable Securities covered by such registration statement with any securities exchange or market on which the Common Shares are then listed.

(viii) Make available for inspection by the holder of Registrable Securities, upon request, all SEC Documents (as defined below) filed subsequent to the First Closing and require CDRD's officers, directors and employees to supply all information reasonably requested by any holder of Registrable Securities in connection with such registration statement.

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(ix) Subject to any Lock-up in effect, permit any offering to be underwritten by an underwriter of recognized national standing that is (A) selected by holders of a majority in interest of Preferred Shares and Registrable Securities the holders of which have requested to be included in a registration of CDRD securities and (B) reasonably acceptable to CDRD, and enter into such agreements with such underwriter (including agreements to indemnify) and cause delivery of such legal opinions and letters of independent public accountants as is customary in underwritten public offerings in accordance with clause (vi), in each case, at CDRD's expense; provided that any such request may not be made prior to the earlier of (Y) completion of the Qualifying Offering and (Z) October 16, 1997.

(d) Each holder of Registrable Securities will furnish to CDRD in connection with any registration under this Section such information regarding itself, the Registrable Securities and other securities of CDRD held by it, and the intended method of disposition of such securities as shall be reasonably required to effect the registration of the Registrable Securities held by such holder of Registrable Securities. Each Investor shall provide such data promptly upon request made by CDRD after the First Closing. The intended method of disposition (Plan of Distribution) of such securities as so provided by any Investor shall be included without alteration in the registration statement covering the Registrable Securities and shall not be changed without the written consent of such Investor.

(e) (i) CDRD shall indemnify, defend and hold harmless each holder of Registrable Securities that is included in a registration statement pursuant to the provisions of Subsection (b) (each, a "SELLING SHAREHOLDER") and each of its officers, directors, employees, agents, partners or controlling persons (within the meaning of the Act) (each, a "HOLDER INDEMNIFIED PARTY") from and against, and shall reimburse such Holder Indemnified Party with respect to, any and all claims, suits, demands, causes of action, losses, damages, liabilities, costs or expenses ("LIABILITIES") to which such Holder Indemnified Party may become subject under the Act or otherwise, arising from or relating to (A) any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any preliminary, final or summary prospectus contained therein or any amendment or supplement thereto, or (B) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, however, that CDRD shall not be liable with respect to any Selling Shareholder in any such case to the extent that any such liability arises out of or is based upon an untrue statement or omission so made in such registration statement, preliminary, final or summary prospectus or amendment or supplement thereto in reliance upon and in strict conformity with written information furnished in an instrument duly executed by such Selling Shareholder specifically for use in the registration statement; provided further, that CDRD shall not be liable with respect to any Selling Shareholder in any such case to the extent that any such Liability arises out of or is based upon an untrue statement or omission made in any preliminary prospectus if (A) such Selling Shareholder under an obligation to send or deliver a copy of the prospectus with or prior to the delivery of written confirmation of the sale of Registrable Securities to the person asserting such Liability who purchased such Registrable Securities that are the subject thereof from such Selling Shareholder failed to do so and (B) the prospectus would have completely corrected such untrue statement or omission and if, having previously

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been furnished by or on behalf of CDRD with copies of the prospectus so correcting such untrue statement or omission, and if having been obligated to deliver such prospectus such Selling Shareholder thereafter failed to deliver such prospectus prior to or concurrently with the sale of Registrable Securities to the person asserting such Liability who purchased such Registrable Securities that are the subject thereof from such Selling Shareholder; and provided further, that CDRD shall not be liable with respect to any Selling Shareholder in any such case to the extent that any Liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission in the prospectus, if such untrue statement or alleged untrue statement, omission or alleged omission is completely corrected in an amendment or supplement to the prospectus and if, having previously been furnished by or on behalf of CDRD with copies of the prospectuses so amended or supplemented, having been advised by or on behalf of CDRD of such correction, and having been obligated to deliver such prospectuses, such Selling Shareholder thereafter failed to deliver such prospectus as so amended or supplemented, prior to or concurrently with the sale of Registrable Securities to the person asserting such Liability who purchased such Registrable Securities that are the subject thereof from such Selling Shareholder.

(ii) In the event of any registration under the Act of Registrable Securities pursuant to Subsection (b), each holder of such Registrable Securities hereby severally agrees to indemnify, defend and hold harmless CDRD, and its officers, directors, employees, agents, partners or controlling persons (within the meaning of the Act) (each, a "CDRD INDEMNIFIED PARTY") from and against, and shall reimburse such CDRD Indemnified Party with respect to, any and all Liabilities to which such CDRD Indemnified Party may become subject under the Act or otherwise, arising from or relating to (A) any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any preliminary, final or summary prospectus contained therein or any amendment or supplement thereto, or (B) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, that such

holders will be liable in any such case to the extent, and only to the extent, that any such liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in such registration statement, preliminary, final or summary prospectus or amendment or supplement thereto in reliance upon and in strict conformity with written information furnished in an instrument duly executed by such holder specifically for use in the preparation thereof; provided further that in no case shall any such holder be liable in any such case in an amount in excess of the net proceeds received by such holder upon the sale of Registrable Securities pursuant to such registration statement, prospectus or amendment or supplement thereto.

(iii) (A) Promptly after receipt by any Holder Indemnified Party of notice of the commencement of any action, such Holder Indemnified Party shall, if a claim in respect thereof is to be made against CDRD hereunder, notify CDRD in writing thereof but the omission so to notify CDRD shall not relieve CDRD from any Liability that it may have to the Holder Indemnified Party other than under this section and shall only relieve it from any Liability that it may have to the Holder Indemnified Party under this section if and to the extent CDRD is actually prejudiced by such omission. In case any such action shall be brought against any Holder Indemnified Party and such Holder Indemnified Party shall notify CDRD of the

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commencement thereof, CDRD shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel reasonably satisfactory to such Holder Indemnified Party, and, after notice from CDRD to the Holder Indemnified Party of its election so to assume and undertake the defense thereof CDRD shall not be liable to the Holder Indemnified Party under this section for any legal expenses subsequently incurred by the Holder Indemnified Party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected; provided, however, that if the defendants in any such action include both CDRD and such Holder Indemnified Party and the Holder Indemnified Party shall have reasonably concluded that there may be reasonable defenses available to it that are different from or additional to those available to CDRD or if the interests of the Holder Indemnified Party reasonably may be deemed to conflict with the interests of CDRD, the Holder Indemnified Party shall have the right to select a separate counsel and to assume such legal defenses and otherwise to participate in the defense of such action, with the reasonable expenses and fees of such separate counsel and other reasonable expenses related to such participation to be reimbursed by CDRD as incurred. In clarification of the foregoing, CDRD shall pay the reasonable expenses and fees of one separate counsel whose selection is approved by the largest group of similarly situated Holder Indemnified Parties as measured by the aggregate par value or principal amount of such Registrable Securities owned by such group. Any Holder Indemnified Party who chooses not to be represented by the foregoing separate counsel shall be entitled, at its own expense, to be represented by counsel of its own selection.

(B) Promptly after receipt by any CDRD Indemnified Party of notice of the commencement of any action, such CDRD Indemnified Party shall, if a claim in respect thereof is to be made against any holder of Registrable Securities hereunder, notify such holder of Registrable Securities in writing thereof but the omission so to notify such holder of Registrable Securities shall not relieve such holder of Registrable Securities from any Liability that it may have to the CDRD Indemnified Party other than under this section and shall only relieve it from any Liability that it may have to the CDRD Indemnified Party under this section if and to the extent such holder of Registrable Securities is actually prejudiced by such omission. In case any such action shall be brought against any CDRD Indemnified Party and such CDRD Indemnified Party shall notify such holder of Registrable Securities of the commencement thereof, such holder of Registrable Securities shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel reasonably satisfactory to such CDRD Indemnified Party, and, after notice from such holder of Registrable Securities to the CDRD Indemnified Party of its election so to assume and undertake the defense such holder of Registrable Securities shall not be liable to the CDRD Indemnified Party under this section for any legal expenses subsequently incurred by the CDRD Indemnified Party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected; provided, however, that if the defendants in any such action include both the holders of Registrable Securities and such CDRD Indemnified Party and the CDRD Indemnified Party shall have reasonably concluded that there may be reasonable defenses available to it that are different from or additional to those available to the holders of Registrable Securities or if the interests of the CDRD Indemnified Party reasonably may be deemed to conflict with the interests of the holders of Registrable Securities, the CDRD Indemnified Party together with all other defendant CDRD Indemnified Parties shall have the right to select one separate counsel and to

assume such legal defenses and otherwise to participate in the defense of such action, with the reasonable expenses and fees of such separate counsel and other reasonable expenses related to such participation to be reimbursed by such holders of Registrable Securities as incurred.

(f) (i) With respect to the inclusion of Registrable Securities in a registration statement pursuant to Subsection (b), all fees, costs and expenses of and incidental to such registration, inclusion and public offering shall be borne by CDRD; provided, however, that any securityholders participating in such registration shall bear their pro-rata share of the underwriting discounts and commissions, if any, incurred by them in connection with such registration.

(ii) The fees, costs and expenses of registration to be borne by CDRD as provided in this Subsection (f) shall include, without limitation, all registration, filing and NASD fees, listing fees, printing expenses, fees and disbursements of counsel and accountants for CDRD, and all legal fees and disbursements and other expenses of complying with state securities or Blue Sky laws of any jurisdiction or jurisdictions in which securities to be offered are to be registered and qualified. Subject to appropriate agreements as to confidentiality, CDRD shall make available to counsel for the holders of Registrable Securities its documents and personnel for due diligence purposes. Except as otherwise provided herein, fees and disbursements of counsel and accountants for the selling securityholders shall be borne by the respective selling securityholders.

(g) From and after the date of this Agreement, CDRD shall not, nor shall it agree to allow the holders of any securities of CDRD to, include any of their respective securities in any registration statement filed by CDRD pursuant to Subsection (b) unless such inclusion will not reduce the amount of the Registrable Securities included therein or in any underwriting thereunder.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

Section 2.1 Representations and Warranties of CDRD. CDRD hereby makes the following representations and warranties to each of the Investors:

(a) Organization and Qualification. CDRD and each of its subsidiaries is a corporation duly incorporated and existing in good standing under the laws of the state of its jurisdiction of incorporation and has the requisite corporate power to own its properties and to carry on its business as now being and contemplated to be conducted. CDRD does not have any subsidiaries other than Satellite CD Radio, Inc., which is wholly-owned by CDRD. CDRD and each of its subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary other than those in which the failure so to qualify would not have a Material Adverse Effect. "MATERIAL ADVERSE EFFECT" means any adverse effect

on (i) the business, operations, properties, prospects or financial condition of the entity with respect to which such term is used and which is material to such entity and other entities controlling or controlled by such entity taken as a whole, or (ii) the ability of CDRD to perform its obligations hereunder or under any of the Certificate of Designations, the Escrow Agreement and the Warrants, if any (collectively, the "OPERATIVE AGREEMENTS").

(b) Authorization; Enforcement. (i) CDRD has the requisite corporate power and authority to enter into and perform this Agreement and the other Operative Agreements, to issue the Preferred Shares in accordance with the terms of this Agreement, and to file the Certificate of Designations, (ii) the execution and delivery of this Agreement and the other Operative Agreements by CDRD and the consummation by it of the transactions contemplated hereby and thereby, including the issuance of the Preferred Shares and the filing of the Certificate of Designations, have been duly authorized by all necessary corporate action, and no further consent or authorization of CDRD or its Board of Directors or stockholders is required, (iii) this Agreement has been, and, to the extent required to be executed and delivered pursuant to the terms of this Agreement, the other Operating Agreements have been or will be, duly executed and delivered by CDRD, and (iv)

this Agreement constitutes and, to the extent required to be executed and delivered pursuant to the terms of this Agreement, the other Operating Agreements constitute or will constitute, a valid and binding obligation of CDRD enforceable against CDRD in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies or by other equitable principles of general application.

(c) Capitalization. The authorized capital stock of CDRD consists of no less than 50,000,000 Common Shares and no less than 10,000,000 shares of preferred stock; as of October 11, 1996, there are 10,184,748 Common Shares issued and outstanding (CDRD has also given an instruction to the transfer agent for the Common Shares for the issuance of an additional 50,643 Common Shares), all of which are listed on the NASDAQ Small Capitalization Market, and no shares of preferred stock issued and outstanding. All of the outstanding Common Shares have been validly issued and are fully paid and non-assessable. No Common Shares are entitled to preemptive rights. As of October 11, 1996, except as set forth on Schedule 2.1(c) attached to this Agreement, no Common Shares are entitled to registration rights and there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock of CDRD, or contracts, commitments, understandings or arrangements by which CDRD is or may become bound to issue additional shares of capital stock of CDRD or options, warrants, scrip, rights to subscribe to, or commitments to purchase or acquire, any shares, or securities or rights convertible into shares, of capital stock of CDRD. CDRD has furnished or made available to the Investors true and correct copies of CDRD's by-laws as in effect on the date of this Agreement (the "BY-LAWS") and certificate of incorporation as in effect on the date of this Agreement (the "CERTIFICATE OF INCORPORATION").

(d) Issuance of Preferred Shares. The issuance of the Preferred Shares has been duly authorized and, when paid for and issued in accordance with the terms hereof, the

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Preferred Shares shall be validly issued, fully paid and non-assessable, free and clear of any liens, claims or encumbrances, and entitled to the rights and preferences set forth in the Certificate of Designations. The Common Shares issuable upon conversion of the Preferred Shares or exercise of the Warrants, if any, are duly authorized and reserved for issuance and, upon issuance in accordance with the Certificate of Designations or Warrants, as applicable, will be listed on the NASDAQ Small Capitalization Market, the NASDAQ National Market, the New York Stock Exchange or the American Stock Exchange, and will be validly issued, fully paid and non-assessable, free and clear of all liens, claims, encumbrances and preemptive rights, and the holders shall be entitled to all rights and preferences accorded to a holder of Common Shares.

(e) No Conflicts. The execution, delivery and performance of this Agreement by CDRD and the consummation by CDRD of the transactions contemplated hereby do not and will not (i) result in a violation of the Certificate of Designations, the Certificate of Incorporation or the By-Laws or the charter or bylaws of any subsidiary of CDRD, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in or create a lien under, any agreement, indenture or instrument to which CDRD or any of its subsidiaries is a party, or result in a violation of any Federal, state, local or foreign law, rule, regulation, order, judgment or decree (including Federal and state securities laws and regulations) applicable to CDRD or any of its subsidiaries or by which any property or asset of CDRD or any of its subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect); provided that, for purposes of such representation as to Federal, state, local or foreign law, rule or regulation, no representation is made herein with respect to any of the same applicable solely to the Investors and not to CDRD. CDRD is not required under any Federal, state or local law, rule or regulation to obtain any consent, authorization or order of, or make any filing (except for informational filings necessary to maintain the continuing accuracy of CDRD's application before the FCC), or registration (other than SEC registrations required pursuant to this Agreement or any approvals that may be required by the FCC in connection with the conversion of the Preferred Shares or the exercise of the Warrants) with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or issue and sell the Preferred Shares, the Warrants, if any, and the Common Shares in accordance with the terms of this Agreement, provided that, for purposes of the representation made in this sentence, CDRD is assuming and relying upon the accuracy of the relevant representations and agreements of the Investors herein.

(f) SEC Documents; Financial Statements. The Common Shares of CDRD are registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), and CDRD has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Exchange Act, including material filed pursuant to Section 13(a) or 15(d), in addition to one or more registration statements and amendments thereto heretofore filed by CDRD with the SEC (all of the foregoing including filings incorporated by reference therein being referred to herein as the "SEC DOCUMENTS"). CDRD has delivered or made available to the Investors true

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and complete copies of all SEC Documents (including, without limitation, proxy information and solicitation materials and registration statements) filed with the SEC since December 31, 1995 and all annual SEC Documents filed with the SEC since December 31, 1994. CDRD has not provided to the Investor any information that, according to applicable law, rule or regulation, is required to have been disclosed publicly by CDRD but that has not been so disclosed. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder and other Federal, state and local laws, rules and regulations applicable to such SEC Documents, and none of the SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of CDRD included in the SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC or other applicable rules and regulations with respect to such requirements. Such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed or summary statements) and fairly present in all material respects the consolidated financial position of CDRD and its subsidiaries as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments).

(g) No Material Adverse Change. Since June 30, 1996, the date through which the most recent quarterly report of CDRD on Form 10-Q has been prepared and filed with the SEC, a copy of which is included in the SEC Documents, no Material Adverse Effect has occurred or exists with respect to CDRD or its subsidiaries, except as otherwise disclosed or reflected in other SEC Documents prepared through or as of a date subsequent to June 30, 1996. Notwithstanding the foregoing, no event described in Section 4.2(j)(i) through (vii) has occurred and is continuing.

(h) Legal Proceedings. There are no actions, suits, proceedings, arbitrations or investigations by any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States or any state, county, city or other political subdivision pending or, to the knowledge of CDRD, threatened against, relating to or affecting CDRD or any of its subsidiaries which could reasonably be expected, individually or in the aggregate with other such actions or proceedings, to have a Material Adverse Effect; provided that except as otherwise provided in this Agreement, it is expressly recognized that CDRD is involved in proceedings with the FCC related to obtaining a Satellite DARS License, and the results of such proceedings, whether favorable or not, shall be deemed to not have a Material Adverse Effect for purposes of this Section 2.1(h).

(i) Compliance With Laws and Orders. The business of CDRD and its subsidiaries is not being conducted in violation of any law, ordinance or regulations of any governmental entity, or any order of any governmental or regulatory authority except for

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violations which either singly or in the aggregate do not and will not have a Material Adverse Effect.

(j) No Undisclosed Liabilities. CDRD and its subsidiaries have no liabilities or obligations not disclosed in the SEC Documents, other than those incurred in the ordinary course of CDRD's or its subsidiaries' respective businesses since June 30, 1996, or which, individually or in the aggregate, do not or would not have a Material Adverse Effect on CDRD

or its subsidiaries.

(k) No Undisclosed Events or Circumstances. No event or circumstance has occurred or exists with respect to CDRD or its subsidiaries or their respective businesses, properties, prospects, operations or financial condition, that, under applicable law, rule or regulation, requires public disclosure or announcement by CDRD but that has not been so publicly announced or disclosed.

(l) No General Solicitation. Neither CDRD, nor any of its affiliates, or, to its knowledge, any person acting on its or their behalf (including Libra Investments, Inc. (the "PLACEMENT AGENT")), has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the Act) in connection with the offer or sale of the Preferred Shares and Warrants, if any.

(m) No Integrated Offering. Neither CDRD, nor any of its affiliates, nor any person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would require registration of the Preferred Shares under the Act.

(n) Brokers. CDRD has taken no action that would give rise to any claim by any person for brokerage commissions, finder's fees or similar payments by any or all of the Investors relating to this Agreement or the transactions contemplated hereby, except for amounts owing to the Placement Agent and Batchelder & Partners ("B&P"), which amounts shall be paid by CDRD.

(o) Intellectual Property. CDRD does not know of any patents, copyrights or trademarks ("INTELLECTUAL PROPERTY") that CDRD (and/or its wholly-owned subsidiaries) does not own or have a license to use or that it (and/or they) will be unable to acquire on reasonable terms, that are necessary to conduct the business of CDRD and its subsidiaries as it is now being conducted or as proposed to be conducted. To the best of CDRD's knowledge, except as described in the SEC Documents, such Intellectual Property is (or will be) valid and enforceable and the use of such Intellectual Property by CDRD and/or its subsidiaries does not (or will not) infringe upon or conflict with any rights of any third party and neither CDRD nor any of its subsidiaries has received notice of any such infringement or conflict, and neither CDRD nor any of its subsidiaries has any knowledge of any infringement of its respective Intellectual Property by any third party.

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(p) FCC Representations. CDRD and its subsidiaries do not and, after consummation of the transactions contemplated by this Agreement, will not violate, or otherwise fail to comply with, any FCC rules or regulations that could prevent CDRD or such subsidiaries from obtaining a Pioneer's Preference Order or otherwise becoming the owner of a Satellite DARS License. No holder of Preferred Shares is required or will be required to obtain any approval, consent, authorization or order of, or make any filing or registration with, the FCC in order to acquire Preferred Shares or to exercise any of its rights under this Agreement or the Preferred Shares or Warrants (if any), except in connection with a conversion of Preferred Shares or exercise of any Warrants resulting in such holder, or a group of persons who have an agreement or understanding to act in concert of which such holder is a member, holding 50% or more of the voting securities of CDRD (such approval being referred to in this Agreement as "ACQUISITION OF CONTROL APPROVAL").

Section 2.2 Representations and Warranties of the Investors. Each of the Investors, severally and not jointly, hereby makes the following representations and warranties to CDRD:

(a) Authorization; Enforcement. (i) Such Investor has the requisite power and authority to enter into and perform this Agreement and to purchase the Preferred Shares and Warrants, if any, being sold to it hereunder, (ii) the execution and delivery of this Agreement by such Investor and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary corporate, partnership or limited liability company action, and (iii) this Agreement constitutes a valid and binding obligation of such Investor enforceable against such Investor in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies or by other equitable principles of general application.

(b) No Conflicts. The execution, delivery and performance of this Agreement and the consummation by such Investor of the transactions contemplated hereby do not and will not (i) result in a violation of such Investor's organizational documents, or (ii) conflict with any

agreement, indenture or instrument to which such Investor is a party, or (iii) result in a violation of any law, rule or regulation, or any order, judgment or decree of any court or governmental agency applicable to such Investor. Such Investor is not required to obtain any consent or authorization of any governmental agency in order for it to perform its obligations under this Agreement.

(c) Investment Representation. Such Investor is purchasing the Preferred Shares for its own account and not with a view to distribution in violation of any securities laws. Such Investor has no present intention to sell the Preferred Shares and such Investor has no present arrangement (whether or not legally binding) to sell the Preferred Shares to or through any person or entity; provided, however, that by making the representations herein, such Investor does not agree to hold the Preferred Shares for any minimum or other specific term and reserves the right to dispose of the Preferred Shares at any time in accordance with Federal and state securities laws applicable to such disposition.

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(d) Accredited Investor. Such Investor is an "accredited investor" as defined in Rule 501 promulgated under the Act. Such Investor has such knowledge and experience in financial and business matters in general and investments in particular, so that such Investor is able to evaluate the merits and risks of an investment in the Preferred Shares and to protect its own interests in connection with such investment. In addition (but without limiting the effect of CDRD's representations and warranties contained herein), such Investor has received such information as it considers necessary or appropriate for deciding whether to purchase the Preferred Shares pursuant hereto. Such Investor acknowledges that no representation or warranty is made by the Placement Agent or any persons representing the Placement Agent with respect to CDRD or the sale of the Preferred Shares.

(e) Rule 144. Such Investor understands that there is no public trading market for the Preferred Shares, that none is expected to develop, and that the Preferred Shares must be held indefinitely unless such Preferred Shares are converted into Common Shares or registered under the Act or an exemption from registration is available. Such Investor has been advised or is aware of the provisions of Rule 144 promulgated under the Act.

(f) Brokers. Such Investor has taken no action that would give rise to any claim by any person for brokerage commissions, finder's fees or similar payments by CDRD relating to this Agreement or the transactions contemplated hereby, except for amounts owing to the Placement Agent and B&P, which amounts shall be paid by CDRD.

(g) Reliance by CDRD. Such Investor understands that the Preferred Shares are being offered and sold in reliance on a transactional exemption from the registration requirements of Federal and state securities laws and that CDRD is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings of such Investor set forth herein in order to determine the applicability of such exemptions and the suitability of such Investor to acquire the Preferred Shares.

### ARTICLE III

#### COVENANTS

Section 3.1 Registration and Listing. (a) Until the later of (i) three (3) years after all Preferred Shares have been exchanged into Common Shares and (ii) if any Warrants have been issued pursuant to Section 3.2, four (4) years after all Warrants have been exercised, CDRD will cause the Common Shares to continue to be registered under Sections 12(b) or 12(g) of the Exchange Act, to comply in all respects with its reporting and filing obligations under the Exchange Act and to not take any action or file any document (whether or not permitted by the Exchange Act or the rules thereunder) to terminate or suspend such registration or to terminate or suspend CDRD's reporting and filing obligations under said act. Until the later of (i) three (3) years after all Preferred Shares have been exchanged into Common Shares and (ii) if any Warrants have been issued pursuant to Section 3.2, four (4) years after all Warrants have been exercised, CDRD will take all action within its power to continue the listing or trading of the

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Common Shares on the NASDAQ Small Capitalization Market, the NASDAQ National

Market, the New York Stock Exchange or the American Stock Exchange, and comply in all respects with CDRD's reporting, filing and other obligations under the bylaws or rules of the NASD and NASDAQ and any exchange where the Common Shares are traded. CDRD will not become a NASDAQ National Market or New York Stock Exchange or American Stock Exchange listed company unless CDRD has first obtained requisite shareholder approval concerning the issuance of Common Shares upon conversion of the Preferred Shares in accordance with any obligations of CDRD under any applicable agreements with the NASD or NASDAQ.

(b) CDRD shall notify the SEC and NASD, in accordance with their requirements, of the transactions contemplated by this Agreement, and shall take all other necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, for the legal and valid issuance of the Preferred Shares and Common Shares issuable upon conversion thereof to any Investor or subsequent holder.

Section 3.2 Warrants. In the event CDRD or its subsidiary obtains the right to purchase a Satellite DARS License (by grant of the Pioneer's Preference Order from the FCC or by submission of a Winning Bid) and the purchase price payable by CDRD for such license exceeds \$225,000,000, CDRD promptly shall issue to the Investors warrants in the form of Exhibit 3 (the "WARRANTS") to purchase a number of Common Shares, at an exercise price of \$10 per share, in an amount equal to 8,333.33 multiplied by the quotient of (i) the number of First Closing Shares divided by (ii) 40,000, for each \$50,000,000 increment (or portion thereof) by which such purchase price exceeds \$225,000,000. The Warrants shall be allocated among the Investors pro rata based on the number of Preferred Shares specified on Schedule I for each Investor.

Section 3.3 Increase in Authorized Shares. CDRD shall cause its number of authorized Common Shares to be increased to at least 100,000,000 on or before the later of (a) February 15, 1997 and (b) the 90th calendar day after the First Closing Date. CDRD shall at all times reserve and keep out of its authorized but unissued Common Shares, solely for the purpose of effecting the conversion of the Preferred Shares and exercise of the Warrants, if any, at least such number ("MINIMUM RESERVE NUMBER") that is the greater of (x) 10,000,000 Common Shares (subject to appropriate adjustment for stock splits, stock dividends and similar events) and (y) 1.5 times the number of its Common Shares as shall from time to time be sufficient to effect the conversion of all outstanding Preferred Shares and exercise of all outstanding Warrants, if any. If (i) the number of authorized Common Shares is not so increased by such date, or (ii) the number of Common Shares is not so reserved at any time, then CDRD shall, in addition to any other remedies available to such holders at law or equity, pay each holder of Preferred Shares a cash payment in an amount per share equal to (1) the Securities Deficiency Percentage (as defined herein) multiplied by (2) 3% of the Liquidation Preference for all Preferred Shares (or the equivalent in Underlying Shares) then held by such holder for each 30-day period thereafter until such number of Common Shares authorized is so increased or so reserved; provided that such cash payment shall not apply to the extent CDRD is required to make cash payments pursuant to Section 1.5(b) (iii) (x). Such cash payment shall be pro-rated as to a period of less than 30 days. Any cash payment required to be made pursuant to this subsection 3.3 shall be due

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and payable within 10 days of the end of any month in which such event occurs. In the event there is a Deficiency (as defined in the Certificate of Designations), CDRD shall comply with its obligations pursuant to Section 4(i) of the Certificate of Designations to purchase Preferred Shares as and to the extent required by the Certificate of Designations. For purposes of this Section 3.3, the "SECURITIES DEFICIENCY PERCENTAGE" shall be equal to (1) the Minimum Reserve Number minus the number of shares of Common Stock authorized and reserved by CDRD at the time of determination divided by (2) the Minimum Reserve Number.

Section 3.4 Replacement Certificates. The certificate(s) representing the Preferred Shares held by any Investor (or then holder) may be exchanged by such Investor (or such holder) at any time and from time to time for certificates with different denominations representing an equal aggregate number of Preferred Shares, as requested by such Investor (or such holder) upon surrendering the same. No service charge will be made for such registration of transfer or exchange.

Section 3.5 Receipt of FCC Order. If the First Closing occurs, CDRD or its wholly-owned subsidiary shall immediately take such actions as required and when required, and otherwise use its best efforts, to acquire the Satellite DARS License on the terms and conditions set forth in the Pioneer's Preference Order or the Winning Bid, as applicable.

Section 3.6 Limitation on Conversion Rights. Notwithstanding anything to the contrary contained in this Agreement, at any

time prior to the giving of a Redemption Notice (as defined in the Certificate of Designations), no Preferred Share may be converted by an Investor to the extent that, following conversion of such Preferred Share such Investor and its affiliates (within the meaning of the Exchange Act) shall be the beneficial owners (as defined in Rule 13d-3 under the Exchange Act) of more than the percentage of the Common Shares indicated by the Investor by marking the applicable box below the name of such Investor on the signature pages of this Agreement; provided that each Investor shall have the right to waive this restriction upon 61 days prior notice to CDRD (or such lesser number of days prior notice as shall be indicated by such Investor on its signature page hereto). A transferee of Preferred Shares shall not be bound by this provision unless it expressly agrees to be so bound.

Section 3.7 Transfer of License and Subsidiary. In the event that CDRD or its subsidiary obtains a Satellite DARS License, neither CDRD nor any of its subsidiaries shall, prior to a Qualifying Offering (as such term is defined in the Certificate of Designations), transfer or assign such Satellite DARS License or any interest therein or the subsidiary (or any interest therein) of CDRD that holds such license, or any material assets used in connection with the employment of such license, to any third party.

Section 3.8 Additional Financings. Prior to a Qualifying Offering (as such term is defined in the Certificate of Designations), CDRD shall not undertake to conduct any debt or equity financing that is not either pari passu or junior, in seniority, structure and maturity, to the Preferred Shares. Prior to a final determination of whether the Pioneer's Preference Order will be granted to CDRD, in addition to the limitations imposed by the prior sentence, CDRD shall

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not issue or commit to issue any securities or evidences of indebtedness, other than any issuance of Common Shares or the sale of the Preferred Shares pursuant to this Agreement.

Section 3.9 Wire Transfers. All payments required to be made by CDRD under this Agreement or the Certificate of Designations, shall, upon the written request of any such payee, be made by wire transfer to the account designated by such payee.

Section 3.10 Like Treatment of Holders. Neither CDRD nor any of its affiliates shall, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any holder of Registrable Securities or holder of Preferred Shares for or as an inducement to any consent, waiver or amendment of any terms or provisions of the Registrable Securities or Preferred Shares, this Agreement or the Escrow Agreement (if any), unless such consideration is offered to be paid or agreed to be paid to all holders of Registrable Securities and holders of Preferred Shares which so consent, waive or agree to amend in the time frame set forth in solicitation documents relating to such consent, waiver or agreement. Neither CDRD nor any of its affiliates shall, directly or indirectly, redeem or repurchase any Registrable Securities or Preferred Shares unless such offer of redemption or repurchase is made pro rata to all holders of Registrable Securities and holders of Preferred Shares on identical terms.

Section 3.11 FCC Approval. CDRD shall, with the reasonable cooperation of the holders of the Preferred Shares, promptly and expeditiously after the First Closing apply for, and use its best efforts to obtain, any and all approvals, consents, authorizations or orders of, or make any filings or registrations with, the FCC (other than Acquisition of Control Approval) necessary to permit the conversion of all Preferred Shares in accordance with the Certificate of Designations and the exercise of all Warrants (if any) (the "FCC APPROVAL"). If the FCC Approval is not obtained by the later of (1) the 90th calendar day after the First Closing Date and (2) February 15, 1997, CDRD shall, in addition to any other remedies available to such holders at law or equity (including pursuant to the provisions of Section 7.2(a)), pay each holder of Preferred Shares a cash payment in an amount per share equal to 3% of the Liquidation Preference for all Preferred Shares (or the equivalent in Underlying Shares) then held by such holder for each 30-day period thereafter until such FCC Approval is obtained. Such cash payment shall be pro-rated as to a period of less than 30 days. Any cash payment required to be made pursuant to this subsection 3.3 shall be due and payable within 10 days of the end of any month in which such event occurs. If the FCC Approval is not obtained by a date that is 270 days after the Initial Registration Deadline, then CDRD shall comply with its obligations as and to the extent required by Section 4(a) of the Certificate of Designations.

Section 3.12 Release of Escrowed Property to Investors. If any of the events itemized in Section 3(b)(i) or (ii) of the Escrow Agreement occur, then CDRD shall execute and deliver the certificate required by Section 4(b)(ii) of the Escrow Agreement.

Section 3.13 Additional Satellite DARS Licenses. If (a) the Second Closing has occurred, and (b) at any time within the earlier of twelve months after the Second Closing or the closing of a Qualified Offering, (i) more than two licenses (including the license awarded to CDRD) have been awarded by the FCC that permit the recipients thereof to provide Satellite

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DARS services, and (ii) more than two recipients of such licenses (including CDRD) commence or announce an intention to commence Satellite DARS services using their license, then CDRD shall comply with its obligations as and to the extent required by Section 4(1) of the Certificate of Designations.

#### ARTICLE IV

##### CONDITIONS

Section 4.1 Conditions Precedent to the Obligation of CDRD to Sell the Preferred Shares. The obligation under this Agreement of CDRD to issue and/or sell the First Closing Shares or the Second Closing Shares to the Investors is subject to the satisfaction, at or before the First Closing Date or the Second Closing Date, as applicable, of each of the conditions set forth below; provided that CDRD shall be under no obligation to issue and/or sell the Second Closing Shares unless and until it shall have given the Second Closing Notice. These conditions are for CDRD's sole benefit and may be waived by CDRD in whole or in part at any time in its sole discretion.

(a) Accuracy of the Investors' Representations and Warranties. The representations and warranties of each Investor shall be true and correct in all material respects as of the date when made and as of the First Closing Date or the Second Closing Date, as applicable, as though made at that time (except for representations and warranties that speak as of a particular date).

(b) Performance by the Investors. Each Investor shall have performed all agreements and satisfied all conditions required to be performed or satisfied by such Investor at or prior to the First Closing.

(c) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

Section 4.2 Conditions Precedent to the Obligation of the Investors to Purchase the Preferred Shares. The obligation under this Agreement of each Investor to acquire and pay for the First Closing Shares or the Second Closing Shares is subject to the satisfaction, at or before the First Closing Date or the Second Closing Date, as applicable, of each of the conditions set forth below. These conditions are for the Investors' sole benefit and may be waived by any Investor in whole or in part at any time in its sole discretion with respect to such Investor's obligation to acquire and pay for the First Closing Shares or the Second Closing Shares, as applicable.

(a) Accuracy of CDRD's Representations and Warranties. The representations and warranties of CDRD shall be true and correct in all material respects as of the date when made and (except with respect to the representations and warranties made in the

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first sentence of Section 2.1(g) and in Section 2.1(j)) as of the Escrow Date, First Closing Date or Second Closing Date, as applicable, as though made at that time (except for representations and warranties that speak as of a particular date).

(b) Performance by CDRD. CDRD shall have performed all agreements and satisfied all conditions required to be performed or satisfied by CDRD at or prior to such date including, without limitation, delivering all certificates required by Section 1.3(b) or Section 1.4(b), as applicable.

(c) NASDAQ. From the date of this Agreement to the Escrow Date, the First Closing Date or Second Closing Date, as applicable, trading in CDRD's Common Shares shall not have been suspended by the SEC or the NASDAQ Small Capitalization Market, and trading in securities generally as reported by NASDAQ shall not have been suspended or limited, and the Common Shares shall not have been delisted from any exchange or market on which they are listed on the date of this Agreement.

(d) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

(e) Opinion of Counsel. At the First Closing Date or the Second Closing Date, as applicable, the Investors shall have received an opinion of counsel to CDRD substantially to the effect of Section 2.1(a) through (e) (subject to reasonable qualifications, including reasonable knowledge qualifications), and such other opinions, certificates and documents as the Investors or their counsel shall reasonably require incident to the First Closing or the Second Closing, as applicable.

(f) Escrow Agreement. If the FCC does not adopt the Pioneer's Preference Order, (i) CDRD and the Escrow Agent shall have executed and delivered the Escrow Agreement in the form and substance of Exhibit 2, and (ii) the conditions contained in such agreement for the release of funds to CDRD shall have been satisfied or waived in accordance with such agreement.

(g) Officer's Certificate. At the Escrow Date, the First Closing Date or the Second Closing, as applicable, CDRD shall have delivered to the Investors a certificate in form and substance reasonably satisfactory to the Investors, executed by an executive officer of CDRD, certifying as to satisfaction of conditions of the Escrow Date, the First Closing or the Second Closing, as applicable, incumbency of signing officers, the charter, by-laws and the authorizing resolutions of CDRD.

(h) Certificate of Designations. The Certificate of Designations shall have been filed and become effective with the Secretary of State of the State of Delaware and the Investors shall have received copies of the filed Certificate of Designations.

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(i) Warrants. If the purchase price for the Satellite DARS License to be purchased by CDRD has been finally established and such price exceeds \$225,000,000, the Warrants shall have been delivered by CDRD to the Investors.

(j) Lack of Adverse Changes. None of the following events shall have occurred: (i) the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of CDRD or any of its subsidiaries or of all or any substantial part of any of their respective property and assets, (ii) CDRD or any of its subsidiaries shall have become generally unable to pay its debts as they become due, (iii) CDRD or any of its subsidiaries shall have made a general assignment for the benefit of its creditors, (iv) CDRD or any of its subsidiaries shall have commenced a voluntary case or had an involuntary case commenced against CDRD or any of its subsidiaries under the Federal Bankruptcy Code or similar law or regulation, (v) CDRD or any of its subsidiaries shall have filed a petition seeking to take advantage of any law providing for the relief of debtors, (vi) CDRD or any of its subsidiaries or any of their respective management shall have become subject to any criminal proceedings or investigations or any enforcement or disciplinary proceedings or investigations initiated by any governmental authority having jurisdiction over CDRD or any of its subsidiaries or such person, respectively, (vii) any announcement shall have been made by the FCC that, or to the effect that, CDRD will not receive a Satellite DARS License, or (viii) taking into account any cash or binding commitments for financing (either of which may only be raised through financings that are either junior to or pari passu with the Preferred Shares in seniority, structure and maturity ("PERMITTED FINANCINGS")) and any deferred payment terms available to CDRD in connection with its acquisition of a Satellite DARS License ("DEFERRED PAYMENT TERMS"), CDRD shall have insufficient liquidity to satisfy all of its scheduled principal and interest obligations, including, without limitation, obligations under any Permitted Financings or Deferred Payment Terms, as such obligations become due during the 13 full months immediately following what would otherwise be the First Closing Date.

(k) Second Closing Notice. With respect to the Second Closing, Investors shall have received the Second Closing Notice not more than fifteen days after the First Closing Date.

(l) Election. With respect to the Second Closing, if (i) the FCC shall have granted the Pioneer's Preference Order or CDRD or its subsidiary shall have submitted a Winning Bid to acquire a Satellite DARS License and (ii) the FCC shall have awarded more than two Satellite DARS Licenses or not have announced that it will award no more than two such licenses, then the Investors shall have approved the Second Closing by a vote of Investors holding not less than 67% of the First Closing Shares. The

Investors' right of approval pursuant to this section shall not arise solely by virtue of a decision of the FCC to open the portions of the spectrums from 2305 Mhz to 2320 Mhz and 2345 Mhz to 2360 Mhz previously allocated to Satellite DARS for auction to winning bidders regardless of proposed use unless, prior to the Second Closing, a license has been awarded by the FCC which permits the use of such spectrum for Satellite DARS services and the recipient thereof has commenced, or announced an intention to commence, use of such license for Satellite DARS services.

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#### ARTICLE V

##### LEGEND AND SHARES

Each certificate representing the Preferred Shares shall be stamped or otherwise imprinted with a legend substantially in the following form:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS. THEY MAY NOT BE SOLD OR OFFERED FOR SALE EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAW OR AN APPLICABLE EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS.

CDRD agrees to reissue certificates representing the Preferred Shares without the legend set forth above at such time as (i) the holder thereof is permitted to dispose of such Preferred Shares pursuant to Rule 144(k) under the Act, (ii) such Preferred Shares are sold to a purchaser or purchasers who (in the opinion of counsel to the seller or such purchaser, in form and substance reasonably satisfactory to CDRD and its counsel) are able to dispose of such shares publicly without registration under the Act, or (iii) such Preferred Shares are registered under the Act. CDRD agrees to issue any Common Shares issuable upon conversion of Preferred Shares if any, without any legend that indicates a restriction on transferability at such times as (i) the holder thereof is permitted to dispose of such Common Shares pursuant to Rule 144(k) under the Act, (ii) such Common Shares are sold to a purchaser or purchasers who (in the opinion of counsel to the seller or such purchaser, in form and substance reasonably satisfactory to CDRD and its counsel) are able to dispose of such shares publicly without registration under the Act, or (iii) such Common Shares are registered under the Act; provided in the case of clause (iii), that the holder of such Common Shares or the recipient upon such conversion represents to CDRD that such holder will only sell such shares, if at all, pursuant to the plan of distribution described in an effective registration statement.

#### ARTICLE VI

##### TERMINATION

Section 6.1 Termination by Mutual Consent. This Agreement may be terminated at any time prior to the First Closing by the mutual written consent of CDRD and all of the Investors.

Section 6.2 Automatic Termination. This Agreement shall terminate without further action of the parties if the First Closing has not occurred prior to (i) March 31, 1997 if CDRD has not submitted the Winning Bid by such date or (ii) April 10, 1997 if CDRD has

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submitted the Winning Bid or the Pioneer's Preference Order has been adopted, in each case, prior to March 31, 1997.

Section 6.3 Termination on Failure of Conditions. This Agreement shall terminate upon notice given to CDRD from a majority in interest of the Investors (i) not earlier than 5 business days after the conclusion of an auction for Satellite DARS Licenses if CDRD has failed to meet the conditions enumerated in Section 1.3(b)(y), (ii) not earlier than 30 calendar days after a Pioneer's Preference Order has been adopted if CDRD has failed to meet the conditions enumerated in Section 1.3(a)(i), or (iii) at any time upon the occurrence and during the continuance for a period of 30 calendar days of any of the events set forth in Section 4.2(j)(i) through (vii).

#### ARTICLE VII

MISCELLANEOUS

Section 7.1 Stamp Taxes; Placement Agent Fee. CDRD shall pay all stamp and other taxes and duties levied in connection with the issuance of the Preferred Shares and Warrants, if any, pursuant to this Agreement and the Common Shares issued upon conversion of such Preferred Shares or exercise of such Warrants. On the First Closing Date and the Second Closing Date, if any, CDRD shall pay the fee of the Placement Agent in connection with the transactions contemplated by this Agreement, consisting of (A) a cash payment of 7.5% of the aggregate gross proceeds received by CDRD from the sale of (1) the First Closing Shares on the First Closing Date, and (2) the Second Closing Shares on the Second Closing Date, if any, and (B) a warrant (the "LIBRA WARRANT") to purchase, at the same purchase price as the purchase price to the Investors, Preferred Shares in an amount equal to 9% of the cumulative amount of Preferred Shares issued and sold at (1) the First Closing on the First Closing Date, and (2) the Second Closing on the Second Closing Date, if any.

Section 7.2 Specific Enforcement, Consent to Jurisdiction.

(a) CDRD and the Investors acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent or cure breaches of the provisions of this Agreement and to enforce specifically the terms and provisions of this Agreement, this remedy being in addition to any other remedy to which any of them may be entitled by law or equity.

(b) CDRD (i) hereby irrevocably submits to the jurisdiction of the United States District Court, the New York State courts and other courts of the United States sitting in New York County, New York for the purposes of any suit, action or proceeding arising out of or relating to this Agreement and (ii) hereby waives, and agrees not to assert in any such suit action or proceeding, any claim that it is not personally subject to the jurisdiction of such court, that the suit, action or proceeding is brought in an inconvenient forum or that the venue

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of the suit, action or proceeding is improper. CDRD consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing in this paragraph shall affect or limit any right to serve process in any other manner permitted by law.

Section 7.3 Entire Agreement; Amendment; Additional Investors. This Agreement, together with the agreements and documents executed in connection with this Agreement and with such agreements and documents, contains the entire understanding of the parties with respect to the matters covered by this Agreement and by such agreements and documents and, except as specifically set forth in this Agreement or in such agreements and documents, neither CDRD nor any Investor makes any representation, warranty, covenant or undertaking with respect to such matters. Except as otherwise provided herein, no provision of this Agreement may be waived or amended other than by a written instrument signed by the party against whom enforcement of any such amendment or waiver is sought. Upon delivery of any such counterpart and acceptance thereof by CDRD, such additional investor shall be an Investor (such term as used in this Agreement to include such additional investor) and shall be as fully a party to this Agreement as if such additional investor were an original signatory of this Agreement, and no consent of any other Investor shall be required for such addition.

Section 7.4 Notices. Any notice or other communication required or permitted to be given under this Agreement shall be in writing and shall be effective (a) upon hand delivery or delivery by telex (with correct answer back received), telecopy or facsimile at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

to CDRD: CD Radio Inc.  
Sixth Floor  
1001 22nd Street, N.W.  
Washington, D.C. 20037  
Fax: (202) 296-6265  
Attn: David Margolese

with copies to: Bogle & Gates  
2 Union Square  
601 Main Street  
Seattle, Washington 98101  
Fax: (206) 621-2660  
Attn: Christopher J. Barry

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to the Investors: To each Investor at the address  
and/or fax number set forth on  
Schedule I of this Agreement.

with copies to: Libra Investments, Inc.  
11766 Wilshire Boulevard  
Suite 870  
Los Angeles, California 90025  
Fax: (310) 312-5666  
Attn: General Counsel

and: Milbank, Tweed, Hadley & McCloy  
601 S. Figueroa Street, 30th Floor  
Los Angeles, California 90017  
Fax: (213) 629-5063  
Attn: Eric H. Schunk

Any party to this Agreement may from time to time change its address for notices by giving at least 10 days' written notice of such changed address to the other parties to this Agreement.

Section 7.5 Indemnity. In addition to the indemnities provided in Section 1.5, each party shall indemnify each other party against any loss, cost or damages (including reasonable attorney's fees) incurred as a result of such parties' breach of any representation, warranty, covenant or agreement in this Agreement; provided that in no case shall any Investor be liable in an amount in excess of the Purchase Price paid by such Investor.

Section 7.6 Waivers. No waiver by any party of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provision, condition or requirement of this Agreement, nor shall any delay or omission of any party to exercise any right under this Agreement in any manner impair the exercise of any such right accruing to it after such waiver.

Section 7.7 Headings. The headings in this Agreement are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions of this Agreement.

Section 7.8 Successors and Assigns. Except as otherwise provided in this Agreement, this Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their successors and assigns. The parties to this Agreement may amend this Agreement without notice to or the consent of any third party. CDRD may not assign this Agreement or any rights or obligations under this Agreement without the prior written consent of all Investors (which consent may be withheld for any reason in such Investor's sole discretion). Any Investor may assign this Agreement or any rights or obligations under this Agreement in whole or in part without the consent of CDRD or any other Investor in connection with any sale or transfer of all or any part of the Preferred Shares or Warrants, if any, or Underlying Shares

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held by such Investor; provided that an assignee that is not a holder of Registrable Securities (as defined in Section 1.5(a)(iii)) will not receive the rights of a holder of Registrable Securities set forth in Section 1.5.

Section 7.9 No Third Party Beneficiaries. This Agreement is intended for the benefit of the parties to this Agreement and their respective permitted successors and assigns and is not for the benefit of, nor may any provision of this Agreement be enforced by, any other person.

Section 7.10 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York without regard to such state's principles of conflict of laws.

Section 7.11 Survival. The representations and warranties

and the agreements and covenants of CDRD and each Investor contained in this Agreement shall survive the First Closing and the Second Closing.

Section 7.12 Execution. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement, it being understood that all parties need not sign the same counterpart.

Section 7.13 Publicity. CDRD agrees that it will not disclose, and will not include in any public or other announcement, the name of any Investor without its consent, unless and until such disclosure is required by law or applicable regulation, and then only to the extent of such requirement.

Section 7.14 Agents. The parties acknowledge and agree that the Investors are not agents, affiliates or partners of each other, that all representations, warranties, covenants and agreements of the Investors under this Agreement are several and not joint, that no Investor shall have any responsibility or liability for the representations, warrants, agreements, acts or omissions of any other Investor, and that any rights granted to "Investors" under this Agreement shall be enforceable by each Investor under this Agreement.

Section 7.15 Severability; Interpretation. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party under this Agreement will not be materially and adversely affected thereby, (a) such provision will be fully severable, (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, and (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement.

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IN WITNESS WHEREOF, the parties to this Agreement have caused this Agreement to be duly executed by their respective authorized officers as of the date of this Agreement.

CDRD:

CD RADIO INC.

By: \_\_\_\_\_

Name:

Its:

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INVESTORS:

THE VALUE REALIZATION FUND, L.P.

By: \_\_\_\_\_

Its General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Investor's address:

c/o Canyon Partners  
9665 Wilshire Boulevard, Suite 200  
Beverly Hills, CA 90212

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                       9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

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GRS PARTNERS II

By: \_\_\_\_\_

Its General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Investor's address:

c/o Canyon Partners  
9665 Wilshire Boulevard, Suite 200  
Beverly Hills, CA 90212

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                       9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

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THE CANYON VALUE REALIZATION FUND,  
(CAYMAN) LTD.

By: \_\_\_\_\_

Its General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Investor's address:

c/o Canyon Partners  
9665 Wilshire Boulevard, Suite 200  
Beverly Hills, CA 90212

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                       9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

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CERBERUS PARTNERS, L.P.

By:

-----  
Name: Stephen Feinberg  
Title: General Partner  
Cerberus Associates, L.P.  
General Partner  
Cerberus Partners, L.P.

TAX ID# 13-3690298

Investor's address:

950 Third Avenue, 20th Floor  
New York, NY 10022

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

CERBERUS INTERNATIONAL, LTD

By:

-----  
Name: Stephen Feinberg  
Title: Managing Member,  
Partridge Hill L.L.C.  
Investment Advisor to  
Cerberus International

Investor's address:

950 Third Avenue, 20th Floor  
New York, NY 10022

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

33

THE COPERNICUS FUND, LP

By:

-----  
Its General Partner

By:

Name: -----

Its: -----

Investor's address:

c/o DDJ Capital Management  
141 Linden Street, Suite S-4  
Wellesley, MA 02181

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%

[ ] no limitation

If no box is marked, no limitation shall be applicable.

34  
THE GALILEO FUND, LP

By: -----  
Its General Partner

By: -----  
Name: -----  
Its: -----

Investor's address:  
  
c/o DDJ Capital Management  
141 Linden Street, Suite S-4  
Wellesley, MA 02181

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

[ ] 4.99%                    [ ] 9.99%  
[ ] no limitation

If no box is marked, no limitation shall be applicable.

35  
DICKSTEIN & CO. L.P.

By: -----  
Its General Partner

By: -----  
Name: -----  
Its: -----

Investor's address:  
  
c/o Dickstein Partners, L.P.  
9 West 57th Street, Suite 4630  
New York, NY 10019

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

[ ] 4.99%                    [ ] 9.99%  
[ ] no limitation

If no box is marked, no limitation shall be applicable.

36  
DICKSTEIN INTERNATIONAL LIMITED

By: -----  
Its General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:  
c/o Dickstein Partners, L.P.  
9 West 57th Street, Suite 4630  
New York, NY 10019

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

37  
GLOBAL BERMUDA LIMITED PARTNERSHIP

By: -----  
Its General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:  
c/o EBF & Associates  
601 Lakeshore Parkway  
Minnetonka, MN 55305

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

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LAKESHORE INTERNATIONAL, LIMITED

By: -----  
Its General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:

c/o EBF & Associates  
601 Lakeshore Parkway  
Minnetonka, MN 55305

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

39  
ELLIOTT ASSOCIATES, L.P.

By: \_\_\_\_\_  
Its General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:  
712 Fifth Avenue  
36th Floor  
New York, New York 10019  
Fax: (212) 974-2092

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

40  
WESTGATE INTERNATIONAL, L.P.

By: \_\_\_\_\_  
Its General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:  
c/o Midland Bank Trust Corporation  
(Cayman) Limited  
P.O. Box 1109  
Mary Street  
Grand Cayman  
Cayman Islands

with a copy to:  
c/o Stonington Management Corporation  
712 Fifth Avenue

36th Floor  
New York, New York 10019  
Fax: (212) 974-2092

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                       9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

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EVEREST CAPITAL INTERNATIONAL, LTD.

By: \_\_\_\_\_

Its General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Investor's address:

c/o Everest Capital  
20 Parliament Street  
Corner House  
Hamilton, Bermuda HM12  
Fax: (441) 292-2285

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                       9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

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EVEREST CAPITAL FUND, L.P.

By: \_\_\_\_\_

Its General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Investor's address:

c/o Everest Capital  
20 Parliament Street  
Corner House  
Hamilton, Bermuda HM12  
Fax: (441) 292-2285

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                       9.99%

[ ] no limitation

If no box is marked, no limitation shall be applicable.

43

THE JAY GOLDMAN MASTER LIMITED PARTNERSHIP

By: \_\_\_\_\_

Its General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Investor's address:

c/o Jay Goldman & Company  
745 Fifth Avenue, Room 1103  
New York, NY 10051

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

[ ] 4.99%                      [ ] 9.99%  
[ ] no limitation

If no box is marked, no limitation shall be applicable.

44

GRACE BROTHERS, LTD.

By: \_\_\_\_\_

Its General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Investor's address:

1560 Sherman Avenue  
Evanston, IL 60201

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

[ ] 4.99%                      [ ] 9.99%  
[ ] no limitation

If no box is marked, no limitation shall be applicable.

45

MAINSTAY VP SERIES FUND, INC., ON BEHALF OF ITS HIGH YIELD CORPORATE BOND FUND PORTFOLIO

By: Mackay-Shields Financial Corporation  
Its Investment Advisor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:

c/o Mackay-Shields Financial Corp.  
9 West 57th Street  
New York, New York 10019  
Attn: Linda Grillo  
Fax: (212) 758-4737

with a copy to:

Claude A. Baum, Esq.  
Dechert Price & Rhoads  
477 Madison Avenue  
New York, New York 10022-5891  
Fax: (212) 308-2041

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

Mainstay VP Series Fund, Inc., on behalf of its High Yield Corporate Bond Fund Portfolio, hereby explicitly reduces the number of days of prior written notice required pursuant to Section 3.6 of this Agreement for waiver of the restriction referenced therein from 61 days to 2 days.

By: Mackay-Shields Financial Corporation  
Its Investment Advisor

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:

c/o Mackay-Shields Financial Corp.  
9 West 57th Street  
New York, New York 10019  
Attn: Linda Grillo  
Fax: (212) 758-4737

with a copy to:

Claude A. Baum, Esq.  
Dechert Price & Rhoads  
477 Madison Avenue  
New York, New York 10022-5891  
Fax: (212) 308-2041



By: \_\_\_\_\_  
Its General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:  
c/o Scoggin Capital Management, L.P.  
660 Madison Avenue, 20th Floor  
New York, NY 10021

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                       9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

By: \_\_\_\_\_  
Its General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:  
c/o Trust Company of the West  
11100 Santa Monica Boulevard,  
Suite 2050  
Los Angeles, CA 90025

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                       9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

By \_\_\_\_\_  
Its General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:

c/o LibertyView Capital Mgmt., Inc.  
101 Hudson Street  
Suite 3700  
Jersey City, NJ 07302

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

52

LIBERTYVIEW LLC FUND

By \_\_\_\_\_  
Its Managing Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Investor's address:

c/o LibertyView Capital Mgmt., Inc.  
101 Hudson Street  
Suite 3700  
Jersey City, NJ 07302

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

53

PARESCO, INC.

By \_\_\_\_\_  
Name: \_\_\_\_\_

Its: \_\_\_\_\_

Investor's address:

c/o LibertyView Capital Mgmt., Inc.  
101 Hudson Street  
Suite 3700  
Jersey City, NJ 07302

For purposes of Section 3.6 of this Agreement, the following percentage

limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

54

NAVESINK INVESTMENT FUND, LDC

By

-----

Name:

-----

Its:

-----

Investor's address:

c/o Rumson Capital LLC  
Galleria Building, 3rd Floor  
2 Bridge Avenue  
Red Bank, NJ 087701-1106

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

55

STONEHILL OFFSHORE PARTNERS LIMITED

By Stonehill Advisors LLC, as Agent

By

-----

Name: John Motulsky  
A Managing Member

Investor's address:

110 East 59th Street  
30th Floor  
New York, NY 10002

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

STONEHILL INVESTMENT CORP., for and on behalf of Stonehill Partners, L.P., GRS Partners III, and Aurora Limited Partnership

By

-----

Name: John Motulsky  
Its: Vice President

Investor's address:

110 East 59th Street  
30th Floor  
New York, NY 10002

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

56

HERTA AND PAUL AMIR FAMILY TRUST

By \_\_\_\_\_

Its Trustee

Investor's address:

c/o Amir Development Company  
8730 Wilshire Boulevard  
Beverly Hills, CA

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

THE WOLENS FAMILY TRUST

By \_\_\_\_\_

Its Trustee

Investor's address:

c/o Amir Development Company  
8730 Wilshire Boulevard  
Beverly Hills, CA

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

57

LONGVIEW PARTNERS

By \_\_\_\_\_

Its General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

-----  
Investor's address:

c/o Cumberland Associates  
1114 Avenue of the Americas  
New York, NY 10036

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

58

CUMBERLAND PARTNERS

By

-----  
Its General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Investor's address:

1114 Avenue of the Americas  
New York, NY 10036

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

59

JMG CAPITAL PARTNERS, L.P.

By

-----  
Its General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Investor's address:

1999 Avenue of the Stars  
Suite 1950  
Los Angeles, CA 90067

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%                     9.99%  
 no limitation

If no box is marked, no limitation shall be applicable.

60  
Schedule I

<TABLE> <CAPTION>	Investor* -----	First Closing ----- Shares -----	Second Closing ----- Shares -----
<S>		<C>	<C>
CANYON PARTNERS			
	The Value Realization Fund, L.P.	7,500	7,500
	GRS Partners II	1,500	1,500
	The Canyon Value Realization Fund, (Cayman) Ltd.	11,000	11,000
	TOTALS	----- 20,000	----- 20,000
CERBERUS PARTNERS			
	Cerberus Partners. L.P.	10,000	10,000
	Cerberus International, Ltd	10,000	10,000
	TOTALS	----- 20,000	----- 20,000
DDJ CAPITAL MANAGEMENT			
	The Copernicus Fund, LP	15,000	15,000
	The Galileo Fund, LP	45,000	45,000
	TOTALS	----- 60,000	----- 60,000
DICKSTEIN PARTNERS			
	Dickstein & Co. L.P.	8,500	8,500
	Dickstein International Limited	1,500	1,500
	TOTALS	----- 10,000	----- 10,000
EBF & ASSOCIATES			
	Global Bermuda Limited Partnership	20,000	20,000
	Lakeshore International, Limited	10,000	10,000
	TOTALS	----- 30,000	----- 30,000
ELLIOTT ASSOCIATES, L.P.			
	Elliott Associates, L.P.	40,000	40,000
	Westgate International, L.P.	20,000	20,000
	TOTALS	----- 60,000	----- 60,000

61

<TABLE> <CAPTION>	Investor* -----	First Closing ----- Shares -----	Second Closing ----- Shares -----
<S>		<C>	<C>

</TABLE>  
\* The term Investor includes each entity for which share amounts are listed opposite such entity's name.

<TABLE> <CAPTION>	Investor -----	First Closing -----	Second Closing -----
----------------------	-------------------	------------------------	-------------------------

	Shares -----	Shares -----
<S>	<C>	<C>
EVEREST CAPITAL		
Everest Capital International, Ltd.	140,000	140,000
Everest Capital Fund, L.P.	60,000	60,000
	-----	-----
TOTALS	200,000	200,000
THE JAY GOLDMAN MASTER LIMITED PARTNERSHIP	10,000	10,000
GRACE BROTHERS, LTD.	100,000	100,000
MACKAY-SHIELDS		
Mainstay VP Series Fund, Inc.	28,000	28,000
The Mainstay Funds	432,000	432,000
	-----	-----
TOTALS	460,000	460,000
THE RAVICH REVOCABLE TRUST OF 1989	43,400	43,400
SCOGGIN CAPITAL MANAGEMENT, L.P.		
Scoggin Capital Management	6,000	6,000
Scoggin International Fund, Ltd.	600	600
	-----	-----
TOTALS	6,600	6,600
TRUST COMPANY OF THE WEST		
TCW Shared Opportunity Fund II	40,000	40,000
LIBERTY VIEW CAPITAL MANAGEMENT, INC.		
Liberty View Plus Fund	12,000	12,000
Liberty View LLC Fund	4,000	4,000
Paresco, Inc.	24,000	24,000
	-----	-----
TOTALS	40,000	40,000

</TABLE>

62

<TABLE>  
<CAPTION>

Investor -----	First Closing ----- Shares -----	Second Closing ----- Shares -----
<S>	<C>	<C>
NAVESINK INVESTMENT FUND, LDC	30,000	30,000
STONEHILL INVESTMENT CORP., AS AGENT	45,000	45,000
HERTA AND PAUL AMIR FAMILY TRUST	4,800	4,800
The Wolens Family Trust	200	200
CUMBERLAND ASSOCIATES		
LongView Partners	10,000	10,000
Cumberland Partners	50,000	50,000
	-----	-----
TOTALS	60,000	60,000
JMG CAPITAL PARTNERS, L.P.	10,000	10,000
	-----	-----
	1,250,000	1,250,000
	=====	=====

</TABLE>

## CERTIFICATE OF DESIGNATIONS

OF

## 5% DELAYED CONVERTIBLE PREFERRED STOCK

RESOLVED that there shall be a series of shares of the Preferred Stock of CD Radio Inc. (the "CORPORATION"), designated "5% Delayed Convertible Preferred Stock"; that the number of shares of such series shall be 8,000,000 and that the rights and preferences of such series (the "5% PREFERRED") and the limitations or restrictions thereon, shall be as follows:

## 1. Dividends.

(a) The holders of the 5% Preferred shall be entitled to receive out of any assets legally available therefor cumulative dividends at the rate of \$1.25 per share per annum, payable semi-annually on April 15 and October 15 of each year, when and as declared by the Board of Directors, in preference and priority to any payment of any dividend on the Common Stock or any other class or series of stock of the Corporation. Such dividends shall accrue on any given share from the date of original issuance of the 5% Preferred and shall accrue from day to day whether or not earned or declared, based on the actual days elapsed and a 360-day year of 12 30-day months. If at any time dividends on the outstanding 5% Preferred at the rate set forth above shall not have been paid or declared and set apart for payment with respect to all preceding periods, the amount of the deficiency shall be fully paid or declared and set apart for payment, but without interest, before any distribution, whether by way of dividend or otherwise, shall be declared or paid upon or set apart for the shares of any other class or series of stock of the Corporation.

(b) Any dividend payable on the outstanding 5% Preferred may be paid, at the option of the Corporation, either (i) in cash or (ii) by adding the amount of such dividend to the Liquidation Preference (as defined below); provided, however, that if the Corporation shall fail to pay any dividend when due, the amount of such dividend shall be added to the Liquidation Preference for such shares of 5% Preferred.

2. Liquidation Preference. In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, the holders of the 5% Preferred shall be entitled to receive, prior and in preference to any distribution of any assets of the Corporation to the holders of any other class or series of shares, the amount of \$25 per share plus any accrued but unpaid dividends (the "LIQUIDATION PREFERENCE").

## 3. Redemption; Forced Conversion; Lock-up.

(a) The 5% Preferred may be redeemed in whole but not in part by the Corporation at any time (such date being referred to herein as the "REDEMPTION DATE"), beginning on the later to occur of (i) December 15, 1997 and (ii) the date that is 10 months after the date of original issuance of the 5% Preferred, plus, in each case, one day for each day during which (x) a registration statement has not been declared effective with respect to the Common Stock issuable upon conversion of the 5% Preferred by the later of (A) the 90th calendar day after the date of original issuance of the 5% Preferred and (B) February 15, 1997 (the "INITIAL REGISTRATION DEADLINE"), or (y) any such registration statement is suspended or the related prospectus is not current, complete and otherwise usable, at a redemption price (the "REDEMPTION PRICE") equal to (A) the Liquidation Preference plus (B) any accrued but unpaid cash payments due with respect to the 5% Preferred in accordance with Sections 1.5(b), 3.3 and 3.11 of the Preferred Stock Investment Agreement dated as of October 23, 1996, among the Corporation and the Investors named therein (the "INVESTMENT AGREEMENT") ("CASH PAYMENTS"); provided, that the Corporation may not exercise such right of redemption unless (i) the average closing price of the Common Stock as reported in the Wall Street Journal for the 20 consecutive trading days prior to the Redemption Notice (as defined below) shall equal or exceed \$18 per share (subject to adjustment for stock dividends, stock splits and reverse stock splits), and (ii) the shares of Common Stock issuable upon conversion of the 5% Preferred are registered for resale by an effective registration statement under the Securities Act of 1933, as amended (the "ACT"), in compliance with the Investment Agreement, and such registration statement remains in effect continuously without suspension and the prospectus remains current, complete and otherwise usable from the date of the Redemption Notice (as defined below) to and including the Redemption Date.

(b) At least 30 days but not more than 60 days prior to the Redemption Date, irrevocable written notice (the "REDEMPTION NOTICE") shall be mailed, first class postage prepaid, by the Corporation to each holder of record of the 5% Preferred, at the address last shown on the records of the Corporation for such holder, notifying such holder of the redemption that is to be effected, specifying the Redemption Date, the Redemption Price, and the place at which payment may be obtained and calling upon each such holder to surrender to the Corporation, in the manner and at the place designated, a certificate or certificates representing all the shares of 5% Preferred held by such holder. Subject to the provisions of the following subsection (c), on or after the Redemption Date, each holder of 5% Preferred shall surrender to the Corporation the certificate or certificates representing all the shares of 5% Preferred owned by such holder as of the Redemption Date, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be cancelled.

(c) If at the Redemption Date the registration condition specified in clause (ii) of subsection (a) shall not be satisfied, then no shares shall be redeemed and the Redemption Notice shall be deemed to be withdrawn. In such event, any notice of conversion given by a holder of 5% Preferred after the Redemption Notice was given shall be deemed to be withdrawn, and any certificates for 5% Preferred which have been surrendered for conversion or redemption

- 2 -

shall be returned to the persons surrendering the same; provided, however, that if a holder shall have received shares of Common Stock upon conversion of 5% Preferred after the Redemption Notice was given but before the Redemption Date, such holder may elect either to retain such Common Stock or tender such shares of Common Stock to the Corporation for the Redemption Price.

(d) From and after the Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of shares that have been redeemed (except the right to receive the Redemption Price without interest upon surrender of the certificate or certificates representing such shares) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of the Corporation or be deemed to be outstanding for any purpose whatsoever.

(e) (i) If the Corporation sells Common Stock for net cash proceeds to the Corporation in an amount not less than \$100 million in a registered underwritten public offering (other than stock issuable pursuant to a registration statement on Form S-8 or S-4) prior to October 15, 1997 (a "QUALIFYING OFFERING"), the Corporation may, upon consummation of the Qualifying Offering, redeem the 5% Preferred in whole (but not in part) for an amount per share in cash equal to (A) the sum of the Liquidation Preference plus any Cash Payments due (B) divided by 72.125%. The Corporation shall give notice of such redemption pursuant to this subsection (e) in the same manner as set forth for Redemption Notices generally except that such notice must be given at the time of the earlier of the initial filing or the public announcement of a proposed filing with the Securities and Exchange Commission of the registration statement with respect to the Qualifying Offering.

(ii) If the Corporation does not give notice of redemption of the 5% Preferred pursuant to clause (i) of this subsection (e), the Corporation and its underwriters may, by written notice from the Corporation and its lead underwriter to each holder of 5% Preferred (a "LOCK-UP REQUEST"), mailed on or after the time of the earlier of the initial filing or the public announcement of a proposed filing with the Securities and Exchange Commission of the registration statement with respect to the Qualifying Offering, first class postage prepaid, at the address last shown on the records of the Corporation for such holder, request that such holder of 5% Preferred agree, and cause any transferee of such 5% Preferred to agree, to not offer, sell or transfer any shares of the Common Stock into which the same may be converted during the 180-day period beginning on a date specified in the Lock-up Request, which date may be as early as five (5) business days prior to the expected effective date (but no later than the effective date) with respect to the registration statement for the Qualifying Offering (the "LOCK-UP"); provided that the Corporation shall specify the expected effective date by notice to the holders given not later than two (2) business days prior to the beginning of the Lock-up period (the "EFFECTIVE DATE NOTICE"). If the Corporation so requests a Lock-up, each holder of 5% Preferred shall have the right, regardless of whether the Corporation revokes or attempts to revoke the Lock-up Request, to require the Corporation, upon consummation of the Qualifying Offering, to purchase its 5% Preferred for a cash amount equal to (A) the sum of the Liquidation Preference plus any Cash Payments due (B) divided by an amount equal to 1 minus the

Applicable Percentage; provided, that the Applicable Percentage for purposes of this subsection (ii) shall be the Applicable Percentage in effect under Section 4(d) (ii) determined by reference to the date of consummation

- 3 -

of the Qualifying Offering or, if such consummation occurs prior to February 15, 1997, 12.125%. In order for any holder of 5% Preferred to exercise such right, such holder must give notice of such fact to the Corporation not later than 15 days after the Corporation has given the Lock-up Request. If any holder of 5% Preferred shall fail for any reason to timely exercise such right, such holder, by acceptance of shares of the 5% Preferred, shall be deemed to have agreed to (1) be bound by the Lock-up Request and shall comply with and be bound by the Lock-up and (2) sign a lock-up agreement in customary form if requested to do so by the lead underwriter of the Qualifying Offering. Notwithstanding the foregoing, if the Corporation requests in the Lock-up Request that the Lockup become effective prior to the effective date of the registration statement with respect to the Qualifying Offering then such Lock-up shall terminate if such registration statement is not declared effective by the Securities and Exchange Commission on or before the fifth business day following the expected effective date specified in the Effective Date Notice and may be reinstated only by the giving of a new Effective Date Notice within 30 calendar days of such termination. After such 30-day period, a new Lock-up Request shall be required in order to effect a new Lock-up.

(f) The Corporation may, upon at least 30 days but not more than 60 days prior notice to the holders of 5% Preferred given in the same manner specified for Redemption Notices generally, require the holders of all and not less than all of outstanding shares of 5% Preferred to convert such shares into (x) Common Stock at the then applicable Conversion Price (as defined in Section 4(d)) and (y) all Cash Payments due on the Optional Conversion Date (as defined below), effective on a date (the "OPTIONAL CONVERSION DATE") specified in such notice that is three years or more after the date of original issuance of the 5% Preferred; provided that that no such conversion shall occur if the Corporation has commenced voluntary bankruptcy, become subject to involuntary bankruptcy, had a receiver, liquidator, trustee or other officer having similar power over the Corporation appointed over all or a substantial part of its property, has ceased operations or shall be in default for money borrowed (or the deferred purchase price of property and assets) in excess of \$50,000,000 and, in each case, such situation shall not have been remedied. Within 3 business days after the Optional Conversion Date, written notice shall be mailed, first class postage prepaid, by the Corporation to each holder of record of the 5% Preferred, at the address last shown on the records of the Corporation for such holder, notifying such holder of the optional conversion that has been effected, specifying the then applicable Liquidation Preference, Cash Payments and Conversion Price (and the method of calculation thereof) and the place at which such holder shall surrender the certificate or certificates representing the Preferred Shares so converted, and calling upon each such holder to surrender to the Corporation, in the manner and at the place designated, a certificate or certificates representing all the shares of 5% Preferred held by such holder. Each holder of 5% Preferred shall surrender to the Corporation the certificate or certificates representing all the shares of 5% Preferred owned by such holder as of the Optional Conversion Date, in the manner and at the place designated in such notice, and thereupon the Corporation shall issue and deliver to or upon the order of such holder a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled and shall pay to each such holder, in immediately available funds, an amount equal to all Cash Payments due on the Optional Conversion Date with respect to such holder's shares of 5% Preferred.

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(g) If at any time a Reorganization (as defined in Section 4(k)) shall occur or be proposed, each holder of 5% Preferred shall have the right to require the Corporation, effective upon consummation of such Reorganization, to purchase its 5% Preferred for a cash amount equal to (A) the sum of the Liquidation Preference plus any Cash Payments due (B) divided by 72.125%. In order for any holder of 5% Preferred to exercise such right, such holder must give notice of such fact to the Corporation not later than the later to occur of (i) 30 days after receipt of notice of the Reorganization and (ii) the consummation of the Reorganization. The Corporation shall provide notice to holders of 5% Preferred given in the same manner as specified for Redemption Notices generally, at least 30 days prior to the anticipated date of the consummation of a Reorganization, which notice shall reasonably set forth the

rights of holders of 5% Preferred under this Section 3(g) and Section 4(k).

4. Conversion. The holders of the 5% Preferred shall have optional conversion rights as follows:

(a) Accrual of Conversion Rights. Commencing on the earlier to occur of (i) February 16, 1997 and (ii) the announcement or commencement of a tender offer for shares of Common Stock, the 5% Preferred shares shall become convertible; provided that the Corporation shall not be obligated to honor any request for conversion of shares of the 5% Preferred at any time to the extent that approval of the Federal Communications Commission ("FCC APPROVAL") of the issuance of shares of Common Stock upon such conversion is or would be required and has not been obtained; provided further that if FCC Approval (other than approval in connection with a conversion of shares of the 5% Preferred resulting in a holder of shares of the 5% Preferred, or a group of persons who have an agreement or understanding to act in concert of which such holder is a member, holding 50% or more of the voting securities of the Corporation) is not obtained by a date that is 270 days after the Initial Registration Deadline, then, at any time thereafter at the request of any holder of shares of the 5% Preferred, the Corporation shall promptly purchase from such holder, at a purchase price per share equal to (A) the sum of the Liquidation Preference plus any Cash Payments divided by (B) 72.125%, the shares of 5% Preferred held by such holder.

(b) Right to Convert. At and after the time it has become convertible, each share of 5% Preferred shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing (i) the Liquidation Preference plus any Cash Payments due on the date the notice of conversion is given, by (ii) the Conversion Price determined as hereinafter provided in effect on said date.

(c) Mechanics of Conversion. To convert shares of 5% Preferred into shares of Common Stock, the holder shall give written notice to the Corporation (which notice may be given by facsimile transmission) that such holder elects to convert the same and shall state therein the number of shares to be converted and the name or names in which such holder wishes the certificate or certificates for shares of Common Stock to be issued. Promptly thereafter the holder shall surrender the certificate or certificates representing the shares to be converted, duly endorsed, at the office of the Corporation or of any transfer agent for such shares, or at such other place designated by the Corporation; provided that the Corporation shall at all times maintain an office or agency in New York City for such purposes. The Corporation shall,

- 5 -

immediately upon receipt of such notice, issue and deliver to or upon the order of such holder, against delivery of the certificates representing the shares that have been converted, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled (in the number(s) and denomination(s) designated by such holder), and the Corporation shall deliver to such holder a certificate or certificates for the number of shares of 5% Preferred that such holder has not elected to convert (in the number(s) and denomination(s) designated by such holder). The Corporation shall effect such issuance and shall transmit the certificates by messenger or overnight delivery service to reach the address designated by such holder within two business days after the receipt of such notice. For all purposes of this Certificate of Designations, such conversion shall be deemed to have been made immediately prior to the close of business on the date such notice of conversion is given. The person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock at the close of business on such date.

(d) Determination of Conversion Price.

(i) At any date up to and including November 15, 1997, the "CONVERSION PRICE" shall be, as applicable, either (x) the weighted-average (based upon the number of shares sold) of the actual selling price (but not less than the lower of (A) the price of shares sold in the Qualifying Offering if shares are so sold on the date of such trade and (B) the low trading price on the date of such trade as reported on the principal market for the Common Stock), at which the holder shall have sold shares of Common Stock received or receivable upon conversion of the 5% Preferred, reduced by any trading commissions or underwriting spreads paid by such holder, as certified to the Corporation by such holder, multiplied by an amount equal to 1 minus the Applicable Percentage set forth below, or (y) the average of the daily means between the low trading price of the Common Stock and the closing price of the Common Stock for the 3 consecutive trading days immediately preceding the date of conversion, multiplied by an amount equal to 1 minus the Applicable Percentage set forth below; provided, however, that clause (x) shall only apply to the extent shares of Common Stock are actually so sold and the holder converting 5% Preferred shall have given notice to the Corporation of such sale

not more than 24 hours after such sale; provided further that, failure to give such notice within such time shall result in determination of the Conversion Price in accordance with clause (y).

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(ii) The "APPLICABLE PERCENTAGE" shall be as follows:

<TABLE>  
<CAPTION>

Conversion after the following date: -----	Applicable Percentage: -----
<S>	<C>
2/15/97	12.125%
3/15/97	14.250%
4/15/97	14.375%
5/15/97	18.125%
6/15/97	19.875%
7/15/97	21.625%
8/15/97	23.250%
9/15/97	24.875%
10/15/97	25.000%
11/15/97	27.875%

</TABLE>

(iii) At any date after November 15, 1997, the Conversion Price shall be 72.125% of the least of (x) the average of the daily means between the low trading price of the Common Stock and the closing price of the Common Stock for all the trading days between October 15, 1997 and November 15, 1997 (inclusive) for such trading days, (y) the average of the daily means between the low trading price of the Common Stock and the closing price of the Common Stock during the 3 consecutive trading days immediately preceding the date of conversion and (z) the weighted-average (based upon the number of shares sold) of the actual selling price (but not less than the low trading price on the date of such trade as reported on the principal market for the Common Stock), at which the holder shall have sold shares of Common Stock received or receivable upon conversion of the 5% Preferred, reduced by any trading commissions or underwriting spreads paid by such holder, as certified to the Corporation by such holder; provided, however, that clause (z) shall only apply to the extent shares of Common Stock are actually sold and the holder converting 5% Preferred shall have given notice to the Corporation of such sale not more than 24 hours after such sale; provided, further that, clause (z) shall be unavailable if such holder shall fail to give such notice within such time.

(iv) The "LOW TRADING PRICE" and the "CLOSING PRICE", respectively, of the Common Stock on any day shall be (A) the lowest reported sale price and the reported closing price (last sale price), regular way, of the Common Stock on the principal stock exchange on which the Common Stock is listed, or (B) if the Common Stock is not listed on a stock exchange, the lowest reported sale price and the reported closing price of the Common Stock on the principal automated securities price quotation system on which sale prices of the Common Stock are reported, or (C) if the Common Stock is not listed on a stock exchange and sale prices of the Common Stock are not reported on an automated quotation system, the final bid price and the mean of the final bid and asked prices for the Common Stock as reported by National Quotation Bureau Incorporated if at least two securities dealers have inserted both bid and asked quotations for the Common Stock on at least five of the ten preceding trading days. If none of the foregoing provisions are applicable, the phrase "MEANS BETWEEN THE LOW TRADING PRICE OF THE COMMON STOCK AND THE CLOSING PRICE OF THE COMMON STOCK" on a day will be the fair market

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value of the Common Stock on that day as determined by a member firm of the New York Stock Exchange, Inc., selected in good faith by the Board of Directors of the Corporation. The term "TRADING DAY" means (x) if the Common Stock is listed on at least one stock exchange, a day on which there is trading on the principal stock exchange on which the Common Stock is listed, (y) if the Common Stock is not listed on a stock exchange but sale prices of the Common Stock are reported on an automated quotation system, a day on which trading is reported on the principal automated quotation system on which sales of the Common Stock are reported, or (z) if the foregoing provisions are inapplicable, a day on which

quotations are reported by National Quotation Bureau Incorporated.

(v) In the event that during any period of consecutive trading days provided for above, the Corporation shall declare or pay any dividend on the Common Stock payable in Common Stock or in rights to acquire Common Stock, or shall effect a stock split or reverse stock split, or a combination, consolidation or reclassification of the Common Stock, then the Conversion Price shall be proportionately decreased or increased, as appropriate, to give effect to such event.

(e) Distributions. In the event the Corporation shall at any time or from time to time make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation or other property (other than cash paid out of current earnings) or any of its subsidiaries other than additional shares of Common Stock, then in each such event, in addition to the number of shares of Common Stock receivable upon conversion, provision shall be made so that the holders of 5% Preferred shall receive, upon the conversion thereof, the securities of the Corporation that they would have received had they been the owners on the date of such event of the number of shares of Common Stock issuable to them upon conversion.

(f) Certificates as to Adjustments. Upon the occurrence of any adjustment or readjustment of the Conversion Price pursuant to this Section 4, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and cause independent public accountants selected by the Corporation to verify such computation and prepare and furnish to each holder of 5% Preferred a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of 5% Preferred, furnish or cause to be furnished to such holder a like certificate prepared by the Corporation setting forth (i) such adjustments and readjustments, and (ii) the number of other securities and the amount, if any, of other property that at the time would be received upon the conversion of 5% Preferred with respect to each share of Common Stock received upon such conversion.

(g) Notice of Record Date. In the event of any taking by the Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, any security or right convertible into or entitling the holder thereof to receive additional shares of Common Stock, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive or exercise any other right, the Corporation shall mail

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to each holder of 5% Preferred at least 10 days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution, security or right and the amount and character of such dividend, distribution, security or right.

(h) Issue Taxes. The Corporation shall pay any and all issue and other taxes, excluding any income, franchise or similar taxes, that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of shares of 5% Preferred pursuant hereto; provided, however, that the Corporation shall not be obligated to pay any transfer taxes resulting from any transfer requested by any holder in connection with any such conversion.

(i) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the 5% Preferred, at least such number of its shares of Common Stock that is the greater of (a) 10,000,000 and (b) 1.5 times the number as shall from time to time be sufficient to effect the conversion of all outstanding shares of the 5% Preferred at the Conversion Price calculated using the method set forth in Section 4(d)(i)(y) or Section 4(d)(iii)(x) or (y), as applicable, and the Applicable Percentage, in each case as adjusted for all subdivisions or combinations of the Common Stock or payments of dividends on the Common Stock made in shares of Common Stock, and if at any time the number of authorized but unissued and reserved shares of Common Stock shall not be greater than or equal to such larger amount, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued and reserved shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval. In the event that the Corporation shall at any time fail to authorize or reserve the number of shares of Common Stock sufficient to effect the conversion of all outstanding shares of the 5% Preferred at the Conversion Price calculated using

the method set forth in Section 4(d)(i)(y) or Section 4(d)(iii)(x) or (y), as applicable, and the Applicable Percentage, then at any time thereafter at the request of any holder of shares of the 5% Preferred, the Corporation shall promptly purchase from such holder, at a purchase price equal to (A) the sum of the Liquidation Preference plus any Cash Payments due divided by (B) 72.125%, the number of shares of the 5% Preferred equal to such holder's pro-rata share of the "DEFICIENCY." The "DEFICIENCY" shall be equal to the number of shares of the 5% Preferred that would not be able to be converted for shares of Common Stock, due to an insufficient amount of Common Stock available, if all the then outstanding shares of the 5% Preferred were submitted for conversion.

(j) Fractional Shares. No fractional shares shall be issued upon the conversion of any share or shares of 5% Preferred. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of 5% Preferred by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of a fraction of a share of Common Stock, the Corporation shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion (as determined in good faith by the Board of Directors of the Corporation).

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(k) Reorganization or Merger. In case of any reorganization or any reclassification of the Common Stock or other capital stock of the Corporation or any consolidation or merger of the Corporation with or into any other corporation or corporations or a sale of all or substantially all of the assets of the Corporation to any other person (a "REORGANIZATION"), in which any of the holders of 5% Preferred does not elect to require the Corporation to redeem the 5% Preferred as provided in Section 3(g), then, as part of such Reorganization, provision shall be made so that each share of 5% Preferred shall thereafter be convertible into the number of shares of stock or other securities or property (including cash) to which a holder of the number of shares of Common Stock deliverable upon conversion of such share of 5% Preferred not so redeemed would have been entitled upon the record date of (or date of, if no record date is fixed) such event and, in any case, appropriate adjustment (as determined by the Board of Directors) shall be made in the application of the provisions herein set forth with respect to the rights and interests thereafter of the holders of the 5% Preferred, to the end that the provisions set forth herein shall thereafter be applicable, as nearly as equivalent as is practicable, in relation to any shares of stock or the securities or property (including cash) thereafter deliverable upon the conversion of the shares of 5% Preferred.

(l) Additional Satellite DARS Licenses. If (a) the Corporation has issued shares of 5% Preferred in the second closing under the Investment Agreement ("SECOND CLOSING") and (b) at any time within the earlier of the closing of a Qualified Offering and twelve months after the Second Closing, (i) more than two licenses (including the license awarded to the Corporation) have been awarded by the Federal Communications Commission that permit the recipients thereof to provide satellite digital audio radio services ("SATELLITE DARS"), and (ii) more than two recipients of such licenses (including the Corporation) commence or announce an intention to commence Satellite DARS using their license and (iii) the holders of more than one-third of the then outstanding shares of 5% Preferred shall so request in writing, then, on the first business day following 60 calendar days after receipt of such request, the Corporation shall promptly purchase one-half of the shares of 5% Preferred held by each such requesting holder as of such date at a purchase price per share equal to (A) the sum of the Liquidation Preference plus any Cash Payments then due and unpaid divided by (B) an amount equal to 1 minus the Applicable Percentage.

5. Other Provisions. For all purposes of this Certificate of Designations, the term "DATE OF ORIGINAL ISSUANCE OF THE 5% PREFERRED" shall mean the day on which any shares of the 5% Preferred are first issued by the Corporation pursuant to the terms of the Investment Agreement, and the terms "TRADING PRICE", "LAST TRADE PRICE", "CLOSING PRICE" and "TRADING DAYS" shall have the meanings given them in Section 4(d)(iv) hereof. Any provision herein that conflicts with or violates any applicable usury law shall be deemed modified to the extent necessary to avoid such conflict or violation.

6. Restrictions and Limitations. The Corporation shall not undertake the following actions without the consent of the holders of a majority of the 5% Preferred: (A) modify its Certificate of Incorporation or Bylaws so as to amend or change any of the rights, preferences or privileges of the 5% Preferred; (B) purchase or otherwise acquire for value any Common Stock or other equity security of the Corporation or any non-wholly-owned subsidiary thereof not held by the Corporation or any wholly-owned subsidiary while there exists any arrearage in the

payment of cumulative dividends hereunder or any Cash Payments due or the Liquidation Preference exceeds \$25; or (C) prior to a Qualifying Offering: (i) authorize or issue any other preferred equity security senior to the 5% Preferred (in security, structure or maturity); (ii) declare or pay any dividends or make any distribution except to the holders of the 5% Preferred; or (iii) effect any Reorganization. The Corporation shall not, in connection with a repurchase of any shares of 5% Preferred, undertake any of the following actions without the consent of all of the holders of the 5% Preferred: (1) reduce the amount of 5% Preferred whose holders must consent to an amendment or waiver, (2) reduce the rate of, or change the time for payment of, dividends on the 5% Preferred or alter the Liquidation Preference, or (3) alter the conversion provisions with respect to the 5% Preferred.

7. Voting Rights. Except as provided herein or as provided for by law, the 5% Preferred shall have no voting rights.

8. Notices. Any notice required by the provisions of this Certificate of Designations to be given to the holders of shares of 5% Preferred shall be deemed given five (5) days after deposit in the United States mail, postage prepaid, or one day after deposit with a nationally-recognized overnight courier, in either case addressed to each holder of record at its address appearing on the books of the Corporation. The Corporation shall distribute to the holders of shares of the 5% Preferred, copies of all notices, materials, annual and quarterly reports, proxy statements, information statements and any other documents distributed generally to the holders of shares of Common Stock, at such times and by such method as such documents are distributed to such holders.

9. Attorneys' Fees. Any holder of 5% Preferred shall be entitled to recover from the Corporation the reasonable attorneys, fees and expenses incurred by such holder in connection with enforcement by such holder of any obligation of the Corporation hereunder.

THIS ESCROW AGREEMENT is made this \_\_\_\_\_ 20th \_\_\_\_\_  
Date  
day of \_\_\_\_\_ March \_\_\_\_\_, 1997 between/among  
Month  
CD Radio Inc. (the " Party A " herein),  
Party "A" Party " A "  
"  
Party "B"  
(the " " herein) and CITIBANK, N.A.  
Party "B"  
(the "Escrow Agent" herein).

The above-named parties appoint said Escrow Agent with the duties and responsibilities and upon the terms and conditions provided in Schedule A annexed hereto and made apart hereof.

ARTICLE FIRST: The above-named parties agree that the following provisions shall control with respect to the rights, duties, liabilities, privileges and immunities of the Escrow Agent:

- a) The Escrow Agent shall neither be responsible for or under, nor chargeable with knowledge of, the terms and conditions of any other agreement, instrument or document executed between/among the parties hereto, except as may be specifically provided in Schedule A annexed hereto. This Agreement sets forth all of the obligations of the Escrow Agent, and no

additional obligations shall be implied from the terms of this Agreement or any other agreement, instrument or document.

- b) The Escrow Agent may act in reliance upon any instructions, notice, certification, demand, consent, authorization, receipt, power of attorney or other writing delivered to it by any other party without being required to determine the authenticity or validity thereof or the correctness of any fact stated herein, the propriety or validity of the service thereof, or the jurisdiction of the court issuing any judgment or order. The Escrow Agent may act in reliance upon any signature believed by it to be genuine, and may assume that such person has been properly authorized to do so.
- c) Each of the parties, jointly and severally, agrees to reimburse the Escrow Agent on demand for, and to indemnify and hold the Escrow Agent harmless against and with respect to, any and all loss, liability, damage or expense (including, but without limitation, attorneys' fees, costs and disbursements) that the Escrow Agent may suffer or incur in connection with this Agreement and its performance hereunder or in connection herewith, except to the extent such loss, liability, damage or expense arises from its willful misconduct or gross negligence as adjudicated by a court of competent jurisdiction. The Escrow Agent shall have the further right at any time and from time to time to charge, and reimburse itself from, the property held in escrow hereunder.
- d) The Escrow Agent may consult with legal counsel of its selection in the event of any dispute or question as to the meaning or construction of any of the provisions hereof or its duties hereunder, and it shall incur no liability and shall be fully protected in acting in accordance with the opinion and instructions of such counsel. Each of the parties, jointly and severally, agrees to reimburse the Escrow Agent on demand for such legal fees, disbursements and expenses and in addition, the Escrow Agent shall have the right to reimburse itself for such fees, disbursements and expenses from the property held in escrow hereunder.
- e) The Escrow Agent shall be under no duty to give the property held in escrow by it hereunder any greater degree of care than it gives its own similar property.
- f) The Escrow Agent shall invest the property held in escrow in such a manner as directed in Schedule A annexed hereto but which shall include deposits in Citibank even though Citibank may receive a benefit or profit therefrom.

THE PARTIES TO THIS AGREEMENT ACKNOWLEDGE THAT NON-DEPOSIT INVESTMENT PRODUCTS ARE NOT OBLIGATION OF, OR GUARANTEED, BY CITIBANK/CITICORP NOR ANY OF ITS AFFILIATES; ARE NOT FDIC INSURED; AND ARE SUBJECT TO INVESTMENTS RISKS, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL AMOUNT INVESTED. ONLY DEPOSITS IN THE UNITED STATES ARE SUBJECT TO FDIC INSURANCE.

- g) In the event of any disagreement between/among any of the parties to this agreement, or between /among them or either or any of them and any other person, resulting in adverse claims or demands being made in connection with the subject matter of the Escrow, or in the event that the Escrow Agent, in good faith, be in doubt as to what action it should take hereunder, the Escrow Agent may, at its option, refuse to comply with any claims or demands on it, or refuse to take any other action hereunder, so long as such disagreement continues or such doubt exists, and in any such event, the Escrow Agent shall not become liable in any way or to any person for its failure or refusal to act, and the Escrow Agent shall be entitled to continue so to refrain from acting until (i) the rights of all parties shall have been fully and finally adjudicated by a court of competent jurisdiction, or (ii) all differences shall have been adjusted and all doubt resolved by agreement among all of the interested persons, and the Escrow Agent shall have been notified thereof in writing signed by all such persons. The rights of the Escrow Agent under this paragraph are cumulative of all other rights which it may have by law or otherwise.

- h) The Escrow Agent is authorized, for any securities at any time held hereunder, to register such securities in the name of its nominee(s) or the nominees of any securities depository, and such nominee(s) may sign the name of any of the parties hereto to whom or to which such securities belong and guarantee such signature in order to transfer securities or

certify ownership thereof to tax or other governmental authorities.

- i) Notice to the parties shall be given as provided in Schedule A annexed hereto.

ARTICLE SECOND: The Escrow Agent shall make payments of income earned on the escrowed property as provided in Schedule A annexed hereto. Each such payee shall provide to the Escrow Agent an appropriate W-9 form for tax identification number certification or a W-8 form for non-resident alien certification. The Escrow Agent shall be responsible only for income reporting to the Internal Revenue Service with respect to income earned on the escrowed property.

ARTICLE THIRD: The Escrow Agent may, in its sole discretion, resign and terminate its position hereunder at any time following 60 days written notice to the parties to the Escrow Agreement herein. Any such resignation shall terminate all obligations and duties of the Escrow Agent hereunder. On the effective date of such resignation, the Escrow Agent shall deliver this Escrow Agreement together with any and all related instruments or documents to any successor Escrow Agent agreeable to the parties, subject to this Escrow Agreement herein. If a successor Escrow Agent has not been appointed prior to the expiration of 60 days following the date of the notice of such resignation, the then acting Escrow Agent may petition any court of competent jurisdiction for the appointment of a successor Escrow Agent, or other appropriate relief. Any such resulting appointment shall be binding upon all parties to this Agreement.

ARTICLE FOURTH: The Escrow Agent shall receive the fees provided in Schedule B annexed hereto. In the event that such fees are not paid to the Escrow Agent within 60 days of presentment to the party responsible for such fees as set forth in said Schedule B, then the Escrow Agent may pay itself such fees from the property held in escrow hereunder.

ARTICLE FIFTH: Any modification of this Agreement or any additional obligations assumed by an party hereto shall be binding only if evidenced by a writing signed by each of the parties hereto.

ARTICLE SIXTH: This Agreement may be executed in one or more counterparts, each of which counterparts shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement.

In witness whereof, the parties have executed this Agreement as of the date first above written.

CITIBANK, N.A.  
as Escrow Agent

By: /s/ John P. Howard  
-----

Title: Vice President  
-----

PARTY A

By: /s/ David Margolese CD RADIO INC.  
-----

Title: Chairman & CEO  
-----

PARTY B

By: \_\_\_\_\_

Title: \_\_\_\_\_

IN WITNESS WHEREOF, the authorized representatives of the parties hereto have set their hands or their names and seals, the day and year first above written.

ENGELHARD/ICC

By: [SIG]  
-----  
Name:  
-----  
Title: PRESIDENT - COO  
-----

CARRIER ASIA PACIFIC OPERATIONS PTE. LTD.

By: [SIG]  
-----  
Name:  
-----  
Title: PRESIDENT  
-----

SCHEDULE A TO ESCROW AGREEMENT BETWEEN  
CITIBANK, N.A., AS ESCROW AGENT, AND CD RADIO INC., AS PARTY A

1. Preferred Stock Investment Agreement. CD Radio Inc. ("PARTY A") has entered into a Preferred Stock Investment Agreement (the "INVESTMENT AGREEMENT") dated as of October 23, 1996, as amended, with the Investors identified therein (including their successors and assigns, the "INVESTORS"), pursuant to which Party A has agreed to sell and issue to the Investors an aggregate of up to 8,000,000 shares of Party A's 5% Delayed Convertible Preferred Stock (the "PREFERRED SHARES") and, under certain circumstances, warrants to purchase shares of Party A's common stock (the "WARRANTS"). Capitalized terms used but not defined herein shall have the meanings assigned to them in the Investment Agreement.

2. Deposit with Escrow Agent. Upon the Escrow Date, each Investor severally will deliver or cause to be delivered to the Escrow Agent payment to the escrow account identified on the cover page hereof (the "ESCROW ACCOUNT"), in the amount set forth next to such Investor's name in column 1 on Exhibit C hereto (together with any income and interest that accrues thereon, the "ESCROWED PROPERTY"). Such monies will be wire transferred directly from the Investors to the Escrow Account.

3. Conditions for Release. The Escrowed Property shall remain in the Escrow Account pursuant to the terms hereof until:

(a) at the close of the final bid submission round of the Satellite DARS License auction conducted by the FCC, if (1) Party A is the winning bidder for one of the Satellite DARS Licenses and the Bid Financing Condition (as defined below) is met and (2) each of the conditions set forth in Article IV of the Investment Agreement and applicable to the First Closing shall be fulfilled or waived in accordance with the Investment Agreement; provided, that it shall be a condition of release of the Escrowed Property from the Escrow Account (the "BID FINANCING CONDITION"), that Party A have at that time additional cash and/or binding commitments for financing (from the proceeds from the sale of the Second Closing Shares and/or any other binding commitments that are either pari passu or junior in seniority, structure and maturity to the Preferred Shares) for an amount sufficient, together with the Escrowed Property to be released to Party A, to enable Party A to fully and timely make the payments required to purchase the Satellite DARS License; or

(b) the earliest of (i) five Business Days after the conclusion of the Satellite DARS License auction if Party A has not submitted a Winning Bid or if the Bid Financing Condition, if applicable, is not met, (ii) the date Party A indicates, or takes any action indicating, that it will not, or Party A otherwise loses its right to, acquire the Satellite DARS License on the terms prescribed in the auction thereof, (iii) May 1, 1997 (or May 12, 1997, if Party A has submitted a Winning Bid) or (iv) any other termination of the Investment Agreement.

4. Release of Escrowed Property. The Escrow Agent shall only release the Escrowed Property as specified below:

(a) if the Escrow Agent receives from Party A a copy of a certificate of the chief executive, operating or financial officer of Party A in the form of Exhibit A hereto issued to the Investors (the "CERTIFICATE") stating that the conditions contained in paragraph (a) of Section 3 above have been satisfied, then the Escrow Agent shall release and transfer to each Investor, the amount set forth next to such Investor's name in column 2 of Exhibit C hereto and the remainder of the Escrowed Property to an account designated by Party A to the Escrow Agent in writing, on the second business day following the Escrow Agent's receipt of such Certificate; or

(b) if (i) May 1, 1997 (or May 12, 1997 if Party A has submitted a Winning Bid) shall have occurred without a release of Escrowed Property pursuant to Section 4(a) or (ii) the Escrow Agent receives from a majority in interest (as reflected on Exhibit C) of the Investors and from Party A a certificate in the form of Exhibit D that indicates that any of the events itemized in Section 3(b) (i), (ii) or (iv) above have occurred, then the Escrow Agent shall release and transfer the Escrowed Property to the Investors in such amounts as are stipulated on the attached Exhibit C, together with each Investor's pro rata share of the income and interest thereon.

5. Interest Bearing Account. The Escrow Agent shall hold the Escrowed Property in an interest bearing account. Any interest earned on the Escrowed Property shall be paid to the party or parties entitled to the Escrowed Property.

6. Third Party Beneficiary. Each of the Investors shall be a third party beneficiary of, and entitled to enforce, this Agreement.

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EXHIBIT A TO SCHEDULE A

[Date]

The Value Realization Fund, L.P.  
GRS Partners II  
The Canyon Value Realization Fund, (Cayman) Ltd.  
Cerberus Partners, L.P.  
The Copernicus Fund, LP  
The Galileo Fund, LP  
Dickstein & Co. L.P.  
Dickstein International Limited  
Global Bermuda Limited Partnership  
Lakeshore International, Limited  
Elliott Associates, L.P.  
Westgate International, L.P.  
Everest Capital International, Ltd.  
Everest Capital Fund, L.P.  
The Jay Goldman Master Limited Partnership  
Grace Brothers, Ltd.  
MainStay VP Series Fund, Inc., on behalf of its High Yield Corporate Bond Portfolio  
The MainStay Funds, on behalf of its High Yield Corporate Bond Fund Series  
The Brown & Williamson Master Retirement Trust  
Police Officers Pension System of the City of Houston  
Highbridge Capital Corporation  
The MainStay Funds, on behalf of its Strategic Income Fund Series  
The Ravich Revocable Trust of 1989  
Scoggin Capital Management  
Scoggin International Fund, Ltd.  
TCW Shared Opportunity Fund II  
LibertyView Plus Fund  
LibertyView LLC Fund  
Paresco, Inc.  
Navesink Investment Fund, LDC  
Stonehill Offshore Partners Limited  
Stonehill Investment Corp., for and on behalf of Stonehill Partners L.P., GRS Partners III and Aurora Limited Partnership  
Herta and Paul Amir Family Trust  
The Wolens Family Trust  
LongView Partners  
Cumberland Partners  
JMG Capital Partners, L.P.  
The James P. Argyropoulos Trust Dated 8/8/91

Banco Santander Trust and Banking Corp. (Bahamas) Ltd.  
CC Investments, Ltd.  
Continental Casualty Company  
Greenlight Capital, L.P.  
Greenlight Capital Offshore, Ltd.  
Lloyd I. Miller Trust A-4 Dated 9/19/80, Amended and Restated 9/20/83  
Milfam II, L.P.

A-1

Milner Trust  
Post Balanced Fund, L.P.  
UBS Securities LLC

Citibank, N.A., Escrow Agent  
153 East 53rd Street  
New York, NY 10043

Re: Certificate Regarding Escrow Agreement Between  
Citibank, NA and CD Radio Inc., dated  
March 20, 1997 (the "Escrow Agreement")

Ladies and Gentlemen:

We are writing pursuant to paragraph 4(a) of Schedule A to the above-referenced Escrow Agreement. All capitalized terms not defined herein shall have the same meaning as defined in the Escrow Agreement.

The following conditions for release of the Escrowed Property have been met: (i) at the close of the final bid submission round of the Satellite DARS License auction conducted by the FCC, CD Radio Inc. was the winning bidder for one of the Satellite DARS Licenses and the Bid Financing Condition has been met as shown on Annex A or waived in a writing executed by each Investor and (ii) each of the conditions set forth in Article IV of the Investment Agreement and applicable to the First Closing have been fulfilled or waived in accordance with the Investment Agreement.

Citibank, N.A., as escrow agent, is therefore authorized to release to each Investor on [insert date calculated based on Section 1.3(b) of the Investment Agreement], the amounts set forth next to such Investor's name in column 2 of Exhibit C to the Escrow Agreement and the remainder of the Escrowed Property [less the Remaining Deferred Payments Amount], plus all interest earned thereon, to CD Radio Inc. as provided in paragraphs 4(a) and 5 of Schedule A to the Escrow Agreement.

Yours very truly,

By:

-----  
Name:  
Title: Chief [Executive]  
[Operating] [Financial]  
Officer

A-2  
ANNEX A

ANNEX A TO EXHIBIT A TO SCHEDULE A TO ESCROW AGREEMENT  
DETERMINATION OF BID FINANCING CONDITION

<TABLE>		
<S>	<C>	<C>
1.	Purchase price payable for Satellite DARS License . . . . .	\$ _____
2.	Net proceeds from First Closing and Second Closing:	

		\$ _____
(i)	Gross proceeds from First Closing and Second Closing (if any) .	
(ii)	Less: Financing fees, deal expenses and 2% funding fee on First Closing . . . . .	\$ _____
(iii)	Net Proceeds from sale of Preferred Shares (a(i)-a(ii)) . . . . .	\$ _____
(b)	Gross proceeds from all other financings for which CDRD has binding commitments:	
(i)	(A) From such financings that are pari passu to the Preferred Shares . . . . .	\$ _____
	(B) From such financings that are junior to the Preferred Shares . . . . .	\$ _____
	(C) Total gross proceeds from all other such financings ((b) (i) (A) + (b) (i) (B)) . . . . .	\$ _____
(ii)	Less: Financing fees, funding fees and deal expenses for all other such financings . . . . .	\$ _____
(iii)	Net proceeds from all other such financings ((b) (i) (C) - (b) (ii)) . . . . .	\$ _____
(c)	Total net proceeds from all financings and commitments for financings ((a) (iii) plus (b) (iii)) . . . . .	\$ _____
(d)	Total additional cash currently held by CDRD . . . . .	\$ _____
(e)	Total funds available for payment of purchase price ((c) plus (d)) . . . . .	\$ _____

</TABLE>

IF LINE 2(e) IS GREATER THAN OR EQUAL TO LINE 1, THE BID FINANCING CONDITION IS MET.

A-3  
EXHIBIT B TO SCHEDULE A

[Intentionally Omitted]

B-1  
EXHIBIT C TO SCHEDULE A

<TABLE>  
<CAPTION>

Investor*	Column 1 Payment Amount**	Column 2 2% Amount
-----	-----	-----
<S>	<C>	<C>
CANYON PARTNERS		
The Value Realization Fund, L.P.	\$187,500	\$3,750
GRS Partners II	37,500	750
The Canyon Value Realization Fund, (Cayman) Ltd.	275,000	5,500
CERBERUS PARTNERS		
Cerberus Partners. L.P.	500,000	10,000
DDJ CAPITAL MANAGEMENT		
The Copernicus Fund, LP	375,000	7,500
The Galileo Fund, LP	1,125,000	22,500
DICKSTEIN PARTNERS		
Dickstein & Co., L.P.	212,500	4,250
Dickstein International Limited	37,500	750

EBF & ASSOCIATES		
Global Bermuda Limited Partnership	500,000	10,000
Lakeshore International, Limited	250,000	5,000
ELLIOTT ASSOCIATES, L.P.		
Elliott Associates, L.P.	3,000,000	60,000
Westgate International, L.P.	2,000,000	40,000
EVEREST CAPITAL		
Everest Capital International, Ltd.	18,175,000	363,500
Everest Capital Fund, L.P.	6,825,000	136,500
THE JAY GOLDMAN MASTER LIMITED PARTNERSHIP	250,000	5,000
GRACE BROTHERS, LTD.	6,000,000	120,000
MACKAY-SHIELDS		
MainStay VP Series Fund, Inc., on behalf of its High Yield Corporate Bond Portfolio	1,400,000	28,000
The MainStay Funds, on behalf of its High Yield Corporate Bond Fund Series	12,450,000	249,000
The Brown & Williamson Master Retirement Trust	250,000	5,000
Police Officers Pension System of the City of Houston	225,000	4,500
Highbridge Capital Corporation	150,000	3,000
The MainStay Funds, on behalf of its Strategic Income Fund Series	25,000	500
THE RAVICH REVOCABLE TRUST OF 1989	1,085,000	21,700

</TABLE>

C-1

<TABLE>  
<CAPTION>

Investor*	Column 1 Payment Amount**	Column 2 2% Amount
-----	-----	-----
<S>	<C>	<C>
SCOGGIN CAPITAL MANAGEMENT, L.P.		
Scoggin Capital Management	150,000	3,000
Scoggin International Fund, Ltd.	15,000	300
TRUST COMPANY OF THE WEST		
TCW Shared Opportunity Fund II	1,000,000	20,000
LIBERTYVIEW CAPITAL MGMT., INC.		
LibertyView Plus Fund	300,000	6,000
LibertyView LLC Fund	100,000	2,000
Paresco, Inc.	600,000	12,000
NAVESINK INVESTMENT FUND, LLC	750,000	15,000
STONEHILL INVESTMENT CORP.		
Stonehill Offshore Partners Limited	290,625	5,812.50
Stonehill Partners, L.P.	1,096,875	21,937.50
GRS Partners III	187,500	3,750
Aurora Limited Partnership	300,000	6,000
AMIR DEVELOPMENT TRUST		
Herta and Paul Amir Family Trust	245,000	4,900
The Wolens Family Trust	12,500	250
CUMBERLAND ASSOCIATES		
LongView Partners	250,000	5,000
Cumberland Partners	1,750,000	35,000
JMG CAPITAL PARTNERS, L.P.	250,000	5,000
JAMES P. ARGYROPOULOS		
The James P. Argyropoulos Trust Dated 8-8-91	150,000	3,000
BANCO SANTANDER		
Banco Santander Trust and Banking Corp. (Bahamas) Ltd.	2,500,000	50,000
CC INVESTMENTS, LTD.	1,500,000	30,000

CONTINENTAL CASUALTY COMPANY	15,000,000	300,000
GREENLIGHT CAPITAL		
Greenlight Capital, L.P.	562,500	11,250
Greenlight Capital Offshore, Ltd.	187,500	3,750
LLOYD MILLER		
Lloyd I. Miller Trust A-4 Dated 9-19-80, Amended and Restated 9-20-83	75,000	1,500
Milfam II, L.P.	75,000	1,500

</TABLE>

C-2

<TABLE>  
<CAPTION>

Investor*	Column 1 Payment Amount**	Column 2 2% Amount
-----	-----	-----
<S>	<C>	<C>
MILNER TRUST	125,000	2,500
POST BALANCED FUND, L.P.	1,000,000	20,000
UBS SECURITIES LLC	2,500,000	50,000
	=====	=====
	\$86,307,500	\$1,726,150

</TABLE>

-----  
\* The term Investor includes each entity for which share amounts are listed opposite such entity's name.

\*\* Investors shall also receive their pro-rata share (based on the above-stated Payment Amounts) of the interest earned thereon pursuant to Section 4(b) of Schedule A to the Escrow Agreement.

C-3  
EXHIBIT D TO SCHEDULE A

Citibank, N.A., Escrow Agent  
153 East 53rd Street  
New York, NY 10043

Re: Certificate Regarding Escrow Agreement Between  
Citibank, NA and CD Radio Inc., dated March 20, 1997  
(the "Escrow Agreement")

Ladies and Gentlemen:

All capitalized terms not defined herein shall have the same meaning as defined in the Escrow Agreement. Pursuant to paragraph 4(b) of Schedule A to the above-referenced Escrow Agreement, the undersigned hereby certify to you as follows:

[Five Business Days have passed since the conclusion of the Satellite DARS License auction and Party A was not a winning bidder or the Bid Financing Condition, if applicable, has not been met][Party A has indicated, or has taken action indicating, that it will not, or Party A otherwise has lost its right to, acquire the Satellite DARS License on the terms prescribed in the auction thereof] [The Investment Agreement has terminated in accordance with its terms].

Citibank, N.A., as escrow agent, is therefore authorized to release to Investors the Escrowed Property, plus all interest earned thereon, as provided in paragraph 4(b) of Schedule A to the Escrow Agreement.

Yours very truly,

CD Radio, Inc.

INVESTORS:

Dated: March \_\_\_\_, 1997  
---

THE VALUE REALIZATION FUND, L.P.  
By: Canpartners Investments III, L.P.  
By: Canyon Capital Management, L.P.  
By: Canpartners Incorporated

By: \_\_\_\_\_  
Its

D-1

<TABLE>  
<S>  
Dated: March \_\_\_\_, 1997

<C>  
GRS Partners II

By: \_\_\_\_\_  
Its Account Manager

Dated: March \_\_\_\_, 1997

The Canyon Value Realization Fund, (Cayman) Ltd.

By: \_\_\_\_\_  
Its Account Manager

Dated: March \_\_\_\_, 1997

Cerberus Partners, L.P.

By: \_\_\_\_\_  
General Partner Cerberus Associates, L.P.  
General Partner Cerberus Partners, L.P.

Dated: March \_\_\_\_, 1997

The Copernicus Fund, LP  
By: DDJ Copernicus, LLC

By: \_\_\_\_\_  
Its Member

Dated: March \_\_\_\_, 1997

The Galileo Fund, LP  
By: DDJ Galileo, LLC

By: \_\_\_\_\_  
Its Member

Dated: March \_\_\_\_, 1997

Dickstein & Co., L.P.  
By: Dickstein Partners, L.P.  
By: Dickstein Partners, Inc.

By: \_\_\_\_\_  
Its

</TABLE>

D-2

<TABLE>  
<S>  
Dated: March \_\_\_\_, 1997

<C>  
Dickstein International Limited  
By: Dickstein Partners, Inc.

By: \_\_\_\_\_  
Its

Dated: March \_\_\_, 1997

Global Bermuda Limited Partnership  
By: Global Capital Management, Inc.

By: \_\_\_\_\_  
Its Authorized Signatory

Dated: March \_\_\_, 1997

Lakeshore International, Limited  
By: Global Capital Management, Inc.

By: \_\_\_\_\_  
Its Authorized Signatory

Dated: March \_\_\_, 1997

Elliott Associates, L.P.

By: \_\_\_\_\_  
Its General Partner

Dated: March \_\_\_, 1997

Westgate International, L.P.  
By: Martley International, Inc. as Attorney-in-fact

By: \_\_\_\_\_  
Its

Dated: March \_\_\_, 1997

Everest Capital International, Ltd.  
By: Everest Capital, Ltd., Investment Manager

By: \_\_\_\_\_  
Its

</TABLE>

D-3

<TABLE>

<S>

Dated: March \_\_\_, 1997

<C>  
Everest Capital Fund, L.P.  
By: Everest Capital, Ltd., General Partner

By: \_\_\_\_\_  
Its

Dated: March \_\_\_, 1997

The Jay Goldman Master Limited Partnership

By: \_\_\_\_\_  
Its General Partner

Dated: March \_\_\_, 1997

Grace Brothers, Ltd.

By: \_\_\_\_\_  
Its General Partner

Dated: March \_\_\_, 1997

MainStay VP Series Fund, Inc., on behalf of its High Yield  
Corporate Bond Portfolio

By: Mackay-Shields Financial Corporation  
Its Investment Advisor

By: \_\_\_\_\_  
Name:  
Its:

Dated: March \_\_\_, 1997

The MainStay Funds, on behalf of Its High Yield Corporate Bond Fund Series

By: Mackay-Shields Financial Corporation  
Its Investment Advisor

By: \_\_\_\_\_  
Name: Jeffrey Platt  
Its: Director

</TABLE>

D-4

<TABLE>

<S>

Dated: March \_\_\_, 1997

<C>

The Brown & Williamson Master Retirement Trust

By: Mackay-Shields Financial Corporation  
Its Investment Advisor

By: \_\_\_\_\_  
Name: Jeffrey Platt  
Its: Director

Dated: March \_\_\_, 1997

Police Officers Pension System of the City of Houston

By: Mackay-Shields Financial Corporation  
Its Investment Advisor

By: \_\_\_\_\_  
Name: Jeffrey Platt  
Its: Director

Dated: March \_\_\_, 1997

Highbridge Capital Corporation

By: Mackay-Shields Financial Corporation  
Its Investment Advisor

By: \_\_\_\_\_  
Name: Jeffrey Platt  
Its: Director

Dated: March \_\_\_, 1997

The MainStay Funds, on behalf of its Strategic Income Fund Series

By: Mackay-Shields Financial Corporation  
Its Investment Advisor

By: \_\_\_\_\_  
Name: Jeffrey Platt  
Its: Director

</TABLE>

<TABLE>  
<S>  
Dated: March \_\_\_, 1997

<C>  
The Ravich Revocable Trust of 1989

By: \_\_\_\_\_  
Its Trustee

Dated: March \_\_\_, 1997

Scoggin Capital Management

By: \_\_\_\_\_  
Its General Partner

By: \_\_\_\_\_  
Its

By: \_\_\_\_\_  
Its

Dated: March \_\_\_, 1997

Scoggin International Fund, Ltd.

By: \_\_\_\_\_  
Its General Partner

Dated: March \_\_\_, 1997

TCW Shared Opportunity Fund II  
By: TCW Investment Management Company, its  
Investment Adviser

By: \_\_\_\_\_  
Its

By: \_\_\_\_\_  
Its

Dated: March \_\_\_, 1997

LibertyView Plus Fund

By: \_\_\_\_\_  
Its

</TABLE>

<TABLE>  
<S>  
Dated: March \_\_\_, 1997

<C>  
LibertyView LLC Fund  
By: Liberty View Capital Management, Inc.

By: \_\_\_\_\_  
Its

Dated: March \_\_\_, 1997

Paresco, Inc.

By: \_\_\_\_\_  
Its

Dated: March \_\_\_, 1997

Navesink Investment Fund, LDC

By: \_\_\_\_\_  
Its

Dated: March \_\_\_, 1997

Stonehill Offshore Partners Limited  
By: Stonehill Advisors LLC, as Agent

By: \_\_\_\_\_  
Its:

Dated: March \_\_\_, 1997

Stonehill Investment Corp., for and on behalf of  
Stonehill Partners, L.P., GRS Partners III and Aurora  
Limited Partnership

By: \_\_\_\_\_  
Its:

Dated: March \_\_\_, 1997

Herta and Paul Amir Family Trust

By: \_\_\_\_\_  
Its Trustee

Dated: March \_\_\_, 1997

The Wolens Family Trust

By: \_\_\_\_\_  
Its Trustee

</TABLE>

D-7

<TABLE>

<S>

Dated: March \_\_\_, 1997

<C>  
LongView Partners

By: \_\_\_\_\_  
Its General Partner

By: \_\_\_\_\_  
Its General Partner

Dated: March \_\_\_, 1997

Cumberland Partners

By: \_\_\_\_\_  
Its General Partner

By: \_\_\_\_\_  
Its

Dated: March \_\_\_, 1997

JMG Capital Partners, L.P.  
By: JMG Capital Management, Inc.

By: \_\_\_\_\_

Its General Partner

Dated: March \_\_, 1997

The James P. Argyropoulos Trust  
Dated 8/8/91

By: \_\_\_\_\_  
Its Trustee

Dated: March \_\_, 1997

Banco Santander Trust and Banking Corp. (Bahamas) Ltd.

By: \_\_\_\_\_  
Its Attorney-in-fact

Dated: March \_\_, 1997

CC Investments, Ltd.

By: \_\_\_\_\_

</TABLE>

D-8

<TABLE>  
<S>

<C>  
Its Director

Dated: March \_\_, 1997

Continental Casualty Company

By: \_\_\_\_\_  
Its Group Vice President and Deputy Gaming Counsel

Dated: March \_\_, 1997

Greenlight Capital, L.P.

By: \_\_\_\_\_  
Its General Partner

Dated: March \_\_, 1997

Greenlight Capital Offshore, Ltd.

By: \_\_\_\_\_  
Its Investment Advisor

Dated: March \_\_, 1997

Lloyd I. Miller Trust A-4 Dated 9/19/80, Amended and Restated 9/20/83

By: \_\_\_\_\_  
Its

Dated: March \_\_, 1997

Milfam II, L.P.

By: \_\_\_\_\_  
Its

Dated: March \_\_, 1997

Milner Trust

By: \_\_\_\_\_  
Its Trustee

Dated: March \_\_, 1997

Post Balanced Fund, L.P.

By: \_\_\_\_\_  
Its General Partner

</TABLE>

D-9

<TABLE>

<S>

Dated: March \_\_, 1997

<C>

UBS Securities LLC

By: \_\_\_\_\_  
Its Managing Director

</TABLE>

D-10

SCHEDULE B TO ESCROW AGREEMENT BETWEEN  
CITIBANK, N.A., AS ESCROW AGENT, AND  
CD RADIO INC., AS PARTY A

Escrow Agent Fees. The initial fees of the Escrow Agent for acting as Escrow Agent hereunder shall be payable by Party A in the amount of \$2,000.00 on the date hereof. Upon the Escrow Date, an additional fee shall be due and payable by Party A according to the following schedule:

<TABLE>

<CAPTION>

Total of Escrowed Property -----	Additional Fee -----
<S>	<C>
Less than or equal to \$40,000,000.00	\$8,000.00
\$40,000,000.01 to \$60,000,000.00	\$10,000.00
\$60,000,000.01 to \$80,000,000.00	\$12,000.00
\$80,000,000.01 to \$100,000,000.00	\$14,000.00
\$100,000,000.01 or greater	\$18,000.00

</TABLE>

E-1

EXHIBIT 3

Warrant No. \_\_

WARRANT

to Purchase Common Stock of

CD RADIO INC.,  
a Delaware corporation

THIS IS TO CERTIFY THAT:

[INSERT NAME OF INVESTOR]

-----

or registered assigns (the "Holder") is entitled to purchase from CD RADIO INC., a Delaware corporation (the "Issuer"), at any time during the Exercise Period (as defined below), a number of Stock Units (as defined below) equal to [INSERT NUMBER], at a purchase price of \$10.00 per Stock Unit (adjusted as

provided below), all on the terms and conditions provided in this warrant (this "Warrant").

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER ANY STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS THE PROPOSED TRANSACTION DOES NOT REQUIRE REGISTRATION OR QUALIFICATION UNDER FEDERAL OR STATE SECURITIES LAWS, OR UNLESS THE PROPOSED TRANSACTION IS REGISTERED OR QUALIFIED AS REQUIRED.

THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER ANY STATE SECURITIES LAWS.

SECTION 1. CERTAIN DEFINITIONS. As used in this Warrant, unless the context otherwise requires:

"Additional Shares of Nonpreferred Stock" means all shares of Nonpreferred Stock issued or issuable by the Issuer after the date of this Warrant, other than the Warrant Stock.

"Affiliate" means, with respect to a specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities or by agreement or otherwise.

"Appraised Value" means the fair market value of all outstanding Common Stock (on a fully diluted basis including any fractional shares and assuming the exercise in full of all then-outstanding Warrants and all other options, warrants or other rights to purchase shares of Common Stock that are then currently exercisable at exercise prices less than the Current Market Price), as determined by the Board of Directors in good faith. "Fair market value" is defined for this purpose as the price in a single transaction determined on a going-concern basis that would be agreed upon by the most likely hypothetical buyer for 100% of the equity capital of the Issuer (on a fully diluted basis including any fractional shares and assuming the exercise in full of all then-outstanding Warrants and all other options, warrants or other rights to purchase shares of Common Stock that are then currently exercisable at exercise prices less than the Current Market Price).

"Board of Directors" means either the board of directors of the Issuer or any duly authorized committee of that board.

"Business Day" means any day that is not a Saturday or a Sunday or a public holiday or a day on which banks are required or permitted to close under the laws of the State of New York.

"Common Stock" means the Issuer's authorized common stock as constituted on the date of original issuance of this Warrant, and any other stock into which such Common Stock may be changed after such date.

"Convertible Securities" means evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for Additional Shares of Nonpreferred Stock, either immediately or upon the arrival of a specified date or the happening of a specified event.

"Current Market Price" per share of Common Stock for the purposes of any provision of this Warrant at the date herein specified, shall be deemed to be the price determined pursuant to the first applicable of the following methods:

(i) If the Common Stock is traded on a national securities exchange or is traded in the over-the-counter market, the Current Market Price per share of Common Stock shall be deemed to be the average of the daily market prices for five (5) consecutive Business Days commencing five (5) Business Days before such date. The market price for each such Business Day shall be, (a) if the Common Stock is traded on a national securities exchange or the NASDAQ National Market, its last reported sale price on the preceding Business Day on such national securities exchange or the NASDAQ National Market or, if there was no sale on that day, the last reported sale price on such national securities exchange or the NASDAQ National Market on the next preceding Business Day on which there was a

sale, all as made available over the Consolidated Last Sale Reporting System of the CTA Plan (the "CLSRS") or, if the Common Stock is not then eligible for reporting over the CLSRS, its last reported sale price on the preceding Business Day on such national securities exchange or the NASDAQ National

Market or, if there was no sale on that day, on the next preceding Business Day on which there was a sale on such exchange or (b) if the principal market for the Common Stock is the over-the-counter market, but the Common Stock is not then eligible for reporting over the CLSRS, but the Common Stock is quoted on the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), the last sale price reported on NASDAQ on the preceding Business Day or, if the Common Stock is an issue for which last sale prices are not reported on NASDAQ, the closing bid quotation on such day, but, in each of the next preceding two cases, if the relevant NASDAQ price or quotation did not exist on such day, then the price or quotation on the next preceding Business Day in which there was such a price or quotation.

(ii) If the Current Market Price per share of Common Stock cannot be ascertained by any of the methods set forth in paragraph (i) immediately above, the Current Market Price per share of outstanding Common Stock shall be deemed to be the price equal to the quotient determined by dividing the Appraised Value by the number of shares (including any fractional shares) of Common Stock on a fully-diluted basis as determined in accordance with GAAP.

"Current Warrant Price" per share of Common Stock, for the purpose of any provision of this Warrant at the date herein specified, means the amount equal to the quotient resulting from dividing the Exercise Price in effect on such date by the number of shares (including any fractional share) of Common Stock comprising a Stock Unit on such date.

"Effective Date" means the date this Warrant was issued by the Issuer.

"Election Notice" has the meaning ascribed to such term in Section 2 of this Warrant.

"Exercise Period" shall mean the period commencing on the Effective Date and expiring upon the date that is five years after the Effective Date.

"Exercise Price" means the purchase price per Stock Unit as set forth on the first page of this Warrant on the date of original issue of this Warrant and thereafter shall mean such dollar amount as shall result from the adjustments specified in Section 4, if any.

"Expiration Date" means the final date of the Exercise Period.

"GAAP" means generally accepted accounting principles, consistently applied, as in effect at the time of application to the provisions hereof.

"Holder" has the meaning ascribed to such term in the first paragraph of this Warrant.

"Holder Indemnified Party" has the meaning ascribed to such term in Section 10.6 of this Warrant.

"Investment Agreement" means that certain Preferred Stock Investment Agreement dated as of October 23, 1996, by and among the Issuer and the Investors named therein.

"Issuer" has the meaning ascribed to such term in the first paragraph of this Warrant.

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"Issuer's Business Office" has the meaning ascribed to such term in Section 2 of this Warrant.

"Liabilities" has the meaning ascribed to such term in Section 10.6 of this Warrant.

"Nonpreferred Stock" shall mean the Common Stock and shall also include stock of the Issuer of any other class which is not preferred as to dividends or assets over any other class of stock of the Issuer and which is not subject to redemption.

"Person" means a corporation, an association, a trust, a partnership, a joint venture, a limited liability company, an organization, a business, an individual, a government or political subdivision thereof, a governmental body or any other legal entity.

"Restricted Certificate" shall mean a Warrant bearing the restrictive legend set forth in Section 10.1.

"Restricted Securities" shall mean Restricted Stock and

Restricted Warrants.

"Restricted Stock" shall mean Warrant Stock with respect to a Restricted Warrant or otherwise evidenced by a Restricted Certificate.

"Restricted Warrant" shall mean a Warrant evidenced by a Restricted Certificate.

"Securities Act" means the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the time.

"SEC" means the Securities and Exchange Commission and any successor agency.

"Seller" means a holder of Restricted Securities for which the Issuer shall be required to file a registration statement or which shall be registered under the Securities Act at the request of such holder pursuant to any of the provisions of Section 10. Neither the Issuer nor any of its Affiliates shall be deemed a "Seller" for any purposes of this Warrant.

"Stock Unit" shall constitute one share of Common Stock, as such Common Stock was constituted on the date of original issue of this Warrant and thereafter shall constitute such number of shares (including any fractional shares) of Common Stock as shall result from the adjustments specified in Section 4, if any.

"Warrants" shall mean this Warrant and all additional or new warrants issued upon transfer, division or combination of, or in substitution for this Warrant or any such additional or new warrant. All Warrants shall at all times be identical as to terms and conditions and date, except as to the number of Stock Units for which they may be exercised.

"Warrant Stock" means the shares of Common Stock purchasable by the holder of a Warrant upon the exercise of such Warrant.

SECTION 2. EXERCISE OF WARRANT. The Holder may, at any time during the Exercise Period, exercise this Warrant in whole at any time or in part from time to time for the number of Stock Units which such Holder is then entitled to purchase under this Warrant; provided that the Issuer shall not be obligated to honor any request for exercise of this Warrant at any time to the extent that approval of

4

the Federal Communications Commission ("FCC") of the issuance of shares of Warrant Stock upon such exercise is or would be required and has not been obtained.

The Issuer shall promptly and expeditiously after the Effective Date apply for, and uses its best efforts to obtain, any and all approvals, consents, authorizations or orders of, or make any filings or registrations with, the FCC necessary to permit the exercise of this Warrant and all warrants issued to the Investors (as defined in the Investment Agreement) in accordance with the terms hereof and thereof (the "FCC Approval"). If the FCC Approval is not obtained by a date that is 270 days after the Initial Registration Deadline, then, at any time thereafter at the request of the holder of this Warrant (as defined in the Investment Agreement), the Issuer shall promptly purchase this Warrant from such holder, at a purchase price equal to (A) the number of Stock Units that would otherwise be then issuable upon exercise in full of this Warrant multiplied by (B) (i) the Current Market Price multiplied by the number of shares of Common Stock that comprise a Stock Unit minus (ii) the Exercise Price.

The Holder may exercise this Warrant, in whole or in part, by either of the following methods:

(a) The Holder may deliver to the Issuer at its office maintained pursuant to Section 15 ("Issuer's Business Office") for such purpose (i) a written notice of such Holder's election to exercise this Warrant (an "Election Notice"), which notice shall specify the number of Stock Units to be purchased, (ii) this Warrant and (iii) a sum equal to the Exercise Price therefor in immediately available funds; or

(b) The Holder may also exercise this Warrant, in whole or in part, in a "cashless" or "net-issue" exercise by delivering to the Issuer's Business Office (i) this Warrant and (ii) an Election Notice, which Election Notice shall specify the number of Stock Units to be delivered to such Holder ("Deliverable Units") and the number of Stock Units with respect to which this Warrant is being surrendered in payment of the aggregate Exercise Price for the Deliverable Units ("Surrendered Units"); provided that the Exercise Price multiplied by the number of Deliverable Units shall not exceed the value of

the Surrendered Units; provided further that the sum of number of Deliverable Units and the number of Surrendered Units so specified shall not exceed the aggregate Stock Units represented by this Warrant. For purposes of this provision, each Stock Unit as to which this Warrant is surrendered will be attributed a value equal to the product of (x) the Current Market Price per share of Common Stock minus the Current Warrant Price per share of Common Stock, multiplied by (y) the number of shares of Common Stock then comprising a Stock Unit.

An Election Notice may be in the form of the subscription set out at the end of this Warrant. Upon delivery thereof, the Issuer shall as promptly as practicable, and in any event within two (2) Business Days thereafter, cause to be executed and delivered to such Holder a certificate or certificates representing the aggregate number of fully-paid and nonassessable shares of Common Stock issuable upon such exercise.

The stock certificate or certificates for Warrant Stock so delivered shall be in such denominations as may be specified in the Election Notice and shall be registered in the name of such Holder or such other name or names as shall be designated in the Election Notice. Such certificate or certificates shall be deemed to have been issued and such Holder or any other Person so designated to be named therein shall be deemed to have become a holder of record of such shares, and shall have rights including, to the extent permitted by law, the right to vote such shares or to consent or to receive notice as a stockholder, as of the time the Election Notice is delivered to the Issuer in accordance with this Section 2(b). If this Warrant shall have been exercised only in part, the Issuer shall, at the time of delivery of said certificate or certificates, deliver to such Holder a new Warrant dated the date of the

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Election Notice, evidencing the rights of such Holder to purchase Stock Units in an amount equal to the total number of Stock Units represented by this Warrant minus the total number of Deliverable Units and Surrendered Units received upon exercise of this Warrant through the date of such exercise in part, which new Warrant shall in all other respects be identical to this Warrant, or, at the request of such Holder, appropriate notation may be made on this Warrant and this Warrant shall be returned to such Holder.

Except as otherwise provided in Section 8, the Issuer shall pay all expenses, transfer taxes and other charges payable in connection with the preparation, issuance and delivery of stock certificates under this Section 2, except that, if such stock certificates shall be registered in a name or names other than the name of the Holder, funds sufficient to pay all stock transfer taxes which shall be payable upon the issuance of such stock certificate or certificates shall be paid by the Holder at the time of delivering the Exercise Notice.

All shares of Common Stock issuable upon the exercise of this Warrant shall be validly issued, fully paid and nonassessable, and free from all liens and other encumbrances thereon, other than liens or other encumbrances created by the Holder.

Except as provided in Section 7, the Issuer will not close its books against the transfer of this Warrant or of any share of Warrant Stock in any manner that interferes with the timely exercise of this Warrant.

If any fractional interest in a share of Common Stock would be deliverable upon exercise of this Warrant, the Issuer shall, at its option, either issue fractional shares of Common Stock or pay in cash an amount equal to the Current Market Price of such fractional interest.

SECTION 3. TRANSFER, DIVISION AND COMBINATION. Subject to Section 10, this Warrant and all rights hereunder are transferable, in whole or in part, on the books of the Issuer to be maintained for such purpose, upon surrender of this Warrant at the Issuer's Business Office, together with a written assignment of this Warrant duly executed by the Holder or its agent or attorney and payment of funds sufficient to pay any stock transfer taxes payable upon the making of such transfer. Upon such surrender and payment the Issuer shall, subject to Section 10, execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denominations specified in such instrument of assignment, and this Warrant shall promptly be canceled. If and when this Warrant is assigned in blank (in case the restrictions on transferability in Section 10 shall have been terminated), the Issuer may (but shall not be obliged to) treat the bearer hereof as the absolute owner of this Warrant for all purposes and the Issuer shall not be affected by any notice to the contrary. This Warrant, if properly assigned in compliance with this Section 3 and Section 10, may be exercised by an assignee for the purchase of shares of Common Stock without having a new Warrant issued.

This Warrant may, subject to Section 10, be divided or combined with other Warrants upon presentation at the Issuer's Business Office of the Issuer, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with the preceding paragraph and with Section 10, as to any transfer which may be involved in such division or combination, the Issuer shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

The Issuer shall pay all expenses, taxes (except as provided in Section 8) and other charges incurred by the Issuer in the performance of its obligations in connection with the preparation, issue and delivery of Warrants under this Section 3.

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The Issuer agrees to maintain at the Issuer's Business Office books for the registration and transfer of the Warrants.

SECTION 4. ADJUSTMENT OF STOCK UNIT OR EXERCISE PRICE. The number of shares of Common Stock comprising a Stock Unit, and the Exercise Price per Stock Unit, shall be subject to adjustment from time to time as set forth in this Section 4 and in Section 5. The Issuer shall not take any action with respect to its Nonpreferred Stock of any class requiring an adjustment pursuant to any of the following Subsections 4.1, 4.2 or 4.7 without at the same time taking like action with respect to its Nonpreferred Stock of each other class; and the Issuer shall not create any class of Nonpreferred Stock which carries any rights to dividends.

4.1. Stock Dividends, Subdivisions and Combinations. If at any time or from time to time the Issuer shall:

(a) take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, Nonpreferred Stock; or

(b) subdivide its outstanding shares of Nonpreferred Stock into a larger number of shares of Nonpreferred Stock; or

(c) combine its outstanding shares of Nonpreferred Stock into a smaller number of shares of Nonpreferred Stock;

then the number of shares of Common Stock comprising a Stock Unit immediately after the happening of any such event shall be adjusted so as to consist of the number of shares of Common Stock which a record holder of the number of shares of Common Stock comprising a Stock Unit immediately prior to the happening of such event would own or be entitled to receive immediately after the happening of such event.

4.2. Certain Other Dividends and Distributions. If at any time or from time to time the Issuer shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive any dividend or other distribution of:

(a) cash (other than a cash distribution made as a dividend and payable out of earnings or earned surplus legally available for the payment of dividends under the laws of the jurisdiction of incorporation of the Issuer, to the extent, but only to the extent, that the aggregate of all such dividends paid or declared after the date hereof, does not exceed the consolidated net income of the Issuer earned subsequent to the date hereof determined in accordance with GAAP), or

(b) any evidence of its indebtedness (other than Convertible Securities), any shares of its stock (other than Additional Shares of Nonpreferred Stock) or any other securities or property of any nature whatsoever (other than cash and other than Convertible Securities or Additional Shares of Nonpreferred Stock), or

(c) any warrants or other rights to subscribe for or purchase any evidences of its indebtedness (other than Convertible Securities), any shares of its stock (other than Additional Shares of Nonpreferred Stock) or any other securities or property of any nature whatsoever (other than cash that, if distributed, would give rise to an adjustment under Section 4.2(a)) and other than Convertible Securities or Additional Shares of Nonpreferred Stock),

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then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted to that number determined by multiplying the number of shares of Common Stock comprising a Stock Unit immediately prior to such adjustment by a fraction (i) the numerator of which shall be the Current Market Price per share of Common Stock at the date of taking such record, and (ii) the denominator of which shall be such Current Market Price per share of Common Stock at the date of taking such record minus the portion applicable to one share of Nonpreferred Stock of any such cash so distributable and of the fair value of any and all such evidences of indebtedness, shares of stock, other securities or property, or warrants or other subscription or purchase rights, so distributable. Such fair value shall be determined in good faith by the Board of Directors. A reclassification of the Nonpreferred Stock into shares of Nonpreferred Stock and shares of any other class of stock shall be deemed a distribution by the Issuer to the holders of its Nonpreferred Stock of such shares of such other class of stock within the meaning of this Subsection 4.2 and, if the outstanding shares of Nonpreferred Stock shall be changed into a larger or smaller number of shares of Nonpreferred Stock as a part of such reclassification, shall be deemed a subdivision or combination, as the case may be, of the outstanding shares of Nonpreferred Stock within the meaning of Subsection 4.1.

4.3. Issuance of Additional Shares of Nonpreferred Stock. If at any time or from time to time the Issuer shall (except as provided below) issue, whether in connection with the merger of a corporation into the Issuer or otherwise, any Additional Shares of Nonpreferred Stock for a consideration per share less than the Current Market Price per share of such stock, then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted to be that number determined by multiplying the number of shares of Common Stock comprising a Stock Unit immediately prior to such adjustment by a fraction (a) the numerator of which shall be the sum of (i) the number of such Additional Shares of Nonpreferred Stock so issued and (ii) the number of shares of Nonpreferred Stock outstanding immediately prior to such issuance, and (b) the denominator of which shall be the sum of (i) the number of such Additional Shares of Nonpreferred Stock that the aggregate consideration for the total number of such shares of Additional Shares of Nonpreferred Stock would purchase at the Current Market Price per share of Common Stock and (ii) the number of shares of Nonpreferred Stock outstanding immediately prior to such issuance. For purposes of this Subsection 4.3, the date as of which the Current Market Price per share of Common Stock shall be computed shall be the earlier of (i) the date on which the Issuer shall enter into a firm contract for the issuance of such Additional Shares of Nonpreferred Stock, or (ii) the date of actual issuance of such Additional Shares of Nonpreferred Stock. For the purpose of calculations pursuant to this Section 4.3, Nonpreferred Stock issuable upon conversion of the Preferred Shares (as defined in the Investment Agreement) or upon exercise or conversion of Convertible Securities, warrants, options or other rights outstanding at the time of such calculation (computed based on an assumed exercise or conversion as of the date as to which number of outstanding shares of Nonpreferred Stock is so calculated) for which an adjustment was required to be made, or it has been determined that no adjustment was required to be made, pursuant to Subsection 4.4 or 4.5, shall be deemed to be outstanding at the time of such calculation. The provisions of this Subsection 4.3 shall not apply to any issuance of Additional Shares of Nonpreferred Stock for which an adjustment is provided under Subsection 4.1. No adjustment of the number of shares of Common Stock comprising a Stock Unit shall be made under this Subsection 4.3 upon the issuance of any Additional Shares of Nonpreferred Stock that are issued pursuant to the exercise of any options, warrants or other subscription or purchase rights or pursuant to the exercise of any conversion or exchange rights in any Convertible Securities, if any such adjustment shall previously have been made (or it was determined that no adjustment was to be made at the time of issuance) upon the issuance of such options, warrants or other rights or upon the issuance of such Convertible Securities (or upon the issuance of any option, warrant or other right therefor) pursuant to Subsection 4.4 or 4.5. Notwithstanding the foregoing, no adjustment shall be required pursuant to this Subsection 4.3, (1) upon the issuance or conversion of the Preferred Shares (as such term is defined in the Investment Agreement), (2) in connection with the issuance of Additional Shares of Nonpreferred Stock upon the exercise or

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conversion, in accordance with the terms thereof, of any warrants, options or other rights to subscribe for or purchase such shares, or any Convertible Securities, which were outstanding on October 11, 1996, or (3) in connection with the issuance of no more than 2,000,000 (subject to appropriate adjustment for stock splits, stock dividends and similar events) Additional Shares of Nonpreferred Stock (in addition to those permitted in (2) immediately above) in accordance with and pursuant to any employee benefit plan to which employees, directors and/or consultants of the Issuer are entitled to participate, which plan shall have been approved by the stockholders of the Issuer.

4.4. Issuance of Warrants, Options or Other Rights. If at any

time or from time to time the Issuer shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a distribution of, or shall otherwise issue, any warrants, options or other rights to subscribe for or purchase any Additional Shares of Nonpreferred Stock or any Convertible Securities and the consideration per share for which additional shares of Nonpreferred Stock may at any time thereafter be issuable pursuant to such warrants, options or other rights or pursuant to the terms of such Convertible Securities shall be less than the Current Market Price per share of Common Stock, then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted as provided in Subsection 4.3 on the basis that (i) the maximum number of Additional Shares of Nonpreferred Stock issuable pursuant to all such warrants, options or other rights or necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued as of the date specified in the next following sentence of this Subsection 4.4, (ii) the aggregate consideration for such maximum number of Additional Shares of Nonpreferred Stock shall be deemed to be the minimum consideration received and receivable by the Issuer for the issuance of such Additional Shares of Nonpreferred Stock pursuant to such warrants, options or other rights or pursuant to the terms of such Convertible Securities and (iii) the consideration per share received by the Issuer for such Additional Shares of Nonpreferred Stock shall be that number determined by dividing (a) the aggregate consideration for such maximum number of Additional Shares of Nonpreferred Stock (determined as set forth in clause (i) of this sentence) by (b) the maximum number of Additional Shares of Nonpreferred Stock issuable pursuant to all such warrants, options or other rights or necessary to effect the conversion or exchange of all such Convertible Securities (determined as set forth in clause (i) of this sentence). For purposes of this Subsection 4.4, the computation date for clause (i) above and as of which the Current Market Price per share of Common Stock shall be computed shall be the earliest of (x) the date on which the Issuer shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive any such warrants, options or other rights, (y) the date on which the Issuer shall enter into a firm contract for the issuance of such warrants, options or other rights (or, if such contract specifies that the price will be determined as of a later date, then such later date shall be used for purposes of this Subsection 4.5), and (z) the date of actual issuance of such warrants, options or other rights. Notwithstanding the foregoing, no adjustment shall be required pursuant to this Subsection 4.4, (1) upon the issuance or conversion of the Preferred Shares (as such term is defined in the Investment Agreement), (2) in connection with the issuance of Additional Shares of Nonpreferred Stock upon the exercise or conversion, in accordance with the terms thereof, of any warrants, options or other rights to subscribe for or purchase such shares, or any Convertible Securities, which were outstanding on October 11, 1996 and described on Schedule 2.1(c) of the Investment Agreement, or (3) in connection with the issuance of no more than 2,000,000 (subject to appropriate adjustments for stock splits, stock dividends and similar events) Additional Shares of Nonpreferred Stock (in addition to those permitted in (2) immediately above) in accordance with and pursuant to any employee benefit plan to which employees, directors and/or consultants of the Issuer are entitled to participate, which plan shall have been approved by the stockholders of the Issuer.

4.5. Issuance of Convertible Securities. (i) If at any time or from time to time the Issuer shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a distribution of, or shall otherwise issue, any Convertible Securities and the consideration per

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share for which Additional Shares of Nonpreferred Stock may at any time thereafter be issuable pursuant to the terms of such Convertible Securities shall be less than the Current Market Price per share of Common Stock, then the number of shares of Common Stock thereafter comprising a Stock Unit shall be adjusted as provided in Subsection 4.3 on the basis that (1) the maximum number of Additional Shares of Nonpreferred Stock necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued as of the computation date specified in clause (ii) of this Subsection 4.5, (2) the aggregate consideration for such maximum number of Additional Shares of Nonpreferred Stock shall be deemed to be the minimum consideration received and receivable by the Issuer for the issuance of such Additional Shares of Nonpreferred Stock pursuant to the terms of such Convertible Securities and (3) the consideration per share received by the Issuer for such Additional Shares of Nonpreferred Stock shall be that number determined by dividing (a) the aggregate consideration for such maximum number of Additional Shares of Nonpreferred Stock (determined as set forth in clause (2) of this sentence) by (b) the maximum number of Additional Shares of Nonpreferred Stock necessary to effect the conversion or exchange of all such Convertible Securities (determined as set forth in clause (1) of this sentence).

(ii) For purposes of this Subsection 4.5, the computation date for Section 4.5(i) (1) above and as of which the Current Market Price per share of Common Stock shall be computed shall be the earliest of (x) the date on which the Issuer shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive any such Convertible securities, (y) the date on which the Issuer shall enter into a firm contract for the issuance of such Convertible Securities (or, if such contract specifies that the price will be determined as of a later date, then such later date shall be used for purposes of this Subsection 4.5), and (z) the date of actual issuance of such Convertible Securities; provided that with respect to any Convertible Security for which the maximum number of Additional Shares of Nonpreferred Stock necessary to effect the conversion of all such Convertible Securities is not determinable at the time of issuance of such Convertible Security, the computation date shall be the earlier of (a) the actual date of conversion and (b) the date of exercise of this Warrant assuming such Convertible Securities are converted on such date on the terms thereof. No adjustment of the number of shares of Common Stock comprising a Stock Unit shall be made under this Subsection 4.5 upon the issuance of any Convertible Securities which are issued pursuant to the exercise of any warrants or other subscription or purchase rights therefor, if any such adjustment shall previously have been made upon the issuance of such warrants or other rights pursuant to Subsection 4.4. Subject to Section 4.6(f), the adjustments made in this Section 4 shall remain in effect regardless of whether any Convertible Securities are converted or any warrants, options or other rights to purchase Additional Shares of Nonpreferred Stock or Convertible Securities are ever exercised.

4.6. Other Provisions Applicable to Adjustments Under this Section. The following provisions shall be applicable to the making of adjustments of the number of shares of Common Stock comprising a Stock Unit provided for above in this Section 4:

(a) Treasury Stock. The sale or other disposition of any issued shares of Nonpreferred Stock owned or held by or for the account of the Issuer shall be deemed an issuance thereof for purposes of this Section 4.

(b) Computation of Consideration. To the extent that any Additional Shares of Nonpreferred Stock or any Convertible Securities or any warrants, options or other rights to subscribe for or purchase any Additional Shares of Nonpreferred Stock or any Convertible Securities shall be issued for cash consideration, the consideration received by the Issuer therefor shall be deemed to be the amount of cash received by the Issuer therefor, or, if such Additional Shares of Nonpreferred Stock or Convertible Securities are offered by the Issuer for subscription, the subscription price, or, if such Additional Shares

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of Nonpreferred Stock or Convertible Securities are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price, in any such case excluding any amounts paid or receivable for accrued interest or accrued dividends and without deduction of any compensation, discounts or expenses paid or incurred by the Issuer for and in the underwriting of, or otherwise in connection with, the issue thereof. To the extent that such issuance shall be for a consideration other than solely for cash, then, except as herein otherwise expressly provided, the amount of such consideration shall be deemed to be the fair value of such consideration at the time of such issuance as determined in good faith by the Board of Directors of the Issuer. The consideration for any Additional Shares of Nonpreferred Stock issuable pursuant to any warrants, options or other rights to subscribe for or purchase the same shall be the consideration received or receivable by the Issuer for issuing such warrants, options or other rights, plus the additional consideration payable to the Issuer upon the exercise of such warrants, options or other rights. The consideration for any Additional Shares of Nonpreferred Stock issuable pursuant to the terms of any Convertible Securities shall be the consideration received or receivable by the Issuer for issuing any warrants, options or other rights to subscribe for or purchase such Convertible Securities, plus the consideration paid or payable to the Issuer in respect of the subscription for or purchase of such Convertible Securities, plus the additional consideration, if any, payable to the Issuer upon the exercise of the right of conversion or exchange in such Convertible Securities. In case of the issuance at any time of any Additional Shares of Nonpreferred Stock or Convertible Securities in payment or satisfaction of any dividend upon any class of stock other than Nonpreferred Stock, the Issuer shall be deemed to have received for such Additional Shares of Nonpreferred Stock or Convertible Securities a consideration equal to the amount of such dividend so paid or satisfied.

(c) When Adjustments to Be Made. The adjustments required by the preceding Subsections of this Section 4 shall be made whenever and as often as any specified event requiring an adjustment shall occur, except that no adjustment shall be made except pursuant to Subsection 4.1 if it would

decrease the number of shares of Common Stock comprising a Stock Unit immediately prior to such adjustment. For the purpose of any adjustment, any specified event shall be deemed to have occurred at the close of business on the date of its occurrence.

(d) Fractional Interests. In computing adjustments under this Section, fractional interests in Nonpreferred Stock shall be taken into account to the nearest one-thousandth of a share.

(e) When Adjustments Not Required. (i) If the Issuer shall take a record of the holders of its Nonpreferred Stock for the purpose of entitling them to receive a dividend or distribution or subscription or purchase rights and shall, thereafter and before the distribution thereof to stockholders, legally abandon its plan to pay or deliver such dividend, distribution, subscription or purchase rights, then thereafter no adjustment shall be required by reason of the taking of such record and any such adjustment previously made in respect thereof shall be rescinded and annulled.

(ii) No adjustment shall be made for any warrant, option or right granted or adjustment made to any other warrant, option or right which grant or adjustment is triggered solely by an adjustment or exercise of this Warrant.

(iii) No adjustment in the number of shares of Common Stock comprising a Stock Unit or the Exercise Price shall be required by this Section 4 if such adjustment either by itself or with other adjustments required by this Section 4 and not previously made would require an increase or decrease of less than 1% in such number or price. Any adjustment representing a change of less than such minimum amount that is so postponed shall be carried forward and made when such adjustment, together with other adjustments required by this Section 4 and not previously made, would result in an adjustment of 1% or greater of such amount or price.

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(f) When Readjustments Made. The number of shares of Common Stock comprising a Stock Unit that may be purchased upon exercise of this Warrant shall be readjusted to reflect the expiration of any warrants, options or other rights, except where no adjustment of the number of shares of Common Stock comprising a Stock Unit had previously been made with respect to such expired warrant, option or right.

4.7. Merger, Consolidation or Disposition of Assets. In the event the Issuer (1) shall consolidate with or merge into any other Person and shall not be the continuing or surviving Person of such consolidation or merger, or (2) shall permit any other Person to consolidate with or merge into the Issuer and the Issuer shall be the continuing or surviving Person but, in connection with such consolidation or merger, the Nonpreferred Stock shall be changed into or exchanged for other securities of any other Person or cash or any other property, or (3) shall transfer all or substantially all of its properties or assets to any other Person, or (4) shall effect a capital reorganization or reclassification of the Nonpreferred Stock, then, and in each such event, proper provision shall be made so that, upon the basis and the terms and in the manner provided in this Subsection 4.7, the Holder shall have the right, at the Holder's option, to receive either (i) a reduction of the Exercise Price equal to the amount applicable to the number of shares of Common Stock then comprising a Stock Unit of any such cash and of the fair value of any and all such shares of stock or of other securities or property to be received by or distributed to the holders of Nonpreferred Stock of the Company, or (ii), upon the conversion of all or any part of this Warrant at any time after the consummation of such consolidation, merger, transfer, reorganization or reclassification, in lieu of the Common Stock issuable upon such conversion prior to such consummation, the other securities, cash and property to which such Holder would have been entitled upon such consummation if such Holder had converted the Warrant immediately prior to such consummation, subject to adjustments (subsequent to such action) as nearly equivalent as possible to the adjustments provided for in this Section 4; provided that option (i) shall be available upon the occurrence of any such event only if the holders of Nonpreferred Stock prior to such event continue to hold Nonpreferred Stock upon the occurrence of such event. Such fair value and such adjustments shall be determined in good faith by the Board of Directors of the Company. Anything contained in this Warrant to the contrary notwithstanding, the Issuer will not effect any of the transactions described in clauses (1) through (4) above unless, prior to the consummation of such transaction, each other Person (other than the Issuer) that may be required to deliver any securities, cash or property upon the conversion of the Warrant shall assume, by written instrument delivered to the Holder, the obligation to deliver to the Holder such Common Stock, securities, cash or property as the Holder may be entitled to receive upon such conversion.

The foregoing provisions of this Subsection 4.7 shall similarly apply to successive mergers, consolidations or dispositions. In addition to

any other requirements under this Subsection 4.7, the Issuer shall give notice to the Holder of this Warrant of any merger, consolidation or disposition at least thirty (30) days before the occurrence of such merger, consolidation or disposition.

4.8. Other Action Affecting Nonpreferred Stock. In case at any time or from time to time the Issuer shall take any action affecting its Nonpreferred Stock, other than an action described in any of the foregoing Subsections 4.1 to 4.8, inclusive, then, unless in the opinion of the Holder such action will not have a materially adverse effect upon the rights of the Holder, the number of shares of Common Stock comprising a Stock Unit shall be adjusted in such manner and at such time as the Issuer and the holders of warrants exercisable for a majority of the Stock Units then issuable upon the exercise of all warrants issued to the Investors (as defined in the Investment Agreement) may in good faith agree to be equitable in the circumstances. If the Issuer and such holders cannot agree upon a manner of adjustment, such adjustment will be made in the manner determined by the Board of Directors in good faith.

SECTION 5. NOTICE TO WARRANT HOLDERS.

5.1. Notice of Adjustment of Stock Unit or Exercise Price.

Whenever the number of shares of Common Stock comprising a Stock Unit, or the price at which a Stock Unit may be purchased upon exercise of the Warrants, shall be adjusted pursuant to Section 4, the Issuer shall obtain a certificate signed by Coopers and Lybrand, another "Big Six" accounting firm or independent accountants selected by the Issuer and acceptable to the holders of warrants exercisable for a majority of the Stock Units then issuable upon the exercise of all warrants issued to the Investors (as defined in the Investment Agreement), setting forth, in reasonable detail, the event requiring the adjustment and the method by which such adjustment was calculated (including a statement of the fair value, as determined by the Board of Directors of the Issuer or by appraisal (if applicable), of any evidences of indebtedness, shares of stock, other securities or property or warrants or other subscription or purchase rights referred to in Section 4.2, Section 4.6(b) or Section 4.7) and specifying the number of shares of Common Stock comprising a Stock Unit and (if such adjustment was made pursuant to Section 4.7) describing the number and kind of any other shares of stock comprising a Stock Unit, and any change in the purchase price or prices thereof, after giving effect to such adjustment or change. The Issuer shall promptly, and in any case within 10 Business Days after the making of such adjustment, cause a signed copy of such certificate to be delivered to each holder of a Warrant in accordance with Section 16. The Issuer shall keep at the Issuer's Business Office copies of all such certificates and cause the same to be available for inspection at said office during normal business hours by the Holder or any prospective purchaser of a Warrant designated by the Holder.

5.2. Notice of Certain Corporate Action. If the Issuer shall

propose (a) to pay any dividend payable in stock of any class to the holders of its Nonpreferred Stock or to make any other distribution to the holders of its Nonpreferred Stock (other than a cash dividend for which no adjustment is required under Section 4.2), or (b) to offer to the holders of its Nonpreferred Stock rights to subscribe for or to purchase any Additional Shares of Nonpreferred Stock or shares of stock of any class or any other securities, rights or options, or (c) to effect any reclassification of its Nonpreferred Stock (other than a reclassification involving only the subdivision, or combination, of outstanding shares of Nonpreferred Stock), or (d) to effect any capital reorganization, or (e) to effect any consolidation, merger, sale, transfer or other disposition of all or substantially all of its property, assets or business, or (f) to effect the liquidation, dissolution or winding up of the Issuer, then in each such case, the Issuer shall deliver to each holder of a Warrant, in accordance with Section 16, a notice of such proposed action, which shall specify the date on which a record is to be taken for the purposes of such stock dividend, distribution or rights, or the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, disposition, liquidation, dissolution or winding up is to take place and the date of participation therein by the holders of Nonpreferred Stock, if any such date is to be fixed, and shall also set forth such facts with respect thereto as shall be reasonably necessary to indicate the effect of such action on the Common Stock and the number and kind of any other shares of stock which will comprise a Stock Unit, and the purchase price or prices thereof, after giving effect to any adjustment which will be required as a result of such action. Such notice shall be so delivered in the case of any action covered by clause (a) or (b) above at least ten (10) days prior to the record date for determining holders of the Nonpreferred Stock for purposes of such action, and in the case of any other such action, at least thirty (30) days prior to the date of the taking of such proposed action or the date of participation therein by the holders of Nonpreferred Stock, whichever shall be the earlier.

5.3. Notice of Expiration Date. The Issuer shall deliver to each holder of a Warrant notice of the Expiration Date. Such notice may be delivered by the Issuer not less than thirty (30) days but not more than sixty (60) days prior to the then existing Expiration Date. Failure to timely deliver such notice shall extend the Expiration Date to a date that is the later of (i) the Expiration Date or (ii) the date occurring thirty days after the date such notice is delivered.

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SECTION 6. RESERVATION AND AUTHORIZATION OF COMMON STOCK. The Issuer shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the exercise of this Warrant and all warrants issued to the Investors (as defined in the Investment Agreement) and the conversion of the Preferred Shares (as defined in the Investment Agreement), at least such number that is the greater of (x) 10,000,000 shares of Common Stock (subject to appropriate adjustment for stock splits, stock dividends and similar events) and (y) 1.5 times the number of its shares of Common Stock as shall from time to time be sufficient to effect the exercise of all outstanding Warrants and all warrants issued to the Investors (as defined in the Investment Agreement) and the conversion of the Preferred Shares (as defined in the Investment Agreement). All shares of Common Stock which shall be issued upon exercise of this Warrant or upon such conversion, as the case may be, shall be duly and validly issued and fully-paid and nonassessable.

Before taking any action that would cause an adjustment reducing the Current Warrant Price per share of Common Stock below the then par value, if any, of the shares of Common Stock issuable upon exercise of the Warrants, the Issuer shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Issuer may validly and legally issue fully-paid and nonassessable shares of ordinary Common Stock at such adjusted Current Warrant Price.

Before taking any action that would result in an adjustment in the number of shares of Common Stock comprising a Stock Unit or in the Current Warrant Price per share of Common Stock, the Issuer shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

SECTION 7. TAKING OF RECORD; STOCK AND WARRANT TRANSFER BOOKS. In the case of all dividends or other distributions by the Issuer to the holders of its Nonpreferred Stock with respect to which any provision of Section 4 refers to the taking of a record of such holders, the Issuer will in each such case take such a record as of the close of business on a Business Day. The Issuer will not at any time, except upon dissolution, liquidation or winding up, close its stock transfer books or Warrant transfer books so as to result in preventing or delaying the exercise or transfer of any Warrant.

SECTION 8. TRANSFER TAXES. The Issuer will pay any and all transfer taxes that may be payable in respect of the issuance or delivery of shares of Common Stock on exercise of this Warrant. The Issuer shall not, however, be required to pay any tax that may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which this warrant is registered, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Issuer the amount of any such tax, or has established, to the satisfaction of the Issuer, that such tax has been paid.

SECTION 9. NO VOTING RIGHTS. Except as expressly provided in this Warrant, this Warrant shall not entitle the holder hereof to any voting rights or other rights as a stockholder of the Issuer.

SECTION 10. RESTRICTIONS ON EXERCISE AND TRANSFERABILITY. The Restricted Securities shall not be transferable except upon the conditions specified in this Section 10; provided that, notwithstanding any other provisions of this Section 10, the Holder (and each other person mentioned below in this clause) shall have the right to transfer any Restricted Securities to any Affiliate of such Holder, in each case free of the restrictions on transfer imposed by this Section 10 other than the requirement as to the legending of the certificates for such Restricted Securities specified in Section 10.1. Each such transferee shall be subject to the same transfer restrictions imposed on the Warrant holder by this Agreement. The Warrant Stock has not been registered under the Securities Act or registered or qualified under the securities laws of any state, and this Warrant may not be exercised unless the exercise

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of the Warrant does not require registration or qualification under state or federal securities laws or unless the transaction is registered or qualified as required. No holder of this Warrant that did not purchase this Warrant directly from the Issuer shall be permitted to exercise this Warrant unless such holder shall provide, if requested by the Issuer, an opinion of counsel to such holder (in form and substance satisfactory to the Issuer and its counsel) to the effect that such exercise may be accomplished without such registration or qualification or that such registration or qualification has occurred.

10.1. Restrictive Legend. Unless and until otherwise permitted by this Section 10, each certificate for Warrants issued under this Agreement, each certificate for any Warrants issued to any subsequent transferee of any such certificate, each certificate for any Warrant Stock issued upon exercise of any Warrant and each certificate for any Warrant Stock issued to any subsequent transferee of any such certificate, shall be stamped or otherwise imprinted with a legend in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER ANY STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS THE PROPOSED TRANSACTION DOES NOT REQUIRE REGISTRATION OR QUALIFICATION UNDER FEDERAL OR STATE SECURITIES LAWS, OR UNLESS THE PROPOSED TRANSACTION IS REGISTERED OR QUALIFIED AS REQUIRED.

In addition, each certificate for Warrants issued under this Agreement and each certificate for any Warrants issued to any subsequent transferee of any such certificate shall be stamped or otherwise imprinted with a legend in substantially the following form:

THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER ANY STATE SECURITIES LAWS.

In addition, each certificate for Warrants issued to any subsequent transferee of any such certificate shall be stamped or otherwise imprinted with a legend in substantially the following form:

THIS WARRANT MAY NOT BE EXERCISED UNLESS SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION OR QUALIFICATION UNDER FEDERAL OR STATE SECURITIES LAWS, OR UNLESS SUCH TRANSACTION IS REGISTERED OR QUALIFIED AS REQUIRED.

The Issuer agrees to issue any shares of Common Stock issuable upon exercise of Warrants without any legend that indicates a restriction on transferability at such times as (i) the holder thereof is permitted to dispose of such shares of Common Stock pursuant to Rule 144(k) under the Securities Act, (ii) such shares of Common Stock are sold to a purchaser or purchasers who in the opinion of counsel to the seller or such purchaser, in form and substance reasonably satisfactory to the Issuer and its counsel) are able to dispose of such shares publicly without registration under the Securities Act, or (iii) such shares of Common Stock are registered under the Securities Act; provided in the case of (iii), that the holder of such shares of Common Stock or the recipient upon such conversion or exercise represents to the Issuer that such holder will only sell such shares, if at all, pursuant to the plan of distribution described in an effective registration statement.

10.2. Proposed Transfers. No transfer of any Restricted Securities, other than a transfer covered by the proviso contained in the introductory paragraph to this Section 10, may be made unless the proposed transfer does not require registration under the Securities Act, or unless the proposed transfer

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is registered as required. The Issuer may require an opinion of counsel of such transferring holder (which counsel shall be reasonably satisfactory to the Issuer) to the effect that such proposed transfer may be effected without registration under the Securities Act. Each certificate evidencing the Restricted Securities thus to be transferred (and each certificate evidencing any untransferred balance of the Restricted Securities evidenced by such Restricted Certificate) shall bear the restrictive legend set forth in Subsection 10.1, unless in the opinion of the Issuer or the opinion of such counsel, if requested, pursuant to Rule 144(k) of the Securities Act, such legend is not required in order to ensure compliance with the Securities Act.

10.3. Demand Registration. Subject to the limitations contained in Section 10.7, at any time after the earlier of the date that is (i) six months after the Qualifying Offering (as defined in the Investment Agreement) or (ii) October 16, 1997 if the Qualifying Offering has not occurred by such date, the Issuer shall be requested by holders of warrants

exercisable for a majority of the Stock Units then issuable upon the exercise of all warrants issued to the Investors (as defined in the Investment Agreement) to effect the registration of any of its Restricted Securities under the Securities Act, the Issuer shall promptly give written notice of such proposed registration to all holders of outstanding Restricted Securities and thereupon shall, as expeditiously as possible, use its best efforts to effect the registration under the Securities Act by filing pursuant to Rule 415 of the Securities Act a "shelf" registration statement on Form S-3 (or, if the staff at the SEC takes the position that Form S-3 is not available and holders of warrants exercisable for a majority of the Stock Units then issuable upon the exercise of all warrants issued to the Investors so request, on Form S-1) covering all Restricted Securities, the holder or holders of which shall have made written request to the Issuer for registration thereof within 30 days after the giving of such written notice by the Issuer, all to the extent required to permit the disposition (in accordance with the intended methods thereof, as aforesaid) by the prospective Seller or Sellers of the Restricted Securities so registered; provided, that if Form S-3 is not available, the Issuer shall notify the holders of warrants in writing of such fact, which notice shall set forth the reasons therefor and the holders' right to request registration on Form S-1. Any registration statement filed on Form S-1 shall be maintained by the Issuer for a period of 45 continuous days and, if not so maintained shall not be deemed to count against the number of effective registration statements pursuant to this Section 10.3 permitted to be made by holders pursuant to Section 10.7. Upon the Issuer's request, the holder or holders making a request for registration shall promptly provide the Issuer with description of the intended method of disposition of such securities by the prospective Seller or Sellers. Sellers holding warrants exercisable for a majority of the Stock Units then issuable upon the exercise of all warrants issued to investors subject to such registration shall have the right to select the managing underwriter or underwriters for the offering of such Restricted Securities.

In the case of an underwritten public offering of Restricted Securities to be so registered, if the managing underwriter advises that the number of securities to be so registered is too large a number to be reasonably sold, the number of such securities sought to be registered by each Seller shall be reduced, pro rata in proportion to the number of securities sought to be registered by all Sellers, to the extent necessary to reduce the number of securities to be registered to the number recommended by the managing underwriter.

From and after the date of this Agreement, the Issuer shall not, nor shall it allow the holders of any securities of the Issuer to, include any of their securities in any registration statement filed by the Issuer pursuant to this Section 10 unless such inclusion will not reduce the amount of the Restricted Stock included therein.

10.4. Piggyback Registration. If the Issuer at any time proposes to register any shares of Common Stock or warrants to purchase Common Stock under the Securities Act on Form S-1, S-2 or

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S-3 or the equivalent (otherwise than pursuant to Subsection 10.3), whether of its own accord or at the request of any holder or holders of such securities, it shall each such time give written notice to all holders of outstanding Restricted Securities of its intention so to do.

Upon the written request of a holder or holders of any such Restricted Securities given within 30 days after receipt of any such notice, the Issuer shall use its best efforts to cause all Restricted Securities, the holder or holders of which shall have so requested registration thereof, to be registered under the Securities Act pursuant to such registration statement, all to the extent required to permit the sale or other disposition (in accordance with the intended methods thereof as aforesaid) by the prospective Seller or Sellers of the Restricted Securities so registered; provided, however, that the Issuer shall not be obligated to include any Restricted Securities in the registration statement with respect to the Qualifying Offering (as defined in the Investment Agreement). Upon the Issuer's request, the holder or holders making a request for registration shall promptly provide the Issuer with a description of the intended method of disposition of such securities by the prospective Seller or Sellers.

If the managing underwriter for the respective offering advises the Issuer in writing that the inclusion in such registration of some or all of the Restricted Securities sought to be registered by the Seller or Sellers in its opinion shall cause the proceeds or the price per unit the Issuer or the requesting or demanding holder of securities shall derive from such registration to be reduced or that the number of securities to be registered at the instance of the Issuer or such requesting or demanding holder plus the number of securities sought to be registered by the Sellers is too large a number to be reasonably sold, the number of shares of Restricted Securities

shall be reduced pro rata, along with the securities sought to be registered by any other holder or holders of Common Stock (other than any holder exercising a demand registration right), to the extent necessary to reduce the number of securities to be registered to the number recommended by the managing underwriter.

The Issuer shall not grant to any Person at any time on or after the Effective Date a "piggyback" right to request the Issuer to register any securities of the Issuer under the Securities Act unless such right provides that if the managing underwriter for the respective Sellers believes that sale of such securities would adversely affect the amount of, or price at which, the respective Restricted Securities being registered under this Section 10.4 can be sold, then, the amount of such securities that may be registered and sold shall be reduced pro rata with the Restricted Securities in accordance with the immediately preceding paragraph.

In the case of an underwritten public offering of Common Stock by the Company, each Seller, if requested by the managing underwriter, shall agree to exercise its rights pursuant to this Section 10.4 only through participation in such underwritten public offering.

10.5. Registration Procedures. (a) If and whenever the Issuer is required by the provisions of this Section 10 to use its best efforts to effect the registration of any of the Restricted Securities under the Securities Act, the Issuer shall (except as otherwise provided in this Warrant), as expeditiously as possible:

(i) Prepare and file with the SEC a registration statement with respect to such Warrant Stock and use its best efforts to cause such registration to become effective as provided in Subsection 10.3 or 10.4, and upon the request of any holder of Warrant Stock keep such registration statement effective for so long as any holder of Restricted Securities desires to dispose of the securities covered by such registration statement (or, in the case of a filing on Form S-1, 45 continuous days), or, if earlier, until such Warrant Stock may be sold under Rule 144(k) (provided that the Issuer's transfer agent has accepted an instruction from the Issuer to such effect). The Issuer may suspend or delay the effectiveness of a

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registration statement with respect to such Warrant Stock or the use of any prospectus used in connection with any such registration effected pursuant to this subsection (i) only in the event, and for such period of time (not to exceed 90 cumulative aggregate days in any 12 month-period) as, such a suspension as the Issuer concludes in its reasonable judgment is required by applicable securities laws or the rules and regulations of the Securities and Exchange Commission. The Issuer shall use its best efforts to cause such suspension to terminate at the earliest possible date; provided that the Issuer shall be permitted to maintain such suspension if, and only for so long as, the Board of Directors of the Issuer shall, in good faith, determine that failure to maintain such suspension is reasonably likely to be seriously detrimental (excluding detriment resulting from the price of the Common Stock or the exercise of this Warrant) to the Issuer or would interfere with a material transaction that the Issuer is then contemplating.

(ii) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement and notify the holders of Restricted Securities of the filing and effectiveness of such registration statement and any amendments or supplements.

(iii) Furnish to each holder of Restricted Securities such numbers of copies of a current prospectus conforming with the requirements of the Securities Act, copies of the registration statement, any amendment or supplement thereto and any documents incorporated by reference therein and such other documents as such holder of Restricted Securities may reasonably require in order to facilitate the disposition of Warrant Stock owned by such holder of Restricted Securities.

(iv) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or "Blue Sky" laws of such jurisdictions as shall be reasonably requested by the holder of Restricted Securities, provided that the Issuer shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(v) Notify each holder of Restricted Securities immediately of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement

of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, and use its best efforts promptly to update and/or correct such prospectus.

(vi) In connection with an underwritten offering, furnish, at the request of any holder of Restricted Securities, (1) an opinion of counsel of the Issuer, dated the closing date of the offering statement, in form and substance reasonably satisfactory to such holder and its counsel and covering, without limitation, such matters as the due authorization and issuance of the securities being registered and compliance with securities laws by the Issuer in connection with the authorization, issuance and registration thereof, and (2) if such registration is made in connection with an underwritten public offering, a letter or letters of the Issuer's independent public accountants in form and substance reasonably satisfactory to the holder, such holder's lead underwriter and their respective counsel.

(vii) Use its best efforts to list the Warrant Stock covered by such registration statement with any securities exchange or market on which the Common Stock is then listed.

(viii) Make available for inspection by the holder of Restricted Securities, upon request, all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to reporting requirements under the Securities Exchange Act of 1934, as amended, including

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material filed pursuant to Section 13(a) or 15(d) and filed subsequent to the Effective Date and require the Issuer's officers, directors and employees to supply all information reasonably requested by any holder of Restricted Securities in connection with such registration statement.

(ix) Permit an offering made pursuant to a registration made at the request of requisite holders under Section 10.3 to be underwritten by an underwriter of recognized national standing and enter into such agreements with such underwriter (including agreements to indemnify) and cause delivery of such legal opinions and letters of independent public accountants as is customary in underwritten public offerings in accordance with clause (vi), in each case, at the Issuer's expense.

(b) Each Seller will furnish to the Issuer in connection with any registration under this Section 10 such information regarding itself, the Restricted Stock and other securities of the Issuer held by it, and the intended method of disposition of such securities as shall be reasonably required to effect the registration of the Restricted Stock held by such Seller. The intended method of disposition (Plan of Distribution) of such securities as so provided by any such holder shall be included without alteration in the registration statement covering the Restricted Stock and shall not be changed without the written consent of such holder.

10.6. Indemnification. (a) The Issuer shall indemnify, defend and hold harmless each Seller and each of its officers, directors, employees, agents, partners or controlling persons (within the meaning of the Act) (each, a "Holder Indemnified Party") from and against, and shall reimburse such Holder Indemnified Party with respect to, any and all claims, suits, demands, causes of action, losses, damages, liabilities, costs or expenses ("Liabilities") to which such Holder Indemnified Party may become subject under the Securities Act or otherwise, arising from or relating to (A) any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or (B) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, however, that the Issuer shall not be liable with respect to any Seller in any such case to the extent that any such liability arises out of or is based upon an untrue statement or omission so made in such registration statement, prospectus or amendment or supplement thereto in reliance upon and in strict conformity with written information furnished in an instrument duly executed by such Seller specifically for use in the registration statement; provided further, that the Issuer shall not be liable with respect to any Seller in any such case to the extent that any such Liability arises out of or is based upon an untrue statement or omission made in any preliminary prospectus if (i) such Seller under an obligation to send or deliver a copy of the prospectus with or prior to the delivery of written confirmation of the sale of Restricted Stock to the person asserting such Liability who purchased such Restricted Stock that are the subject thereof from such Seller failed to do so and (ii) the prospectus would have completely corrected such untrue statement or omission and if, having previously been furnished by or on behalf of the Issuer with copies of the prospectus so correcting such untrue statement or omission and having been obligated to

deliver such prospectus, such Seller thereafter failed to deliver such prospectus prior to or concurrently with the sale of Restricted Stock to the person asserting such Liability who purchased such Restricted Stock that is the subject thereof from such Seller; and provided further, that the Issuer shall not be liable with respect to any Seller in any such case to the extent that any Liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission in the prospectus, if such untrue statement or alleged untrue statement, omission or alleged omission is completely corrected in an amendment or supplement to the prospectus and if, having previously been furnished by or on behalf of the Issuer with copies of the prospectuses so amended or supplemented and having been obligated to deliver such prospectuses, such Seller thereafter failed to deliver such prospectus as so amended or supplemented, prior to or concurrently

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with the sale of Restricted Stock to the person asserting such Liability who purchased such Restricted Stock that is the subject thereof from such Seller.

(b) In the event of any registration under the Securities Act of Restricted Stock pursuant to Section 10, each Seller hereby severally agrees to indemnify, defend and hold harmless the Issuer, and its officers, directors, employees, agents, partners or controlling persons (within the meaning of the Act) (each, an "Issuer Indemnified Party") from and against, and shall reimburse such the Issuer Indemnified Party with respect to, any and all Liabilities to which such the Issuer Indemnified Party may become subject under the Securities Act or otherwise, arising from or relating to (A) any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or (B) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, that such holders will be liable in any such case to the extent, and only to the extent, that any such liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in such registration statement, prospectus or amendment or supplement thereto in reliance upon and in strict conformity with written information furnished in an instrument duly executed by such holder specifically for use in the preparation thereof; provided further that in no case shall any such holder be liable in any such case in an amount in excess of the net proceeds received by such holder upon the sale of Restricted Stock pursuant to such registration statement, prospectus or amendment or supplement thereto.

(c) (i) Promptly after receipt by any Holder Indemnified Party of notice of the commencement of any action, such Holder Indemnified Party shall, if a claim in respect thereof is to be made against the Issuer hereunder, notify the Issuer in writing thereof but the omission so to notify the Issuer shall not relieve the Issuer from any Liability that it may have to the Holder Indemnified Party other than under this section and shall only relieve it from any Liability that it may have to the Holder Indemnified Party under this section if and to the extent the Issuer is actually prejudiced by such omission. In case any such action shall be brought against any Holder Indemnified Party and such Holder Indemnified Party shall notify the Issuer of the commencement thereof, the Issuer shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel reasonably satisfactory to such Holder Indemnified Party, and, after notice from such Seller to the Holder Indemnified Party of its election so to assume and undertake the defense such Seller shall not be liable to the Holder Indemnified Party under this section for any legal expenses subsequently incurred by the Holder Indemnified Party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected; provided, however, that if the defendants in any such action include both the Issuer and such Holder Indemnified Party and the Holder Indemnified Party shall have reasonably concluded that there may be reasonable defenses available to it that are different from or additional to those available to the Issuer or if the interests of the Holder Indemnified Party reasonably may be deemed to conflict with the interests of the Issuer, the Holder Indemnified Party shall have the right to select a separate counsel and to assume such legal defenses and otherwise to participate in the defense of such action, with the reasonable expenses and fees of such separate counsel and other reasonable expenses related to such participation to be reimbursed by the Issuer as incurred. In clarification of the foregoing, the Issuer shall pay the reasonable expenses and fees of one separate counsel whose selection is approved by the largest group of similarly situated Holder Indemnified Parties as measured by the aggregate par value of such Restricted Stock owned by such group. Any Holder Indemnified Party who chooses not to be represented by the foregoing separate counsel shall be entitled, at its own expense, to be represented by counsel of its own selection.

(ii) Promptly after receipt by any Issuer Indemnified Party of

notice of the commencement of any action, such Issuer Indemnified Party shall, if a claim in respect thereof is to be

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made against any Seller hereunder, notify such Seller in writing thereof but the omission so to notify such Seller shall not relieve such Seller from any Liability that it may have to the Issuer Indemnified Party other than under this section and shall only relieve it from any Liability that it may have to the Issuer Indemnified Party under this section if and to the extent such Seller is actually prejudiced by such omission. In case any such action shall be brought against any Issuer Indemnified Party and such Issuer Indemnified Party shall notify Seller of the commencement thereof, such Seller shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel reasonably satisfactory to such Issuer Indemnified Party, and, after notice from such Seller to the Issuer Indemnified Party of its election so to assume and undertake the defense such Seller shall not be liable to the Issuer Indemnified Party under this section for any legal expenses subsequently incurred by the Issuer Indemnified Party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected; provided, however, that if the defendants in any such action include both the Sellers and such Issuer Indemnified Party and the Issuer Indemnified Party shall have reasonably concluded that there may be reasonable defenses available to it that are different from or additional to those available to the Sellers or if the interests of the Issuer Indemnified Party reasonably may be deemed to conflict with the interests of the Sellers, the Issuer Indemnified Party together with all other defendant Issuer Indemnified Parties shall have the right to select one separate counsel and to assume such legal defenses and otherwise to participate in the defense of such action, with the reasonable expenses and fees of such separate counsel and other reasonable expenses related to such participation to be reimbursed by such Sellers as incurred.

10.7. Expenses; Limitations on Registration. (a) With respect to the inclusion of Restricted Stock in a registration statement pursuant to Section 10, all fees, costs and expenses of and incidental to such registration, inclusion and public offering shall be borne by the Issuer; provided, however, that any securityholders participating in such registration shall bear their pro-rata share of the underwriting discounts and commissions, if any, incurred by them in connection with such registration.

(b) The fees, costs and expenses of registration to be borne by the Issuer as provided in this Section 10 shall include, without limitation, all registration, filing and NASD fees, listing fees, printing expenses, fees and disbursements of counsel and accountants for the Issuer, and all legal fees and disbursements and other expenses of complying with state securities or Blue Sky laws of any jurisdiction or jurisdictions in which securities to be offered are to be registered and qualified. Subject to appropriate agreements as to confidentiality, the Issuer shall make available to counsel for the Sellers its documents and personnel for due diligence purposes. Except as otherwise provided herein, fees and disbursements of counsel and accountants for the selling securityholders shall be borne by the respective selling securityholders.

(c) The holders of all Restricted Securities shall be entitled to an aggregate of two (2) effective registrations pursuant to requests made under Section 10.3 and an unlimited number of registrations pursuant to requests made under Section 10.4; provided that any such registration request made by the requisite number of holders which request shall be withdrawn (other than by reason of the Company's failure to perform its obligations hereunder) by the holders of a majority in number of shares evidenced or covered by the Restricted Securities sought to be so registered, after the respective registration statement shall have become effective, shall be treated as an "effective" registration for purposes of this Warrant.

(d) Notwithstanding the rights of the holders pursuant to Sections 10.3 and 10.4, the Issuer shall have no obligation to effect a registration for any securities that are eligible for resale pursuant to Rule 144(k) under the Securities Act, provided that the Issuer's transfer agent has accepted an

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instruction from the Company specifying that such securities are eligible for sale without restriction pursuant to Rule 144(k).

SECTION 11. LIMITATION OF LIABILITY. No provision hereof, in the absence of affirmative action by the Holder to purchase shares of Warrant Stock, and no mere enumeration herein of the rights or privileges of the

Holder, shall give rise to any liability of such Holder for the purchase price of the Warrant Stock or as a stockholder of the Issuer, whether such liability is asserted by the Issuer or by creditors of the Issuer.

SECTION 12. LOSS, DESTRUCTION OF WARRANT CERTIFICATES. Upon receipt of evidence satisfactory to the Issuer of the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security satisfactory to the Issuer (the original Warrant holder's or any other institutional Warrant holder's indemnity being satisfactory indemnity in the event of loss, theft or destruction of any Warrant owned by such original or institutional holder), or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Issuer shall make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of shares of Common Stock.

SECTION 13. FURNISH INFORMATION. The Issuer agrees that it shall deliver to the Holder promptly after their becoming available copies of all financial statements, reports and proxy statements that the Issuer shall have sent to its stockholders generally.

SECTION 14. AMENDMENTS; LIKE TREATMENT OF HOLDERS OF WARRANTS. The terms of this Warrant and all other warrants issued to Investors (as defined in the Investment Agreement) may be amended, and the observance of any term therein may be waived, but only with the written consent of the holders of warrants evidencing a majority in number of the total number of Stock Units at the time purchasable upon the exercise of all then outstanding warrants issued to Investors, provided that no such action may change the number of shares of stock comprising a Stock Unit or the Exercise Price, without the written consent of the holders of warrants evidencing 100% in number of the total number of Stock Units at the time purchasable upon the exercise of all then outstanding warrants. For the purposes of determining whether the holders of outstanding warrants issued to Investors entitled to purchase a requisite number of Stock Units at any time have taken any action authorized by this Warrant, any warrants owned by the Issuer or any Affiliate of the Issuer (other than an institutional investor which may be deemed an Affiliate solely by reason of the ownership of warrants) shall be deemed not to be outstanding. Neither the Issuer nor any of its subsidiaries shall, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any holder of warrants issued to Investors for, or as an inducement to any consent, waiver or amendment of any terms or provisions of such warrants issued to Investors unless such consideration is offered to be paid to or agreed to be paid to all such holders which so consent, waive or agree to amend in the time frame set forth in solicitation documents relating to such consent, waiver or agreement. Neither the Issuer nor any of its subsidiaries shall, directly or indirectly, redeem or repurchase any warrants issued to Investors unless such offer of redemption or repurchase is made pro rata to all holders of such warrants on identical terms.

SECTION 15. OFFICE OF THE ISSUER. So long as this Warrant remains outstanding, the Issuer shall maintain an office in the City of New York where this Warrant may be presented for exercise, transfer, division or combination as provided in this Warrant. Such office shall be at [\_\_\_\_\_] , Attention: [\_\_\_\_\_] , unless and until the Issuer shall designate and maintain some other office for such purposes and deliver written notice thereof to the holders of all outstanding Warrants.

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SECTION 16. NOTICES GENERALLY. Except as otherwise provided in this Warrant, any notice or other communication required or permitted to be given under this Warrant shall be in writing and shall be effective (a) upon hand delivery or delivery by telex (with correct answer back received), telecopy or facsimile at the address or number designated below (if delivered on a Business Day during normal business hours where such notice is to be received), or the first Business Day following such delivery (if delivered other than on a Business Day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid addressed to such address or upon actual receipt of such mailing, whichever shall first occur, to any holder of a Warrant at its last known address appearing on the books of the Issuer, or, except as herein otherwise expressly provided, to the Issuer at its principal executive office, CD Radio Inc., Sixth Floor, 1001 22nd Street N.W., Washington, D.C. 20037; Facsimile (202) 296-6265; Attention: David Margolese, or such other address as shall have been furnished to the party giving or making such notice, demand or delivery.

SECTION 17. SUCCESSORS AND ASSIGNS. This Warrant shall bind and inure to the benefit of and be enforceable by the parties to this Warrant and their respective successors and assigns, and, without limiting the

generality of the foregoing, shall inure to the benefit of and be enforceable by each Person who shall from time to time be the Holder of this Warrant.

SECTION 18. GOVERNING LAW. This Warrant shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the such state's principles of conflict of laws.

SECTION 19. NO WAIVER; CUMULATIVE REMEDIES. No waiver by any party of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provision, condition or requirement of this Agreement, nor shall any delay or omission of any party to exercise any right under this Agreement in any manner impair the exercise of any such right accruing to it after such waiver. The rights, remedies, powers and privileges provided in this Warrant are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

SECTION 20. SPECIFIC PERFORMANCE AND COUNSEL FEES. The Issuer and the Holder agree that irreparable damage would occur in the event that any of the provisions of this Warrant were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Holder shall be entitled to an injunction or injunctions to prevent breaches of this Warrant and to enforce specifically the terms and provisions of this Warrant in any court of the United States or any state of the United States having jurisdiction, this being in addition to any other remedy to which it may be entitled at law or in equity. In addition, in the event the Holder is required to enforce the terms and provisions of this Warrant and is successful in doing so, it shall be reimbursed by the Issuer for all costs and expenses, including legal fees, which it may incur in bringing such legal proceeding.

SECTION 21. SEVERABILITY. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party under this Agreement will not be materially and adversely affected thereby, (a) such provision will be fully severable, (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, and (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement.

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IN WITNESS WHEREOF, the Issuer has caused this warrant to be signed in its name by its President or a Vice President.

Dated: \_\_\_\_\_, 1996

CD RADIO INC., a  
Delaware corporation

By: \_\_\_\_\_  
Name:  
Title:

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SUBSCRIPTION FORM

(to be executed only upon exercise of Warrant)

The undersigned registered owner of this Warrant irrevocably exercises this Warrant for and purchases Stock Units of CD RADIO INC., a Delaware corporation, purchasable with this Warrant, and [herewith makes payment therefor in the amount of \$\_\_\_\_\_,] [hereby tenders \_\_\_\_\_ Stock Units as payment therefor,] all at the price and on the terms and conditions specified in this Warrant and requests that certificates for the shares of Common Stock of CD Radio Inc. hereby purchased (and any securities or other property issuable upon such exercise) be issued in the name of \_\_\_\_\_ and delivered to \_\_\_\_\_ whose address is \_\_\_\_\_ and, if such Stock Units shall not include all of the Stock Units issuable as provided in this Warrant, that a new Warrant of like tenor and date for the balance of the Stock Units issuable thereunder (less any Stock Units used for payment of the Exercise Price) be delivered to the undersigned.

Dated:

-----  
(Signature of Registered owner)

-----  
(Street Address)

-----  
(City) (State) (Zip Code)  
ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned registered owner of this Warrant hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under this Warrant, with respect to the number of Stock Units set forth below:

Name and Address of Assignee	No. of Stock Units
-----	-----

and does hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney to make sure transfer on the books of CD RADIO INC., a Delaware corporation, maintained for such purpose, with full power of substitution in the premises.

Dated:

-----  
Signature

-----  
Witness

NOTICE: The signature to the assignment must correspond with the name as written upon the face of the within Warrant in every particular, without alteration or any change whatever.

The signature to this assignment must be guaranteed by a bank or trust company having an office or correspondent in Los Angeles, California, or New York, New York, or by a firm having membership on the New York Stock Exchange.

FIRST AMENDMENT  
TO PREFERRED STOCK INVESTMENT AGREEMENT

This FIRST AMENDMENT TO PREFERRED STOCK INVESTMENT AGREEMENT (this "AMENDMENT") is dated as of March 7, 1997, and entered into by and among CD Radio Inc., a Delaware corporation ("CDRD") and the undersigned investors and any additional investor that signs a counterpart to this Agreement (collectively, "INVESTORS"). Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Preferred Stock Investment Agreement dated as of October 23, 1996, by and between CDRD and Investors ("PREFERRED STOCK INVESTMENT AGREEMENT").

RECITALS

WHEREAS, CDRD and Investors desire to amend the Preferred Stock Investment Agreement as set forth below;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO THE PREFERRED STOCK INVESTMENT AGREEMENT

1.1 AMENDMENT OF RECITALS: The Recitals to the Preferred Stock Investment Agreement shall be amended by deleting the first two Recitals and replacing such Recitals with two new Recitals as follows:

"WHEREAS, CDRD desires to issue and sell to the Investors, and the Investors desire to purchase from CDRD, up to an aggregate of 8,000,000 shares of CDRD's 5% Delayed Convertible Preferred Stock having the rights, designations and preferences set forth in the Certificate of Designations of CDRD (the "CERTIFICATE OF DESIGNATIONS") in identical form and substance of Exhibit I attached to this Agreement (the "PREFERRED SHARES"), on the terms and conditions set forth in this Agreement;

"WHEREAS, CDRD initially desires to sell to the Investors up to 4,000,000 of the Preferred Shares ("FIRST CLOSING SHARES") in the event that it, or its subsidiary, receives notice from the Federal Communications Commission ("FCC"), with respect to the authority to provide satellite digital audio radio services ("SATELLITE DARS LICENSE"), that it is the winning bidder for a Satellite DARS License at the conclusion of an auction for Satellite DARS Licenses (a "WINNING BID"), all on the terms and conditions set forth in this Agreement."

1.2 AMENDMENT OF SECTION 6.2: AUTOMATIC TERMINATION. Section 6.2 of the Preferred Stock Investment Agreement is hereby amended by deleting such Section in its entirety and substituting the following therefor:

"Section 6.2 Automatic Termination. This Agreement shall terminate without further action of the parties if the First Closing has not occurred prior to (i) May 1, 1997 if CDRD has not submitted the Winning Bid by such date or (ii) May 12, 1997 if CDRD has submitted the Winning Bid prior to May 1, 1997."

1.3 AMENDMENT OF SECTION 7.3: ENTIRE AGREEMENT; AMENDMENT; ADDITIONAL INVESTORS; INCREASED COMMITMENTS. Section 7.3 of the Preferred Stock Investment Agreement is hereby amended (i) by adding the subsection reference "(a)" before the first sentence of such Section, (ii) by deleting the third sentence thereof and (iii) by adding the following as subsection (b) as follows:

"(b) (i) Any Investor may increase its investment under this Agreement at any time on or prior to the First Closing Date to purchase such number of First Closing Shares and Second Closing Shares as shall be agreed between such Investor and CDRD in writing. Upon execution of a written

agreement regarding such commitment by such Investor and CDRD, such Investor shall be obligated to purchase and CDRD shall be obligated to sell the additional First Closing Shares and Second Closing Shares set forth in such commitment pursuant to the terms of this Agreement;

(ii) Any individual or other legal entity may become an additional investor under this Agreement at any time on or prior to the First Closing Date with respect to such number of First Closing Shares and Second Closing Shares as shall be agreed between such Investor and CDRD. Any additional investor under this Agreement may become an additional investor by executing and delivering a counterpart to the First Amendment to Preferred Stock Investment Agreement, dated as of March 7, 1997. Upon delivery of any such counterpart and acceptance thereof by CDRD, such counterpart shall be attached to this Amendment, such additional investor shall be an Investor (such term as used in this Agreement to include such additional Investor) and such additional investor shall be as fully a party to this Agreement as if such additional investor were an original signatory of this Agreement. No consent of any other Investor shall be required for such addition;

in each case, Schedule I to this Agreement and Exhibits A, B, C and D to Schedule A to Exhibit 2 to this Agreement, each automatically shall be revised to reflect the new allocation of First Closing Shares and Second Closing Shares to such Investor pursuant to clause (b) (i) above or the joining of such additional investors to this Agreement pursuant to clause (b) (ii) above, as the case may be."

1.4 AMENDMENT OF EXHIBIT 1: CERTIFICATE OF DESIGNATIONS OF 5% DELAYED CONVERTIBLE PREFERRED STOCK. Exhibit 1 to the Preferred Stock Investment Agreement is hereby amended by deleting the initial paragraph thereof and substituting the following paragraph in its place:

"RESOLVED that there shall be a series of shares of the Preferred Stock of CD Radio Inc. (the "CORPORATION"), designated "5% Delayed Convertible Preferred Stock"; that the number of shares of such series shall be 8,000,000 and that the rights and preferences of such series (the "5% PREFERRED") and the limitation or restrictions thereon, shall be as follows:"

1.5 AMENDMENT OF SCHEDULE A TO EXHIBIT 2: PREFERRED CUSTODY SERVICES ESCROW AGREEMENT. Schedule A to Exhibit 2 to the Preferred Stock Investment Agreement is hereby amended by deleting the references to "March 31, 1997" and to "April 10, 1997" in Sections 3(b) (iii) and 4(b) (i) thereof and substituting for each such reference "May 1, 1997" and "May 12, 1997", respectively.

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## SECTION 2. MISCELLANEOUS

### 2.1 REFERENCE TO AND EFFECT ON THE PREFERRED STOCK INVESTMENT AGREEMENT.

(i) On and after the Effective Date, each reference in the Preferred Stock Investment Agreement to "this Agreement", "hereunder", "hereof", "herein", or words of like import referring to the Preferred Stock Investment Agreement and each reference in the Preferred Stock Investment Agreement and other related agreements to the "Investment Agreement", "thereunder" "thereof" or words of like import referring to the Preferred Stock Investment Agreement shall mean and be a reference to the Preferred Stock Investment Agreement, as amended by this Amendment.

(ii) Except as specifically amended by this Amendment, the Preferred Stock Investment Agreement shall remain in full force and effect and is hereby ratified and confirmed.

2.2 COUNTERPARTS; EFFECTIVENESS. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment shall become effective as to each party that executes a counterpart of this Amendment on the date of such execution (the "EFFECTIVE DATE"). Any party who does not execute a counterpart to this Amendment shall not be bound by the terms of the Agreement.

[Remainder of page intentionally left blank]

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

CD RADIO INC.

By: \_\_\_\_\_  
Name:  
Title:

- 4 -

<TABLE>  
<CAPTION>

<S>  
Dated: March , 1997  
---

INVESTORS:  
<C>  
THE VALUE REALIZATION FUND, L.P.  
By: Canpartners Investments III, L.P.  
By: Canyon Capital Management, L.P.  
By: Canpartners Incorporated

By: \_\_\_\_\_  
its

Dated: March , 1997  
---

GRS Partners II

By: \_\_\_\_\_  
its Account Manager

Dated: March , 1997  
---

The Canyon Value Realization Fund,  
(Cayman) Ltd.

By: \_\_\_\_\_  
its Account Manager

Dated: March , 1997  
---

Cerberus Partners, L.P.

By: \_\_\_\_\_  
General Partner Cerberus

Associates, L.P.  
General Partner Cerberus  
Partners, L.P.

Dated: March     , 1997  
   ---

Cerberus International, Ltd.

By:

-----  
Managing Member,  
Partridge Hill, L.L.C.  
Investment Advisor to  
Cerberus International

Dated: March     , 1997  
   ---

The Copernicus Fund, LP  
By: DDJ Copernicus, LLC

By:

-----  
its Member

</TABLE>

- 5 -

<TABLE>

<S>

Dated: March     , 1997  
   ---

<C>

The Galileo Fund, LP  
By: DDJ Galileo, LLC

By:

-----  
its Member

Dated: March     , 1997  
   ---

Dickstein International Limited  
By: Dickstein Partners, Inc.

By:

-----  
its

Dated: March     , 1997  
   ---

Global Bermuda Limited Partnership  
By: Global Capital Management, Inc.

By:

-----  
its Authorized Signatory

Dated: March     , 1997  
   ---

Lakeshore International, Limited  
By: Global Capital Management, Inc.

By:

-----  
its Authorized Signatory

Dated: March     , 1997  
   ---

Elliott Associates, L.P.

By:

-----  
its General Partner

Dated: March     , 1997  
   ---

Westgate International, L.P.  
By: Martley International, Inc. as  
Attorney-in-fact

By:

-----

its

Dated: March \_\_\_\_, 1997  
---

Everest Capital International, Ltd.

</TABLE>

- 6 -

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By: Everest Capital, Ltd., Investment  
Manager

By: \_\_\_\_\_  
its

Dated: March \_\_\_\_, 1997  
---

Everest Capital Fund, L.P.  
By: Everest Capital, Ltd.,  
General Partner

By: \_\_\_\_\_  
its

Dated: March \_\_\_\_, 1997  
---

The Jay Goldman Master Limited Partnership

By: \_\_\_\_\_  
its General Partner

Dated: March \_\_\_\_, 1997  
---

Grace Brothers, Ltd.

By: \_\_\_\_\_  
its General Partner

Dated: March \_\_\_\_, 1997  
---

Mainstay VP Series Fund, Inc., on behalf  
of its High Yield Corporate Bond Portfolio

By: Mackay-Shields Financial Corporation  
its Investment Advisor

By: \_\_\_\_\_  
name:  
its:

Dated: March \_\_\_\_, 1997  
---

The Mainstay Funds, on behalf of its High Yield  
Corporate Bond Fund series

By: Mackay-Shields Financial Corporation  
its Investment Advisor

By: \_\_\_\_\_  
name:  
its:

</TABLE>

- 7 -

<TABLE>  
<S>

<C>

Dated: March \_\_\_\_, 1997  
---

The Ravich Revocable Trust of 1989

By: \_\_\_\_\_  
its Trustee

Dated: March \_\_\_\_, 1997  
---

Scoggin Capital Management

By: \_\_\_\_\_  
its General Partner

By: \_\_\_\_\_  
its

By: \_\_\_\_\_  
its

Dated: March \_\_\_\_, 1997  
---

Scoggin International Fund, Ltd.

By: \_\_\_\_\_  
its General Partner

Dated: March \_\_\_\_, 1997  
---

TCW Shared Opportunity Fund II  
By: TCW Investment Management Company,  
its Investment Adviser

By: \_\_\_\_\_  
its

By: \_\_\_\_\_  
its

Dated: March \_\_\_\_, 1997  
---

LibertyView Plus Fund

By: \_\_\_\_\_  
its

</TABLE>

<TABLE>  
<S>

<C>

Dated: March \_\_\_\_, 1997  
---

LibertyView LLC FUND  
By: Liberty View Capital Management, Inc.

By: \_\_\_\_\_  
its

Dated: March \_\_\_\_, 1997  
---

Paresco, Inc.

By: \_\_\_\_\_  
its

Dated: March \_\_\_\_, 1997  
---

Navesink Investment Fund, LDC

By: -----  
its

Dated: March , 1997  
---

Stonehill Offshore Partners Limited  
By: Stonehill Advisors LLC, as Agent

By: -----  
its:

Dated: March , 1997  
---

Stonehill Investment Corp., for an on behalf of  
Stonehill Partners, L.P., GRS Partners III and Aurora  
Limited Partnership

By: -----  
its:

Dated: March , 1997  
---

Herta and Paul Amir Development Family Trust

By: -----  
its Trustee

Dated: March , 1997  
---

The Wolens Family Trust

By: -----  
its Trustee

</TABLE>

<TABLE>  
<S>

<C>

Dated: March , 1997  
-----

LongView Partners

By: -----  
its General Partner

By: -----  
its General Partner

Dated: March , 1997  
---

Cumberland Partners

By: -----  
its General Partner

By: -----  
its

Dated: March , 1997  
---

JMG Capital Partners, L.P.  
By: JMG Capital Management, Inc.

By: -----  
its General Partner

</TABLE>

- 10 -

<TABLE>

<S>

<C>

Dated: March ---, 1997

Dickstein & Co., L.P.  
By: Dickstein Partners, L.P.  
By: Dickstein Partners, Inc.

By: \_\_\_\_\_  
its

</TABLE>

- 11 -

<TABLE>

<S>

<C>

Dated: \_\_\_\_\_, 1997

ADDITIONAL INVESTORS:  
[ADDITIONAL INVESTOR NAME]

By \_\_\_\_\_  
Its

Investor's address:

For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

4.99%       9.99%       no limitation

If no box is marked, no limitation shall be applicable.

CD RADIO INC.

By: \_\_\_\_\_  
David Margolese,  
Chairman and Chief Executive Officer

-----  
Aggregate Number of Shares of Preferred Stock  
Agreed to be Issued and Sold

</TABLE>

SECOND AMENDMENT  
TO PREFERRED STOCK INVESTMENT AGREEMENT

This SECOND AMENDMENT TO PREFERRED STOCK INVESTMENT AGREEMENT (this "AMENDMENT") is dated as of March 14, 1997, and entered into by and among CD Radio, Inc., a Delaware corporation ("CDRD") and the undersigned investors and any additional investor that signs a counterpart to this Amendment (collectively, "INVESTORS"). Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Preferred Stock Investment Agreement dated as of October 23, 1996, by and between CDRD and Investors, as amended by the First Amendment to Preferred Stock Investment Agreement, dated as of March 7, 1997 (the "FIRST AMENDMENT", as so amended, the "PREFERRED STOCK INVESTMENT AGREEMENT").

RECITALS

WHEREAS, CDRD and Investors desire to amend the Preferred Stock Investment Agreement as set forth below;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO THE PREFERRED STOCK  
INVESTMENT AGREEMENT

1.1 AMENDMENT OF RECITALS: The Recitals to the Preferred Stock Investment Agreement shall be amended by deleting the third Recital and replacing such Recital with a new Recital as follows:

"WHEREAS, CDRD will have the option to sell to the Investors a number of Preferred Shares up to the number of First Closing Shares ("SECOND CLOSING SHARES") after the First Closing Shares have been sold, subject to the terms and conditions set forth in this Agreement."

1.2 AMENDMENT OF SECTION 1.1: PURCHASE AND SALE OF PREFERRED SHARES. Section 1.1 of the Preferred Stock Investment Agreement is hereby amended by deleting such Section in its entirety and substituting the following therefor:

"Section 1.1 Purchase and Sale of Preferred Shares. Upon the following terms and conditions, CDRD shall issue and sell to each Investor severally, and each Investor severally shall purchase from CDRD, the number of First Closing Shares and up to the number of Second Closing Shares indicated next to such Investor's name on Schedule I attached to this Agreement."

1.3 AMENDMENT OF SECTION 1.4: THE SECOND CLOSING. Section 1.4(a)(i)(A) of the Preferred Stock Investment Agreement is hereby amended deleting such clause in its entirety and substituting the following therefor:

"(A) ten days after written notice ("SECOND CLOSING NOTICE") from CDRD electing to sell an aggregate number to all Investors of Second Closing Shares specified in such Second Closing Notice (which number shall not exceed the number of First Closing Shares) and which Second Closing Notice shall be delivered to the Investors not earlier

than the First Closing Date and not later than fifteen days after the First Closing Date; and "

Section 1.4 of the Preferred Stock Investment Agreement is hereby further amended by adding after the last sentence of clause (a) thereof the following sentence:

"On the Second Closing Date each Investor shall purchase a number of Second Closing Shares equal to the total number of Second Closing Shares to be sold to all Investors on such date as specified in the Second Closing Notice multiplied by the quotient of the number of First Closing Shares purchased by such Investor divided by the total number of First Closing Shares sold to all Investors."

1.4 NEW SECTION 3.14: MINIMUM DRAW AMOUNT. The Preferred Stock Investment Agreement is hereby amended by adding a new Section 3.14 as follows:

"Section 3.14 Minimum Draw Amount. If CDRD submits a Winning Bid, CDRD shall sell a number of Preferred Shares to Investors at least sufficient to generate gross proceeds to CDRD equal to the amount bid for the Satellite DARS License; provided, however, that in no event shall CDRD be permitted to sell fewer Preferred Shares to Investors than the number of First Closing Shares issuable under this Agreement nor required to sell more Preferred Shares to Investors than twice such number."

1.5 AMENDMENT OF SECTION 7.3: ENTIRE AGREEMENT;  
AMENDMENTS; ADDITIONAL INVESTORS; INCREASED COMMITMENTS. Section 7.3(b) of the Preferred Stock Investment Agreement is hereby amended by deleting such clause in its entirety and substituting the following therefor:

"(b) (i) Any Investor may increase its commitment under this Agreement at any time on or prior to the First Closing Date to purchase such number of First Closing Shares and up to such number of Second Closing Shares as shall be agreed between such Investor and CDRD in writing. Upon execution of a written agreement regarding such commitment by such Investor and CDRD, such Investor shall be obligated to purchase and CDRD shall be obligated to sell the number of additional First Closing Shares and up to the number of additional Second Closing Shares set forth in such commitment pursuant to the terms of this Agreement;

(ii) Any individual or other legal entity may become an additional investor under this Agreement at any time on or prior to the First Closing Date with respect to such number of First Closing Shares and up to such number of Second Closing Shares as shall be agreed between such Investor and CDRD. Any additional investor under this Agreement may become an additional investor by executing and delivering a counterpart to the most recent amendment to the Preferred Stock Investment Agreement, as amended to the date of such execution. Upon delivery of any such counterpart and acceptance thereof by CDRD, such counterpart shall be attached to such amendment, such additional investor shall be an Investor (such term as used in this Agreement to include such additional Investor) and such additional investor shall be as fully a party to this Agreement as if such additional investor were an original

- 2 -

signatory of this Agreement. No consent of any other Investor shall be required for such addition;

in each case, Schedule I to this Agreement and Exhibits A, B, C and D to Schedule A to Exhibit 2 to this Agreement, automatically shall be revised to reflect the new allocation of First Closing Shares and Second Closing Shares to such Investor pursuant to clause (b) (i) above or the joining of such additional investors to this Agreement pursuant to clause (b) (ii) above, as the case may be."

1.6 AMENDMENT TO SECTION 7.1: PLACEMENT AGENT FEE. Section 7.1(B) of the Preferred Stock Investment Agreement is hereby amended by adding after the first occurrence of the words "Preferred Shares" in such clause, the parenthetical "(or securities of CDRD that are either pari passu or junior in seniority, structure and maturity to the Preferred Shares)".

1.7 AMENDMENT OF SCHEDULE A TO EXHIBIT 2: PREFERRED CUSTODY SERVICES ESCROW AGREEMENT.

(A) Schedule A to Exhibit 2 to the Preferred Stock Investment Agreement is hereby amended by deleting clause 3(a) thereof in its entirety and substituting therefor the following:

"(a) at the close of the final bid submission round of the Satellite DARS License auction conducted by the FCC, if (1) Party A is the winning bidder for one of the Satellite DARS Licenses and the Bid Financing Condition (as defined below) is met and (2) each of the conditions set

forth in Article IV of the Investment Agreement and applicable to the First Closing shall be fulfilled or waived in accordance with the Investment Agreement; provided, that it shall be a condition of release of the Escrowed Property from the Escrow Account (the "BID FINANCING CONDITION"), that Party A have at that time additional cash and/or binding commitments for financing (from the proceeds from the sale of the Second Closing Shares and/or any other binding commitments that are either pari passu or junior in seniority, structure and maturity to the Preferred Shares) for an amount sufficient, together with the Escrowed Property to be released to Party A, to enable Party A to fully and timely make the payments required to purchase the Satellite DARS License; or"

(B) Schedule A to Exhibit 2 is hereby further amended by deleting the last two provisos in Section 4(a) thereof.

(C) Schedule A to Exhibit 2 is hereby further amended by deleting the second full paragraph of Exhibit A thereof in its entirety and replacing such paragraph with the following:

"The following conditions for release of the Escrowed Property have been met: (i) at the close of the final bid submission round of the Satellite DARS License auction conducted by the FCC, CD Radio Inc. was the winning bidder for one of the Satellite DARS Licenses and the Bid Financing Condition has been met as shown on Annex A or waived in a writing executed by each Investor and (ii) each of the conditions set forth in Article IV of the Investment Agreement and applicable to the First Closing have been fulfilled or waived in accordance with the Investment Agreement."

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(D) Schedule A to Exhibit 2 is hereby further amended by deleting Annex A thereto in its entirety and replacing such Annex A with Annex A hereto.

(E) Schedule A to Exhibit 2 is hereby further amended by deleting the contents of Exhibit B thereto in their entirety and replacing such contents with the words "Intentionally Omitted".

SECTION 2. MISCELLANEOUS

2.1 REFERENCE TO AND EFFECT ON THE PREFERRED STOCK INVESTMENT AGREEMENT.

(i) Each reference in the Preferred Stock Investment Agreement to "this Agreement", "hereunder", "hereof", "herein", or words of like import referring to the Preferred Stock Investment Agreement and each reference in the Preferred Stock Investment Agreement and other related agreements to the "Investment Agreement", "thereunder" "thereof" or words of like import referring to the Preferred Stock Investment Agreement shall mean and be a reference to the Preferred Stock Investment Agreement, as amended by the First Amendment to Preferred Stock Investment Agreement, dated as of March 7, 1997, and as further amended by this Amendment.

(ii) Except as specifically amended by this Amendment, the Preferred Stock Investment Agreement shall remain in full force and effect and is hereby ratified and confirmed.

2.2 COUNTERPARTS. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

[Remainder of page intentionally left blank]

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<TABLE>  
<CAPTION>

ANNEX A

ANNEX A TO EXHIBIT A TO SCHEDULE A TO ESCROW AGREEMENT  
DETERMINATION OF BID FINANCING CONDITION

<S>	<C>	<C>
1.	Purchase price payable for Satellite DARS License .....	\$ _____
2.	Net proceeds from First Closing and Second Closing:	
	(a)	
	(i) Gross proceeds from First Closing and Second Closing (if any).....	\$ _____
	(ii) Less: Financing fees, deal expenses and 2% funding fee on First Closing.....	\$ _____
	(iii) Net Proceeds from sale of Preferred Shares.....	\$ _____
	(b) Gross proceeds from all other financings for which CDRD has binding commitments:	
	(i) (A) From such financings that are pari passu to the Preferred Shares.....	\$ _____
	(B) From such financings that are junior to the Preferred Shares.....	\$ _____
	(C) Total gross proceeds from all other such financings ((b) (i) (A) + (b) (i) (B)).....	\$ _____
	(ii) Less: Financing fees, funding fees and deal expenses for all other such financings.....	\$ _____
	(iii) Net proceeds from all other such financings ((b) (i) (C) - (b) (ii)).....	\$ _____
	(c) Total net proceeds from all financings and commitments for financings ((a) (iii) plus (b) (iii) .....	\$ _____
	(d) Total additional cash currently held by CDRD .....	\$ _____
	(e) Total funds available for payment of purchase price ((c) plus (d)).....	\$ _____

</TABLE>

IF LINE 2(e) IS GREATER THAN OR EQUAL TO LINE 1, THE BID FINANCING CONDITION IS MET.

- 5 -

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

CD RADIO INC.

By: \_\_\_\_\_  
Name:  
Title:

- 6 -

<TABLE>  
<CAPTION>

INVESTORS:

<S>  
Dated: March \_\_\_, 1997

<C>  
THE VALUE REALIZATION FUND, L.P.  
By: Canpartners Investments III, L.P.  
By: Canyon Capital Management, L.P.  
By: Canpartners Incorporated

By: \_\_\_\_\_  
its

Dated: March \_\_\_, 1997

GRS PARTNERS II

By: \_\_\_\_\_  
its Account Manager

Dated: March \_\_\_, 1997

THE CANYON VALUE REALIZATION FUND, (CAYMAN)  
LTD.

By: \_\_\_\_\_  
its Account Manager

Dated: March \_\_\_, 1997

CERBERUS PARTNERS, L.P.

By: \_\_\_\_\_  
General Partner Cerberus Associates, L.P.  
General Partner Cerberus Partners, L.P.

Dated: March \_\_\_, 1997

THE COPERNICUS FUND, LP  
By: DDJ Copernicus, LLC

By: \_\_\_\_\_  
its Member

Dated: March \_\_\_, 1997

THE GALILEO FUND, LP  
By: DDJ Galileo, LLC

By: \_\_\_\_\_  
its Member

</TABLE>

<TABLE>  
<S>  
Dated: March \_\_\_, 1997

<C>  
DICKSTEIN & CO., L.P.  
By: Dickstein Partners, L.P.  
By: Dickstein Partners, Inc.

By: \_\_\_\_\_  
its

Dated: March \_\_\_, 1997

DICKSTEIN INTERNATIONAL LIMITED  
By: Dickstein Partners, Inc.

By: \_\_\_\_\_  
its

Dated: March \_\_\_, 1997

GLOBAL BERMUDA LIMITED PARTNERSHIP  
By: Global Capital Management, Inc.

By: \_\_\_\_\_  
its Authorized Signatory

Dated: March \_\_\_, 1997

LAKESHORE INTERNATIONAL, LIMITED  
By: Global Capital Management, Inc.

By: \_\_\_\_\_  
its Authorized Signatory

Dated: March \_\_\_, 1997

ELLIOTT ASSOCIATES, L.P.

By: \_\_\_\_\_  
its General Partner

Dated: March \_\_\_, 1997

WESTGATE INTERNATIONAL, L.P.  
By: Martley International, Inc. as Attorney-in-fact

By: \_\_\_\_\_  
its

Dated: March \_\_\_, 1997

EVEREST CAPITAL INTERNATIONAL, LTD.  
By: Everest Capital, Ltd., Investment Manager

By: \_\_\_\_\_  
its

</TABLE>

<TABLE>  
<S>

Dated: March \_\_\_, 1997

<C>  
EVEREST CAPITAL FUND, L.P.  
By: Everest Capital, Ltd., General Partner

By: \_\_\_\_\_  
its

Dated: March \_\_\_, 1997

THE JAY GOLDMAN MASTER LIMITED PARTNERSHIP

By: \_\_\_\_\_  
its General Partner

Dated: March \_\_\_, 1997

GRACE BROTHERS, LTD.

By: \_\_\_\_\_  
its General Partner

Dated: March \_\_\_, 1997

MAINSTAY VP SERIES FUND, INC., ON BEHALF OF ITS  
HIGH YIELD CORPORATE BOND PORTFOLIO

By: Mackay-Shields Financial Corporation  
its Investment Advisor

By: \_\_\_\_\_  
name:  
its:

Dated: March \_\_\_, 1997

THE MAINSTAY FUNDS, ON BEHALF OF ITS HIGH  
YIELD CORPORATE BOND FUND SERIES

By: Mackay-Shields Financial Corporation  
its Investment Advisor

By: \_\_\_\_\_  
name:  
its:

Dated: March \_\_\_, 1997

THE RAVICH REVOCABLE TRUST OF 1989

By: \_\_\_\_\_  
its Trustee

</TABLE>

- 9 -

<TABLE>

<S>

Dated: March \_\_\_, 1997

<C>

SCOGGIN CAPITAL MANAGEMENT

By: \_\_\_\_\_  
its General Partner

By: \_\_\_\_\_  
its

By: \_\_\_\_\_  
its

Dated: March \_\_\_, 1997

SCOGGIN INTERNATIONAL FUND, LTD.

By: \_\_\_\_\_  
its General Partner

Dated: March \_\_\_, 1997

TCW SHARED OPPORTUNITY FUND II  
By: TCW Investment Management Company, its  
Investment Adviser

By: \_\_\_\_\_  
its

By: \_\_\_\_\_  
its

Dated: March \_\_\_, 1997

LIBERTYVIEW PLUS FUND

By: \_\_\_\_\_  
its

Dated: March \_\_\_, 1997

LIBERTYVIEW LLC FUND  
By: Liberty View Capital Management, Inc.

By: \_\_\_\_\_  
its

</TABLE>

- 10 -

<TABLE>  
<S>  
Dated: March \_\_\_, 1997

<C>  
PARESCO, INC.

By: \_\_\_\_\_  
its

Dated: March \_\_\_, 1997

NAVESINK INVESTMENT FUND, LDC

By: \_\_\_\_\_  
its

Dated: March \_\_\_, 1997

STONEHILL OFFSHORE PARTNERS LIMITED  
By: Stonehill Advisors LLC, as Agent

By: \_\_\_\_\_  
its:

Dated: March \_\_\_, 1997

STONEHILL INVESTMENT CORP., FOR AN ON BEHALF  
OF STONEHILL PARTNERS, L.P., GRS PARTNERS III  
AND AURORA LIMITED PARTNERSHIP

By: \_\_\_\_\_  
its:

Dated: March \_\_\_, 1997

HERTA AND PAUL AMIR DEVELOPMENT FAMILY  
TRUST

By: \_\_\_\_\_  
its Trustee

Dated: March \_\_\_, 1997

THE WOLENS FAMILY TRUST

By: \_\_\_\_\_  
its Trustee

</TABLE>

- 11 -

<TABLE>  
<S>  
Dated: March \_\_\_, 1997

<C>  
LONGVIEW PARTNERS

By:

-----  
its General Partner

By: -----  
its General Partner

Dated: March \_\_, 1997

CUMBERLAND PARTNERS

By: -----  
its General Partner

By: -----  
its

Dated: March \_\_, 1997

JMG CAPITAL PARTNERS, L.P.  
By: JMG Capital Management, Inc.

By: -----  
its General Partner

</TABLE>

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ADDITIONAL INVESTORS:

Dated: \_\_\_\_\_, 1997 [ADDITIONAL INVESTOR NAME]

By: -----  
Its

Investor's address:

<TABLE>  
<S>

<C>  
For purposes of Section 3.6 of this Agreement, the following percentage limitation shall be applicable:

[ ] 4.99% [ ] 9.99% [ ] no limitation

If no box is marked, no limitation shall be applicable.

CD RADIO INC.

By: -----  
David Margolese,  
Chairman and Chief Executive Officer

-----  
Aggregate Number of Shares of Preferred Stock Agreed to be Issued and Sold

</TABLE>

EXHIBIT 11.1

CD RADIO INC. AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)

COMPUTATION OF NET LOSS PER SHARE

<TABLE>  
<CAPTION>

	FOR THE YEARS ENDED DECEMBER 31,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Net loss.....	\$ (4,064,767)	\$ (2,107,349)	\$ (2,830,595)
Weighted average common shares outstanding.....	8,109,168	9,224,431	9,642,048
Net common shares issuable upon exercise of outstanding options issued within one year of initial public offering.....	288,500		
Weighted average common shares outstanding.....	8,397,668	9,224,431	9,642,048
Net loss per common and common share equivalent.....	\$ (0.48)	\$ (0.23)	\$ (0.29)

</TABLE>

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements on Form S-8 (File No. 33-92588, File No 33-95118 and File No. 333-15085) of CD Radio Inc. and Subsidiary of our report dated March 26, 1997 on our audits of the consolidated financial statements of CD Radio Inc. and Subsidiary as of December 31, 1995 and 1996, and for the years ended December 31, 1994, 1995 and 1996, and for the period May 17, 1990 (date of inception) to December 31, 1996, which report is included in this amendment on Form 10-K/A.

COOPERS & LYBRAND L.L.P.

Washington, DC  
May 14, 1997

<TABLE> <S> <C>

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<INVENTORY>	0
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<DEPRECIATION>	213,344
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<COMMON>	10,300
<OTHER-SE>	4,888,076
<TOTAL-LIABILITY-AND-EQUITY>	5,065,463
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<TOTAL-REVENUES>	0
<CGS>	0
<TOTAL-COSTS>	0
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<LOSS-PROVISION>	0
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<INCOME-TAX>	0
<INCOME-CONTINUING>	(2,930,138)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(2,830,595)
<EPS-PRIMARY>	(.29)
<EPS-DILUTED>	(.29)

</TABLE>