April 27, 2007

Rating Information

Sector Rating	Market Weight
Target Price YE '07	$15.00
Long-Term Growth	15%

Trading Data

52-Wk Range	$9.63 - $22.75
Market Cap	$3,342 MM
Shares Out.	305.8 MM
Dividend Yield	0.0%
Avg Daily Vol.	9,140,000
Float	NA

Source: FactSet

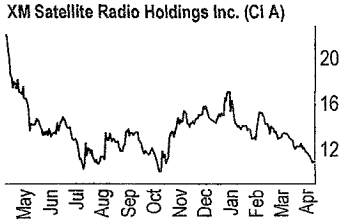
Fundamental Data

EV/EBITDA	(13.2)x
Enterprise Value	$4,401.2 MM
LT Debt to Total Cap.	144.8%
Book Value	$(1.30)

Source: FactSet

Price Performance Chart

XM Satellite Radio Holdings Inc. (Cl A)



Source: FactSet

Securities in this report priced as of:

April 26, 2007 16:00 ET

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XM Satellite Radio
(XMSR-$11.78-Outperform)

In-Line Results Drive Relief Rally: Maintaining Outperform

- **Investment Thesis.** We believe extremely low expectations coupled with in-line results drove the outperformance in the stock yesterday. Both satellite radio stocks have declined significantly since they announced the merger primarily due to uncertain merger outcome, limited visibility into the DOJ process, challenging retail environment, and OEM ramp only in 2H07/2008. As such, although we think the shares remain attractive for the long term investor with an appetite for risk, investor interest likely may remain muted until there is more visibility into the merger outcome or the YoY unit sales comps improve.

- **In-Line Quarter.** XM reported 1Q07 results that were in line with our expectations across every metric except gross adds (which were marginally weaker) and churn (which was better than our and street estimates).

- **2007 Guidance Reiterated; Higher CPGA and Adjusted EBITDA Losses Expected.** Company reiterated sub guidance of 9-9.2 mn, subs revs of $1 bn, CFO to improve YoY in 2007, and likely positive in 2008; but increased CPGA expectation to $111-$114, and Adjusted EBITDA losses to $(170)-$(180) mn excl merger costs. Our 2007 projections: 4.2 mn gross adds, 1.47 mn net adds, 9.1 mn ending subs, self-paid churn 1.8%, SAC $68, CPGA $113, total ARPU $11.43, total revenues $1.1 bn, Adjusted EBITDA $(207) mn including $32 mn in merger costs, CF from ops $(120) mn.

- **Valuation.** While XM reiterated expectation of high-teens ending subs by 2010, we have a more conservative estimate of 12.9 mn at YE 2010. Given our more conservative stance with respect to sub growth, we are tweaking our year-end 2007 target price to $15 from $17 previously, which is based on a DCF with WACC of 11%, and perpetual growth rate of 4%. We underscore that our valuation merely reflects the value of the standalone business; if the proposed merger with Sirius were approved, the potential synergies from the merger would drive valuations in the low-to-mid-$20/share vicinity.

Sector View: Market Weight

GAAP Estimates Post Option Expense †(All values are in USD)

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	P/E
2006	(0 60)A	(0 87)A	(0.32)A	(0.90)A	(2.71)A	NM
2007	(0.40)A	(0.44)E	(0.44)E	(0.62)E	(1.89)E	NM
Previous	(0 34)E	(0.37)E	(0.37)E	(0.52)E	(1.60)E	
2008					(1.40)E	NM
Previous					(1.13)E	

† All numbers are after stock-based compensation expense, normalized consistent with BSC option expense policy

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INVESTMENT THESIS

Both satellite radio stocks have declined significantly since they announced the agreement to merge as the merger outcome remains uncertain, visibility on the merger process (especially at the more important DOJ level) remains limited, the retail environment remains challenging, and the OEMs are likely to ramp up only towards 2H07 and going into 2008. While OEM will determine LT valuations, NT retail outlook remains tepid. As such, although we think the shares remain attractive for the long term investor with an appetite for risk, investor interest likely may remain muted until there is more visibility into the merger outcome or the YoY unit sales comps improve.

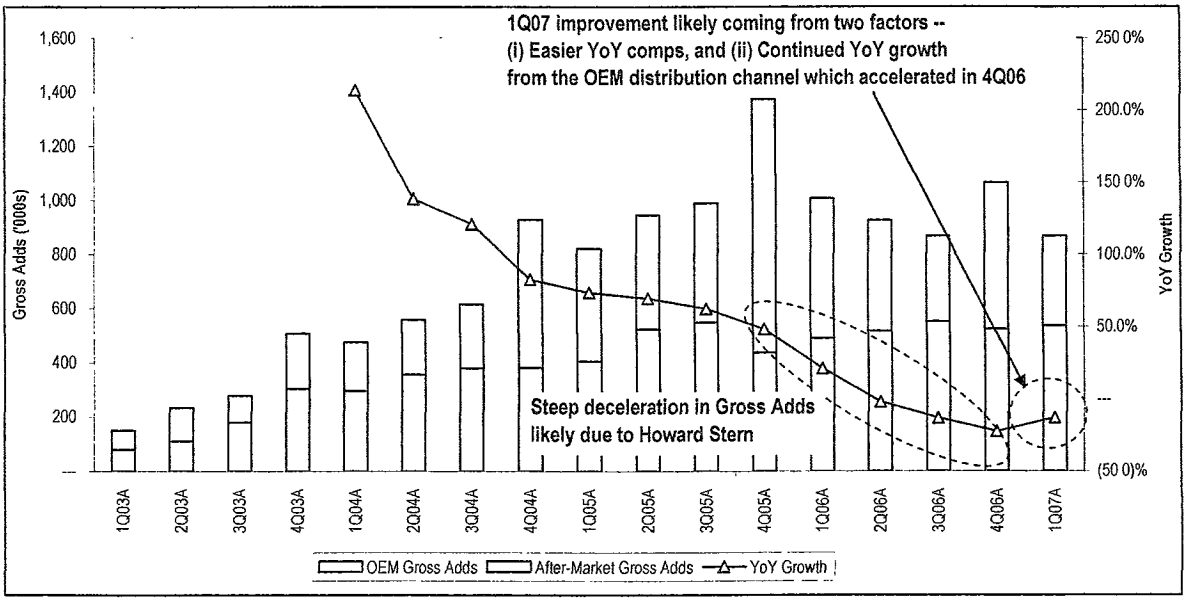
On the conference call, the company reiterated its high-teens of millions ending subs guidance for 2010; we are more conservative with a 12.9 million subs at 2010-end. Given our more conservative stance with respect to sub growth, we are tweaking our year-end 2007 target price to $15 from $17 previously. Our DCF valuation is based on weighted average cost of capital of 11% that is based on an equity beta of 1.76 and a growth rate in perpetuity of 4%, which offers potential annualized returns of about 40% from current levels. Note that our valuation merely reflects the value of the standalone business; if the proposed merger with Sirius were approved, the potential synergies from the merger would drive valuations in the low-to-mid-$20/share vicinity.

1Q07 REVIEW AND 2007 OUTLOOK

Key takeaways from the quarter include the following.

- **Gross adds marginally weaker, reducing 2007 estimate.** Gross adds were 868k (down 13% YoY) versus our estimate of 957k, with lower than projected gross adds from both the OEM and retail/aftermarket distribution channels. OEM and car rental gross adds were 537k, up 9% from 491k in the year ago period. XM disclosed that GM had installed its receivers in 5 million vehicles by January, and expects to install XM radios in 1.8 million vehicles during 2007 (with a majority coming in 2H07). In addition to Nissan and Toyota ramping up installation over the next 12-18 months, the company also disclosed that it was in negotiations with a number of its OEM partners to include the service fee as part of the lease payments for the vehicles, which will improve take rates. Gross adds from retail were 331k, down 36% YoY from 516k in 1Q06. We understand that NPD reported XM's retail sales were down 29% YoY in the quarter (down 23% YoY in March) even as XM's market share, according to NPD, improved to 47% in March 2007, which was expected given the launch of the new MLB season. For the year, we have marginally reduced our estimate of total gross adds to 4.25 million from 4.29 million previously, as the retail environment continues to remain challenging (though has been improving sequentially recently) and the OEM growth likely would become more meaningful in late-2007 and in 2008.

Exhibit 1. XM Satellite Radio – Gross Adds ('000s)

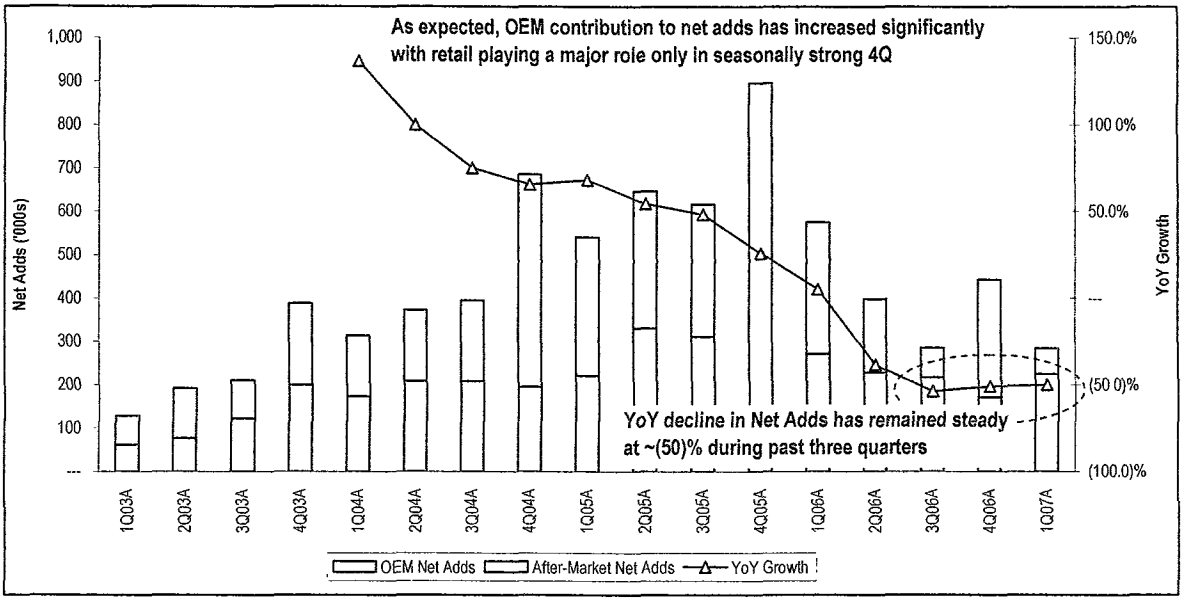


Source: Company Documents; Bear, Stearns & Co. Inc.

- **Net adds in line, maintaining our previous 2007 estimate of 1.47 million.** Net adds of 285k came in in-line with our estimate of 285k and street consensus of 280-290k. Self-pay churn of 1.78% was better than our estimate of 1.9% but higher than the 1.64% reported in 1Q06. Recall that the company had guided to higher churn due to the NASCAR

transition to Sirius this year; that churn came in lower than our estimates likely is due to management focus on churn management and improving customer satisfaction levels (via, among others, on-shoring a portion of the customer care effort). On the conference call, the company stated that in advance of the termination of NASCAR, it undertook a proactive, integrated marketing communications program geared toward those subscribers who were also NASCAR fans. This campaign has been successful to date in reducing potential deactivation released to NASCAR by highlighting XM's strong music content and other XM content related to motor sports. In addition, the company disclosed that customer satisfaction, as measured independently by one of XM's major OEM partners, shows four consecutive months of improvement. For the year, we are maintaining our net adds estimate of 1.47 million – while we have reduced our gross adds projection marginally, our estimate for churn has also reduced slightly due to the improved performance in 1Q as well as continued management focus on containing the metric.

Exhibit 2. XM Satellite Radio – Net Adds ('000s)

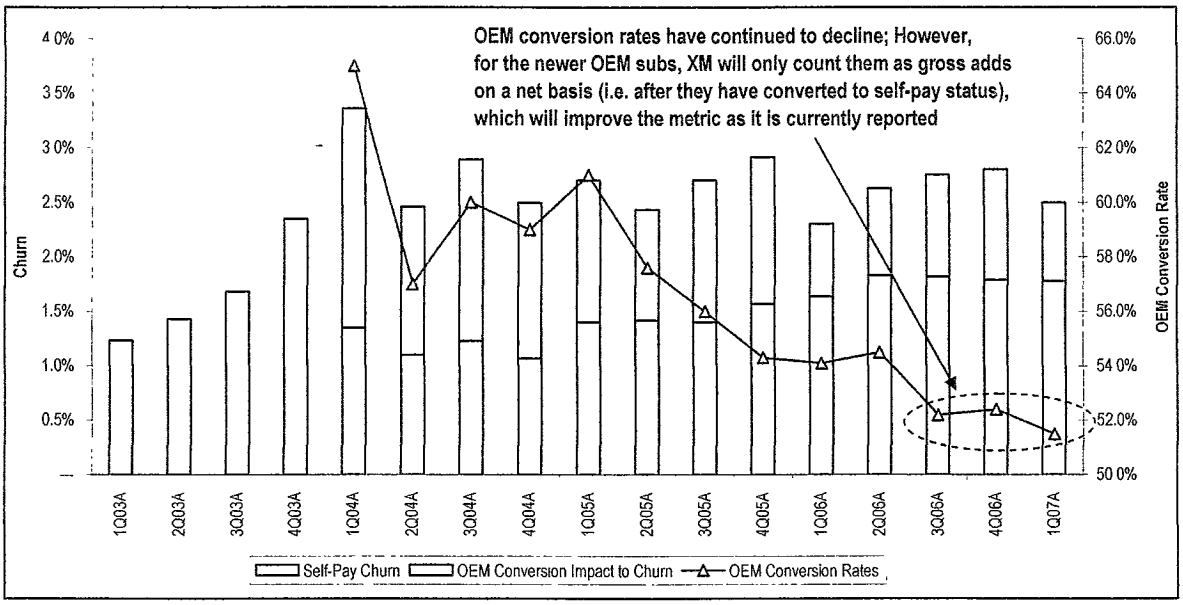


Source: Company Documents; Bear, Stearns & Co. Inc.

- **OEM conversion rate declined marginally sequentially; XM expects metric to stabilize in the low-50% vicinity in the near future.** OEM conversion rate of 51.5% came in lower than the 52.4% reported in 4Q06 and 54.1% in 1Q06; on the conference call, management stated that the metric was "slightly below their expectation" and that they expect conversion rates in the low-50% levels in the near future. On the conference call, XM disclosed that it has a number of ongoing programs that likely will improve conversion rates, including (i) dealer level incentives and improvement programs with GM and Honda dealers, (ii) e-mail programs, and (iii) the 80-day telephone call. However, the company cautioned that all these programs are likely to yield results only over time.

  All-in churn was 2.5% for the quarter, implying that the impact of the lower conversion rates was 0.72%, or up 9% YoY from 0.66% impact in 1Q06. However, as the contributions from the newer OEMs (Hyundai, Nissan, and Toyota), ramp up, where XM will only count the converted subs as gross adds, all-in churn will track closer to self-pay churn. While the accounting treatment will improve the conversion metric, actual conversion rates are likely to continue declining as XM radios begin to be installed on more mainstream vehicles where the more economically-challenged buyer may be less likely to subscribe to the service.

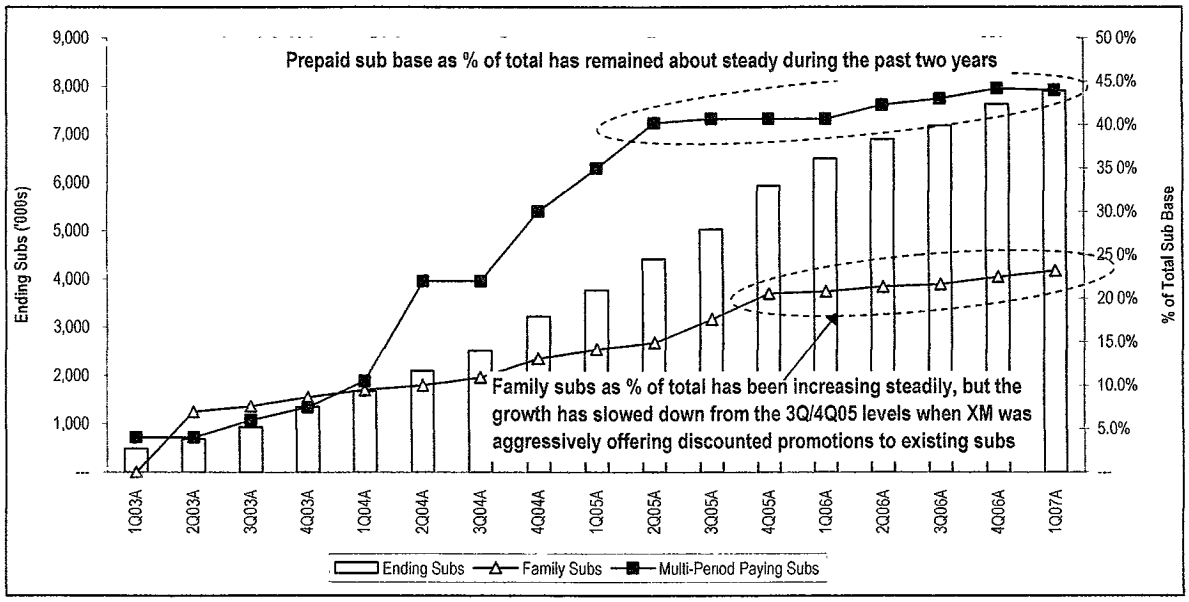
Exhibit 3. XM Satellite Radio – OEM Conversion Rates and Churn



Source: Company Documents; Bear, Stearns & Co. Inc.

- **Ending subs in line; YE guidance of 9.0-9.2 million remains unchanged, as does our projection of 9.1 million.** XM reported ending subs of 7.9 million, which was in line with our expectation, and announced that it had recently surpassed 8 million subscribers. This implies that XM has already added about 87k net new subs during the month. Assuming that the company reached the 8 million milestone as of close of business on April 25, 2007 (i.e. the day before yesterday, when the press release came out), it implies that XM is adding ~3.5k subs per day. Projecting this on a straight-line basis for 2Q07 (which has 91 days), the company should add 317k net new subs. Given that the Father's Day weekend (which usually results in higher than average unit sales) falls during 2Q, our 2Q07 projection of 323k net adds appears reasonable. The company maintained its guidance of 9.0-9.2 million subscribers by year-end, which is in line with our projection of 9.1 million, which we leave unchanged. On the conference call, XM reiterated its high-teens of millions ending subs guidance for 2010; we are more conservative with a 12.9 million subs at 2010-end.

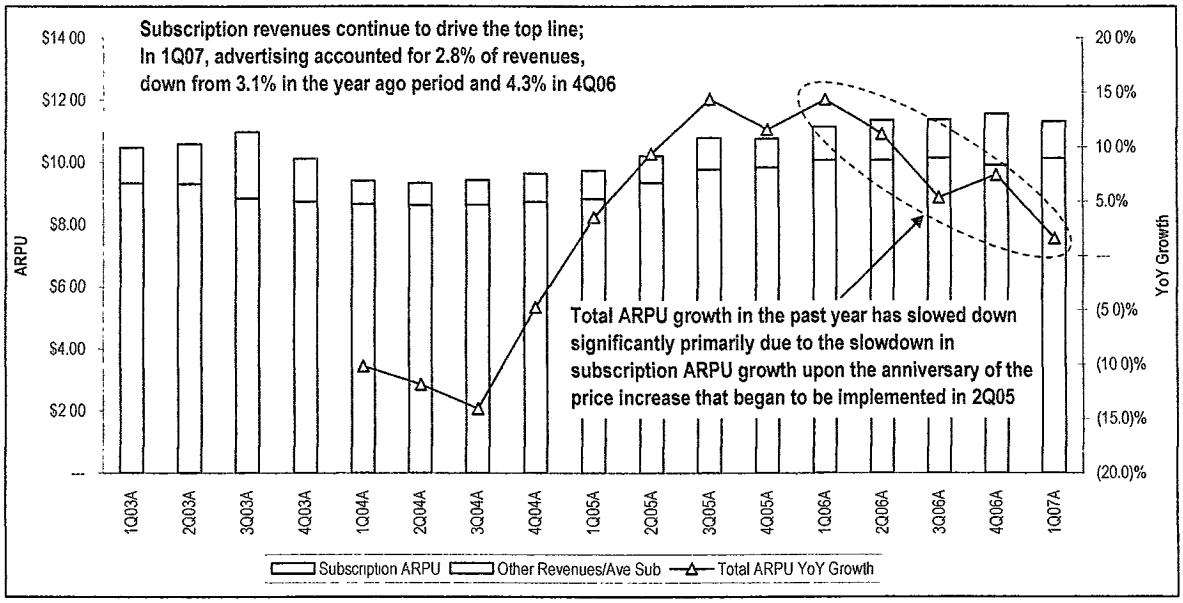
Exhibit 4. XM Satellite Radio – Ending Subs ('000s) Versus % Prepaid and % Family Subs



Source: Company Documents; Bear, Stearns & Co. Inc.

- **ARPU in line, tweaking 2007 estimate lower on advertising revenues.** Total ARPU at $11.34 came in in-line with our estimate of $11.33; subscription ARPU of $10.14 was also in-line. However, advertising revenues of $7.5 million were lower than our projection of $11.9 million, which resulted in our lowering our advertising revenues estimate for the full year to $39.4 million from $60.4 million previously.

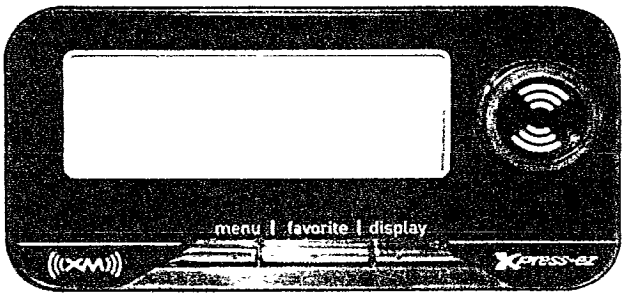
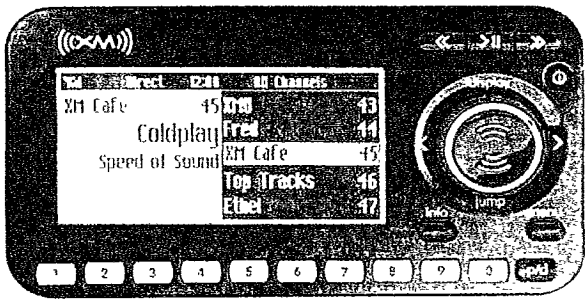
Exhibit 5. XM Satellite Radio – ARPU



Source: Company Documents; Bear, Stearns & Co. Inc.

- **SAC in line, expected to inch up in 2007.** SAC of $65 was in-line with our expectation of $65, and up 4% YoY. XM disclosed that $5 of the SAC was related to inventory charges they recorded in the quarter, and they could record further inventory charges during the year as they transition to new products in the summer. In addition, SAC would also be impacted by (i) the subsidies that XM will record on the newer OEM installs where the gross add generally lags installation by about 6 months (the impact will be seen more as the newer OEMs ramp up over the next few quarters, and will then normalize), and (ii) reported gross adds will be some fraction of total radio installs as XM will only record a gross add when the vehicle buyer becomes a self-paying sub. For the full year, we have increased our SAC expectation marginally to $68 from $67 previously, and 5% higher than the $64 reported in 2006.

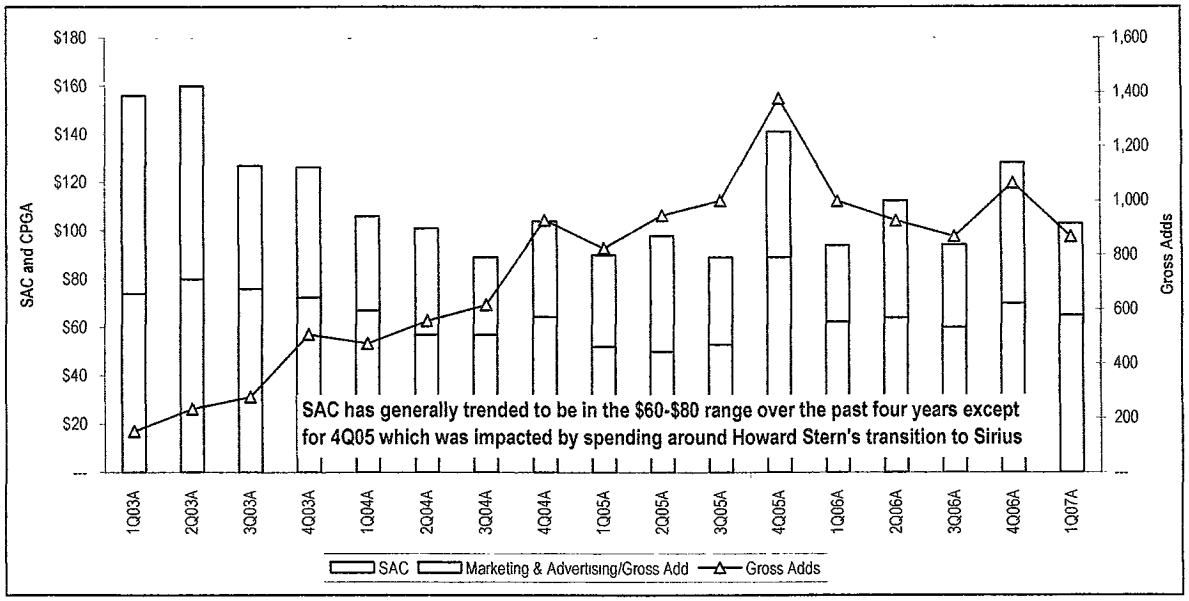
Exhibit 6. XM Satellite Radio – Two New Plug 'n Play Radios in Mid-Summer

Audiovox Xpress EZ (XMCK5)	Audiovox XpressR (Model XMCK20)
Big, easy to read, three-line display Simplified interface Single knob to navigate through the Xpress EZ's menus Three buttons for additional functionality 10 user presets for favorite XM channels Includes an external antenna, docking cradle with DC adapter and mounting bracket MSRP: $69 99	The First Satellite Radio Offering a Split-Screen Display View Current XM Channel and Five Other Channels simultaneously on a Large, Easy-to-Read LCD Screen View Channel, Artist, Song Title and Info Extras via a High-Contrast Six-Line Display Includes 30-Minutes of Pause and Replay TuneSelect Finds Favorite Songs or Artists, GameSelect Finds Favorite Sports Events Universal Connector - Easily Move XpressR Between Car, Home and Audio System with Compatible Accessones Number Keys for Direct Channel Entry and 30 Channel Presets Scroll up to 20 Stock Symbols, Sports Scores and Updates from MLB, NFL, NBA, Racing, Golf, Tennis, College Football and Basketball, while Listening to XM Radio Automatic Backlight Dimmer that Adjusts for Day-to-Night Viewing Five-Way Tuner Knob to Navigate the 170+ XM Channels Plug-and-Play Dock Direct Channel Entry Sleep Mode Includes Vehicle Kit with Docking Station, XM SureConnect, Antenna, 5 Volt Adapter, Cassette Adapter, Magnetic Roof Mount Antenna and Remote Control Available: June 2007 MSRP. $129.99
	

Source: www.orbitcast.com; Company Documents; Bear, Stearns & Co. Inc

- **CPGA in line, full year guidance increased to $111-$114.** CPGA of $103 was in-line with our estimate of $102, and 10% higher than the $94 reported in the year ago period. XM stated that it continues to remain disciplined in its marketing spend, and has a segmented marketing approach that is broader than just targeting the displaced sports fan. For the full year, we have increased our CPGA expectation to $113 from $109 previously (in line with guidance of $111-$114) , and 5% higher than the $108 reported in 2006.

Exhibit 7. XM Satellite Radio – SAC and CPGA Versus Gross Adds



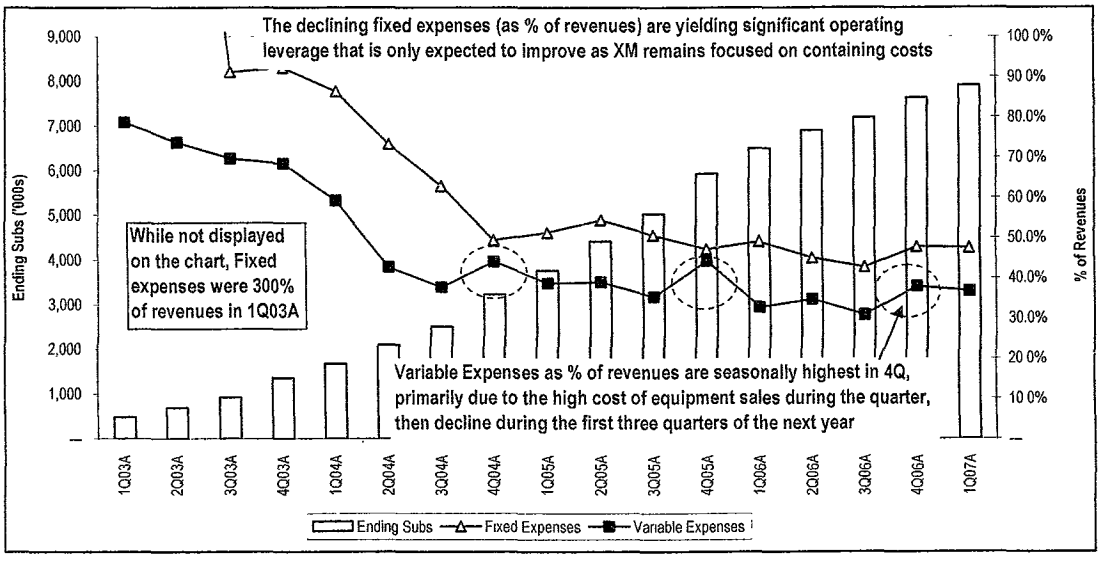
Source: Company Documents; Bear, Stearns & Co. Inc.

- **Revenues in line, guidance and our estimates remain unchanged.** Total revenues were $264.1 million versus our estimate of $264 million, up 27% YoY from $208 million in the year ago period. Subscription revenue for the quarter increased 26% to $236 million from $188 million in the first quarter of 2006. XM maintained its guidance of $1 billion in subscription revenues for the year; we are maintaining our estimate of just under $1 billion. However, we have reduced our expectation for advertising revenues based on the lower than expected performance in 1Q07; as a result, we have marginally reduced our total revenue expectation to $1,134 million from $1,143 million previously.

- **Adjusted EBITDA in line; guidance of $(170)-$(180) million for the year excluding merger-related expenses.** Adjusted EBITDA came in at $(27) million, including $8 million in merger related expenses, which was in line with our estimate of $(27) million. Fixed costs for the quarter were $125 million (or 47.5% of revenues), compared to $102 million in the year ago period (or 49.1% of revenues), with the increase driven by (i) $8 million in merger-related expenses, which consist of legal, lobbying and financial advisory, (ii) $4 million in other legal and regulatory expenses, (iii) $4.4 million associated with the addition of Oprah and Friends channel, and (iv) $2 million increase in stock-based compensation. Pre-marketing EBITDA increased 12% to $56 million from $50 million in 1Q06; however, excluding the $8 million merger-related expense, Pre-marketing EBITDA would have come in higher. On the conference call, the company highlighted the operating leverage in the model with a 27% increase in revenues resulting in a 45% reduction in adjusted operating loss.

  For the full year 2007, the company guided to adjusted EBITDA losses of $(170)-$(180) million excluding any merger-related expenses. If we straight-line the $8 million expense on merger-related activity in 1Q07 for the next three quarters, total merger-related expenditure would be about $32 million. Thus, including the merger-related expenses, adjusted EBITDA would come in at $(202)-$(212) million; we are projecting adjusted EBITDA losses of $(207) million, which is in line with the revised guidance. Recall that street consensus previously was about $(160)-$(165) million excluding merger-related expenses; we were estimating $(162) million in adjusted EBITDA for the year.

Exhibit 8. XM Satellite Radio – Operating Leverage: Fixed and Variable Costs (%) Versus Ending Subs ('000s)



Source: Company Documents; Bear, Stearns & Co. Inc.

- **Available liquidity increased to $719 million; XM expects full year CFO positive in 2008.** The company ended 1Q07 with $319 million in cash and $400 million in available credit ($250 million credit facility from a group of banks, and $150 million from GM). Liquidity in the quarter was impacted by $244 million in net proceeds from the completion of the XM-4 satellite sale leaseback transaction, offset by two major cash expenses (i) a $60 million prepayment to Major League Baseball for the entire 2007 season, and (ii) a $90 million in satellite capital expenditures largely associated with the XM-5 backup satellite, which is still under construction. The company believes that the first quarter will be its largest cash usage quarter for the year. While XM expects improved cash flow from operations in 2007, full-year positive cash flow from operations are only expected in 2008. We are projecting cash flow from operations of $(120) million in 2007, which is a significant improvement over $(462) million in 2006, and are projecting ~$(20) million in cash flow from operations in 2008. We are not projecting that the company will be cash flow from operations and FCF positive until 2009. Cash flows from the model are critically dependent on working capital changes. While we think XM will need to

access the available $400 million credit facilities during the next two years, we do not think the company will need to access the capital markets under the current business plan.

Exhibit 9. XM Satellite Radio – 1Q07 Review and 2007E Revised Expectations('000s)

	1Q07A	1Q06A	YoY % Change	4Q06A	Sequential % Change	Previous 1Q07E	% Variance	2007E	2006A	YoY % Change	Previous 2007E	% Variance
Key Subscriber Metrics												
Ending Subscribers	7,913	6,502	21.7%	7 628	3.7%	7,913	0 0%	9 102	7,628	19 3%	9,095	0 1%
Gross Additions	868	998	(13.0%)	1,065	(18 5%)	957	(9.3%)	4,248	3,857	10.1%	4,289	(1.0%)
Net Additions	285	569	(49.9%)	442	(35 5%)	285	0 2%	1,474	1,695	(13 1%)	1,467	0.5%
Subscription ARPU	$10.14	$10 08	0.6%	$9 93	2.2%	$10.01	1.4%	$10.07	$10 06	0 2%	$10 04	0 3%
Total ARPU	$11 33	$11.15	1.6%	$11.57	(2.1%)	$11.33	0.0%	$11.43	$11.37	0 6%	$11 53	(0.8%)
Implied Monthly Churn	2.5%	2 3%	8 6%	2.8%	(10.8%)	2 9%	(13.3%)	2 8%	2 6%	6.3%	2 8%	(1 8%)
SAC Per Gross Addition	$65	$62	4.3%	$70	(7 1%)	$65	0.3%	$68	$64	5 2%	$67	1 5%
CPGA - Cost Per Gross Addition	103	94	9 6%	128	(19.8%)	102	1.2%	113	108	4.5%	109	3.5%
Income Statement												
Revenues												
Subscription Services Revenues	$236,486	$188,102	25 7%	$220,542	7.2%	$233,325	1.4%	$998,560	$825,626	20.9%	$994,504	0 4%
Activation Revenues	4,654	3,579	30.0%	4,459	4 4%	4,399	5 8%	20,827	16,193	28 6%	19,722	5.6%
Equipment Revenues	5,297	3,551	49.2%	10,076	(47.4%)	3,403	55.7%	26,225	21,719	20.7%	24,075	8 9%
Net Ad Sales Revenues	7,478	6,518	14.7%	11,045	(32 3%)	11,880	(37.1%)	39,423	35,331	11 6%	60,388	(34.7%)
Royalties & Other	10,197	6,216	64.0%	11,000	(7 3%)	11,000	(7.3%)	49,093	34,549	42.1%	44,000	11.6%
Total Revenues	**$264,112**	**$207,966**	**27.0%**	**$257,122**	**2.7%**	**$264,008**	**0.0%**	**$1,134,128**	**$933,418**	**21.5%**	**$1,142,689**	**(0.7%)**
Operating Expenses												
Revenue Share and Royalties	$47,426	$34,276	38.4%	$43,405	9.3%	$44,522	6.5%	$218,007	$149,010	46.3%	$216,561	0 7%
Cost of Equipment Sales	18,277	7 993	128.7%	20,525	(11.0%)	6,806	168.5%	65 364	48,949	33.5%	44,508	46.9%
Advertising Sales	3,385	3,356	0 9%	4,768	(29 0%)	5,367	(36 9%)	17,845	15,962	11 8%	27,282	(34 6%)
Customer Care & Billing	27,928	22,455	24.4%	28,850	(3.2%)	30,940	(9.7%)	130,289	104,871	24 2%	124,997	4.2%
Satellite & Terrestrial	13,882	13,049	6.4%	12,729	9 1%	12,729	9.1%	61,528	49,019	25.5%	56,916	8.1%
Broadcast	6,544	5,852	11.8%	5,869	11 5%	5,869	11 5%	26,176	23,048	13.6%	29,476	(11.2%)
Operations	9,716	8,887	9.3%	9,164	6 0%	9,164	6.0%	41,864	34,683	20.7%	42,656	(1 9%)
Programming & Content	43,952	37,643	16.8%	46,427	(5 3%)	48,510	(9.4%)	189,558	165,196	14 7%	203,936	(7 1%)
Total Cost of Revenue	**$171,110**	**$133,511**	**28.2%**	**$171,737**	**(0.4%)**	**$163,908**	**4.4%**	**$750,632**	**$590,738**	**27.1%**	**$746,333**	**0.6%**
Research & Development	7,310	10,981	(33.4%)	9,080	(19.5%)	9,080	(19 5%)	40,369	37,428	7 9%	38,172	5 8%
General & Administration	34,185	17,630	93.9%	30,327	12 7%	27,827	22.8%	144,098	88 626	62 6%	113,837	26.6%
Total Pre-Marketing Expenses	**$212,605**	**$162,122**	**31.1%**	**$211,144**	**0.7%**	**$200,815**	**5.9%**	**$935,099**	**$716,792**	**30.5%**	**$898,342**	**4.1%**
Marketing Expenses												
Retention & Support	$9,756	$8,047	21.2%	$9,064	7 6%	$9,155	6.6%	$39,613	$31,842	24.4%	$37,172	6 6%
Subsidies & Distribution	43,602	59,732	(27.0%)	73,464	(40.6%)	60,598	(28 0%)	254,224	241 601	5.2%	273,177	(6.9%)
Advertising & Marketing	32,809	29,666	10 6%	52,789	(37.8%)	33,374	(1 7%)	160,112	147,639	8 4%	151,347	5.8%
Marketing Related Expenses	**$86,167**	**$97,445**	**(11.6%)**	**$135,317**	**(36.3%)**	**$103,127**	**(16.4%)**	**$453,949**	**$421,082**	**7.8%**	**$461,696**	**(1.7%)**
Amortization of GM Liability	6,504	9,313	(30.2%)	6,504	---	6,504	---	26,016	29,761	(12 6%)	26,016	---
Total Marketing Costs	**$92,671**	**$106,758**	**(13.2%)**	**$141,821**	**(34.7%)**	**$109,631**	**(15.5%)**	**$479,965**	**$450,843**	**6.5%**	**$487,712**	**(1.6%)**
Impairment of Goodwill	---	---	---	---	---	---	---	---	---	---	---	---
Total Operating Expenses	**$305,276**	**$268,880**	**13.5%**	**$352,965**	**(13.5%)**	**$310,446**	**(1.7%)**	**$1,415,064**	**$1,167,635**	**21.2%**	**$1,386,054**	**2.1%**
Operating Cashflow (EBITDA)	**$(41,164)**	**$(60,914)**	**(32.4%)**	**$(95,843)**	**(57.1%)**	**$(46,438)**	**(11.4%)**	**$(280,936)**	**$(234,217)**	**19.9%**	**$(243,365)**	**15.4%**
Depreciation & Amortization	46,882	39,882	17 6%	44,043	6.4%	29,325	59 9%	187,528	168,881	11.0%	117,298	59.9%
Stock Based Compensation	---	---	---	---	---	---	---	---	---	---	---	---
Operating Income (EBIT)	**$(88,046)**	**$(100,796)**	**(12.6%)**	**$(139,886)**	**(37.1%)**	**$(75,763)**	**16.2%**	**$(468,464)**	**$(403,098)**	**16.2%**	**$(360,663)**	**29.9%**
Diluted EPS	**$(0.40)**	**$(0.60)**	**(33.0%)**	**$(0.90)**	**(55.3%)**	**$(0.34)**	**17.7%**	**$(1.89)**	**$(2.71)**	**(30.1%)**	**$(1.60)**	**18.0%**
Key Operating Metrics												
Variable Expenses												
Revenue Share and Royalties	$47,426	$34,276	38.4%	$43,405	9.3%	$44,522	6.5%	$218,007	$149,010	46.3%	$216,561	0 7%
Cost of Equipment Sales	18,277	7,993	128.7%	20,525	(11.0%)	6,806	168 5%	65,364	48,949	33.5%	44,508	46.9%
Advertising Sales	3,385	3,356	0.9%	4,768	(29 0%)	5,367	(36.9%)	17,845	15,962	11 8%	27,282	(34 6%)
Customer Care & Billing	27,928	22,455	24.4%	28 850	(3 2%)	30,940	(9.7%)	130,289	104,871	24.2%	124,997	4 2%
Total Variable Expenses	**$97,016**	**$68,080**	**42.5%**	**$97,548**	**(0.5%)**	**$87,636**	**10.7%**	**$431,506**	**$318,792**	**35.4%**	**$413,349**	**4.4%**
% of Revenues	36 7%	32.7%	12.2%	37.9%	(3.2%)	33 2%	10 7%	38.0%	34 2%	11 4%	36.2%	5.2%
Subscription Contribution Margin												
Subscription Services Revenues	$236,486	$188,102	25.7%	$220,542	7.2%	$233,325	1.4%	$998,560	$825,626	20.9%	$994,504	0 4%
Less: Revenue Share and Royalties	(47,426)	(34,276)	38 4%	(43,405)	9.3%	(44,522)	6 5%	(218,007)	(149,010)	46 3%	(216,561)	0 7%
Less: Customer Care & Billing	(27,928)	(22,455)	24 4%	(28,850)	(3.2%)	(30,940)	(9.7%)	(130,289)	(104,871)	24.2%	(124,997)	4.2%
Total Subscription Contribution	**$161,132**	**$131,371**	**22.7%**	**$148,287**	**8.7%**	**$157,863**	**2.1%**	**$650,263**	**$571,745**	**13.7%**	**$652,946**	**(0.4%)**
Subscription Contribution Margin	68 1%	69.8%	(2.4%)	67.2%	1.3%	67.7%	0.7%	65 1%	69.2%	(6 0%)	65.7%	(0 8%)
Fixed Expenses												
Satellite & Terrestrial	$13,882	$13,049	6 4%	$12,729	9.1%	$12,729	9.1%	$61,528	$49,019	25 5%	$56,916	8 1%
Broadcast	6,544	5,852	11 8%	5,869	11.5%	5,869	11 5%	26,176	23.048	13 6%	29,476	(11 2%)
Operations	9,716	8,887	9 3%	9,164	6.0%	9,164	6.0%	41,864	34,683	20.7%	42,656	(1 9%)
Programming & Content	43,952	37,643	16 8%	46,427	(5 3%)	48,510	(9 4%)	189,558	165,196	14.7%	203,936	(7.1%)
Research & Development	7,310	10,981	(33 4%)	9,080	(19 5%)	9,080	(19.5%)	40,369	37,428	7.9%	38,172	5.8%
General & Administration	34,185	17,630	93.9%	30,327	12.7%	27,827	22.8%	144,098	88,626	62 6%	113,837	26.6%
Retention & Support Marketing	9,756	8,047	21.2%	9,064	7 6%	9,155	6.6%	39,613	31,842	24.4%	37,172	6.6%
Total Fixed Expenses	**$125.345**	**$102,089**	**22.8%**	**$122,660**	**2.2%**	**$122,334**	**2.5%**	**$543,206**	**$429,842**	**26.4%**	**$522,165**	**4.0%**
% of Revenues	47 5%	49.1%	(3 3%)	47.7%	(0.5%)	46 3%	2.4%	47 9%	46 1%	4.0%	45.7%	4 8%

Source: Company Documents; Bear, Stearns & Co. Inc

Exhibit 10. XM Satellite Radio – Income Statement ('000s)

	1Q06A	2Q06A	3Q06A	4Q06A	2006A	1Q07A	2Q07E	3Q07E	4Q07E	2007E
Key Subscriber Metrics										
Ending Subscribers	6,502	6,900	7,186	7,628	7,628	7,913	8,236	8,527	9,102	9,102
Gross Additions	998	926	868	1,065	3,857	868	995	1,028	1,357	4,248
Net Additions	569	398	286	442	1,695	285	323	290	575	1,474
Subscription ARPU	$10 08	$10.08	$10 15	$9 93	$10.06	$10 14	$10 05	$10 05	$10.05	$10.07
Total ARPU	$11.15	$11 36	$11.38	$11.57	$11.37	$11.33	$11.35	$11 28	$11.78	$11.43
Implied Monthly Churn	2 3%	2.6%	2 8%	2.8%	2.6%	2 5%	2 8%	2 9%	3.0%	2.8%
SAC Per Gross Addition	$62	$64	$60	$70	$64	$65	$66	$67	$71	$68
CPGA - Cost Per Gross Addition	94	112	94	128	108	103	116	115	116	113
Income Statement										
Revenues										
Subscription Services Revenues	$188,102	$202,165	$214,817	$220,542	$825,626	$236,486	$243,461	$252,751	$265,862	$998,560
Activation Revenues	3,579	3,942	4,213	4,459	16,193	4,654	4,973	5,311	5,890	20,827
Equipment Revenues	3,551	4,928	3,164	10,076	21,719	5,297	4,928	3,164	12,836	26,225
Net Ad Sales Revenues	6,518	8,982	8,786	11,045	35,331	7,478	10,000	9,505	12,440	39,423
Royalties & Other	6,216	7,869	9,464	11,000	34,549	10,197	11,472	12,906	14,519	49,093
Total Revenues	**$207,966**	**$227,886**	**$240,444**	**$257,122**	**$933,418**	**$264,112**	**$274,834**	**$283,636**	**$311,546**	**$1,134,128**
YoY Change	*102.8%*	*81.6%*	*57.0%*	*45.2%*	*67 2%*	*27 0%*	*20 6%*	*18.0%*	*21 2%*	*21.5%*
Operating Expenses										
Revenue Share and Royalties	$34,276	$37,923	$33,406	$43,405	$149,010	$47,426	$47,003	$59,705	$63,873	$218,007
Cost of Equipment Sales	7,993	10,254	10,177	20,525	48,949	18,277	11,088	7,119	28,880	65,364
Advertising Sales	3,356	4,460	3,378	4,768	15,962	3,385	4,527	4,303	5,631	17,845
Customer Care & Billing	22,455	26,395	27,171	28,850	104,871	27,928	30,838	33,895	37,628	130,289
Satellite & Terrestrial	13,049	11,571	11,670	12,729	49,019	13,882	14,882	15,882	16,882	61,528
Broadcast	5,852	5,169	6,158	5,869	23,048	6,544	6,544	6,544	6,544	26,176
Operations	8,887	8,805	7,827	9,164	34,683	9,716	10,216	10,716	11,216	41,864
Programming & Content	37,643	42,253	38,873	46,427	165,196	43,952	48,535	48,535	48,535	189,558
Total Cost of Revenue	**$133,511**	**$146,830**	**$138,660**	**$171,737**	**$590,738**	**$171,110**	**$173,633**	**$186,699**	**$219,190**	**$750,632**
Research & Development	10,981	8,518	8,849	9,080	37,428	7,310	10,648	11,061	11,350	40,369
General & Administration	17,630	18,672	21,997	30,327	88,626	34,185	35,211	36,619	38,084	144,098
Total Pre-Marketing Expenses	**$162,122**	**$174,020**	**$169,506**	**$211,144**	**$716,792**	**$212,605**	**$219,491**	**$234,379**	**$268,624**	**$935,099**
Marketing Expenses										
Retention & Support	$8,047	$7,443	$7,288	$9,064	$31,842	$9,756	$9,854	$9,952	$10 052	$39,613
Subsidies & Distribution	59,732	61,126	47,279	73,464	241,601	43,602	61,505	66,807	82,309	254,224
Advertising & Marketing	29,666	37,666	27,518	52,789	147,639	32,809	39,549	28,894	58,860	160,112
Marketing Related Expenses	**$97,445**	**$106,235**	**$82,085**	**$135,317**	**$421,082**	**$86,167**	**$110,908**	**$105,653**	**$151,221**	**$453,949**
Amortization of GM Liability	9,313	7,440	6,504	6,504	29,761	6,504	6,504	6,504	6,504	26,016
Total Marketing Costs	**$106,758**	**$113,675**	**$88,589**	**$141,821**	**$450,843**	**$92,671**	**$117,412**	**$112,157**	**$157,725**	**$479,965**
Impairment of Goodwill	---	---	---	---	---	---	---	---	---	---
Total Operating Expenses	**$268,880**	**$287,695**	**$258,095**	**$352,965**	**$1,167,635**	**$305,276**	**$336,903**	**$346,537**	**$426,348**	**$1,415,064**
Operating Cashflow (EBITDA)	**$(60,914)**	**$(59,809)**	**$(17,651)**	**$(95,843)**	**$(234,217)**	**$(41,164)**	**$(62,070)**	**$(62,900)**	**$(114,803)**	**$(280,936)**
EBITDA Margins	*(29.3)%*	*(26.2)%*	*(7 3)%*	*(37.3)%*	*(25.1)%*	*(15.6)%*	*(22.6)%*	*(22 2)%*	*(36.8)%*	*(24.8)%*
Depreciation & Amortization	39,882	41,847	43,109	44,043	168,881	46,882	46,882	46,882	46,882	187,528
Stock Based Compensation	---	---	---	---	---	---	---	---	---	---
Operating Income (EBIT)	**$(100,796)**	**$(101,656)**	**$(60,760)**	**$(139,886)**	**$(403,098)**	**$(88,046)**	**$(108,952)**	**$(109,782)**	**$(161,685)**	**$(468,464)**
Interest Income	6,573	6,376	5,216	3,499	21,664	3,544	4,422	3,482	2,507	13,955
Interest Expense	(33,236)	(29,317)	(23,794)	(34,958)	(121,305)	(27,609)	(22,475)	(22,467)	(22,459)	(95,011)
Equity in Income of Affiliates	(8.884)	(4,206)	(4,853)	(5,286)	(23,229)	(5,425)	(5,425)	(5,425)	(5,425)	(21,700)
Other Income (Expense)	(13,746)	(101,483)	1,166	(78,856)	(192,919)	(4,218)	---	---	---	(4,218)
Pretax Income	**$(150,089)**	**$(230,286)**	**$(83,025)**	**$(255,487)**	**$(718,887)**	**$(121,754)**	**$(132,430)**	**$(134,193)**	**$(187,061)**	**$(575,438)**
Income Tax	868	1,177	(794)	(1,237)	14	(684)	(744)	(754)	(1.051)	(3,233)
Net Income / Loss	**$(149,221)**	**$(229,109)**	**$(83,819)**	**$(256,724)**	**$(718,873)**	**$(122,438)**	**$(133,174)**	**$(134,947)**	**$(188,112)**	**$(578,671)**
8 25% Series B and C Preferred Dividend	(2,149)	(2,569)	(1,634)	(530)	(6,882)	---	---	---	---	---
Series B Preferred Stock Retirement Gain	---	---	---	---	---	---	---	---	---	---
Series C Preferred Stock Retirement Loss	---	---	---	(5,938)	(5,938)	---	---	---	---	---
Income Available to Common Shareholders	**$(151,370)**	**$(231,678)**	**$(85,453)**	**$(263,192)**	**$(731,693)**	**$(122,438)**	**$(133,174)**	**$(134,947)**	**$(188,112)**	**$(578,671)**
Shares Outstanding	253,213	266,099	268,363	293,797	270,368	305,878	305,813	305,813	305,813	305,829
Basic Earnings Per Share (EPS)	**$(0.60)**	**$(0.87)**	**$(0.32)**	**$(0.90)**	**$(2.71)**	**$(0.40)**	**$(0.44)**	**$(0.44)**	**$(0.62)**	**$(1.89)**
Fully Diluted Shares	253.213	266,099	268,363	293,797	270,368	305,878	305,813	305,813	305,813	305,829
Diluted EPS	**$(0.60)**	**$(0.87)**	**$(0.32)**	**$(0.90)**	**$(2.71)**	**$(0.40)**	**$(0.44)**	**$(0.44)**	**$(0.62)**	**$(1.89)**

Source: Company Documents; Bear, Stearns & Co. Inc.

Exhibit 11. XM Satellite Radio – Cash Flow Statement ('000s)

	1Q06A	2Q06A	3Q06A	4Q06A	2006A	1Q07A	2Q07E	3Q07E	4Q07E	2007E
Cash Flows From Operating Activities										
Net Income / Loss For Common Shareholders	$(149,221)	$(229,109)	$(83,818)	$(256,724)	$(718,872)	$(122,438)	$(133,174)	$(134,947)	$(188,112)	$(578,671)
Provision for Doubtful Accounts	3,055	4,355	4,275	3,538	15,223	4,360	4,489	4,660	4,902	18,412
Ad Sales Barter Revenue	---	---	---	---	---	---	---	---	---	---
Depreciation & Amortization	39,882	41,847	43,108	44,043	168,880	43,834	43,834	43,834	43,834	175,336
Accretion of Interest	---	---	---	---	---	---	---	---	---	---
Loss on Sales of Fixed Assets	(4,378)	(112)	56,136	(56,136)	(4,490)	---	---	---	---	---
Non-Cash Loss on Debt Conversion	18,380	82,344	22	21,443	122,189	21,443	21,443	21,443	21,443	85,772
Amortization of Def Financing Fees and Debt Disc	14,769	8,719	3,048	14,749	41,285	3,048	3,048	3,048	3,048	12,192
Non-Cash Gain Stock Based Compensation	12,061	13,914	16,047	26,024	68,046	14,131	14,032	16,093	29,975	74,231
Impairment of Goodwill	---	---	---	---	---	---	---	---	---	---
Provision for Deferred Income Taxes	(868)	(1,177)	794	1,237	(14)	684	744	754	1,051	3,233
MLB Accounts Payable	---	---	---	---	---	(43,875)	14,625	14,625	14,625	---
Other Due to Related Parties	---	---	---	---	---	6,504	6,504	6,504	6,504	26,016
Long-term Prepaid and Other Assets	6,548	20,635	(27,110)	89,911	89,984	(19,209)	---	---	---	(19,209)
Changes in Operating Assets and Liabilities										
Accounts Receivable	(4,550)	(3 703)	(5,803)	(23,436)	(37,492)	(4,360)	(7,018)	(6,736)	(11,485)	(29,599)
Due from Related Parties	(2,392)	(2,169)	915	(1,716)	(5,362)	(1,011)	(443)	(589)	(832)	(2,875)
Prepaid and Other Current Assets	(8,489)	(224,800)	(26,188)	90,478	(168,999)	2,757	2,757	(635)	(5,258)	(379)
Accounts Payable and Accrued Expenses	(113,826)	(11,744)	(24,687)	48,082	(102,175)	38,572	(55,505)	(1,106)	59,502	41,464
Amounts due to Related Parties	(9,327)	12,203	(36,031)	23.861	(9,294)	---	---	---	---	---
Deferred Revenue	22,540	16,777	(7,589)	34,393	66,121	16,563	14,164	17,127	25,829	73,682
Accrued Interest	14,682	(215)	15,092	(16,680)	12,879	---	---	---	---	---
Net Cash From Operating Activities	**$(161,134)**	**$(272,235)**	**$(71,789)**	**$43,067**	**$(462,091)**	**$(38,997)**	**$(70,500)**	**$(15,925)**	**$5,026**	**$(120,396)**
Cash Flows From Investing Activities										
Purchase of Property, Plant & Equipment	$(14,952)	$(19,505)	$(11,846)	$(8,592)	$(54,895)	$(15,000)	$(15,000)	$(15 000)	$(30,000)	$(75,000)
Additions to System Under Construction	(22,225)	(40,510)	(58,169)	(99.220)	(220,124)	(90,000)	---	---	---	(90,000)
Short-term Investments	---	---	---	---	---	---	---	---	---	---
Restricted Investments	20	2,761	34	4,367	7,182	1,702	---	---	---	1,702
Other Investing Activities	6,997	185	---	(3,792)	3,390	---	---	---	(64,875)	(64,875)
Net Cash From Investing Activities	**$(30,160)**	**$(57,069)**	**$(69,981)**	**$(107,237)**	**$(264,447)**	**$(103,298)**	**$(15,000)**	**$(15,000)**	**$(94,875)**	**$(228,173)**
Cash Flows From Financing Activities										
Common Stock and Capital Contributions	$3,135	$1,375	$873	$1,037	$6,420	---	---	---	---	---
Additional Borrowings/(Repayments)	(2,012)	262,156	16,573	(3,963)	272,754	(530)	(537)	(546)	(554)	(2,166)
Series B Preferred Stock	---	(23,960)	---	---	(23,960)	---	---	---	---	---
Deferred Financing Costs	---	---	(21,451)	---	(21,451)	---	---	---	---	---
GM SAC Arrangement ($135Mn in Subsidy)	---	---		---	---	---	---	---	---	---
Other Net Financing Activities	---	---		---	---	244,000	---	---	---	244,000
Net Cash From Financing Activities	**$1,123**	**$239,571**	**$(4,005)**	**$(2,926)**	**$233,763**	**$243,470**	**$(537)**	**$(546)**	**$(554)**	**$241,834**
Beginning Cash	$710,991	$520,820	$431,087	$285,312	$710,991	$218,216	$319,391	$233,354	$201,883	$218,216
Net Increase/(Decrease) in Cash	(190,171)	(89,733)	(145,775)	(67,096)	(492,775)	101,175	(86,037)	(31,471)	(90,403)	(106,736)
Ending Cash	**$520,820**	**$431,087**	**$285,312**	**$218,216**	**$218,216**	**$319,391**	**$233,354**	**$201,883**	**$111,480**	**$111,480**
Free Cash Flows (FCF)										
Net Cash From Operating Activities	$(161,134)	$(272,235)	$(71,789)	$43 067	$(462,091)	$(38,997)	$(70,500)	$(15,925)	$5,026	$(120,396)
Purchase of Property, Plant & Equipment	(14,952)	(19,505)	(11,846)	(8,592)	(54,895)	(15,000)	(15,000)	(15,000)	(30,000)	(75,000)
Continuing Free Cash Flow	**$(176,086)**	**$(291,740)**	**$(83,635)**	**$34,475**	**$(516,986)**	**$(53,997)**	**$(85,500)**	**$(30,925)**	**$(24,974)**	**$(195,396)**
Additions to System Under Construction	(22,225)	(40,510)	(58 169)	(99 220)	(220,124)	(90,000)	---	---	---	(90,000)
Free Cash Flow	**$(198,311)**	**$(332,250)**	**$(141,804)**	**$(64,745)**	**$(737,110)**	**$(143,997)**	**$(85,500)**	**$(30,925)**	**$(24,974)**	**$(285,396)**
Adjustment for Payments to Related Parties	---	---	---	---	---	(6,504)	(6,504)	(6,504)	(6,504)	(26,016)
Adjusted Free Cash Flow	**$(198,311)**	**$(332,250)**	**$(141,804)**	**$(64,745)**	**$(737,110)**	**$(150,501)**	**$(92,004)**	**$(37,429)**	**$(31,478)**	**$(311,412)**
Adjusted Free Cash Flow per Share	**$(0.78)**	**$(1.25)**	**$(0.53)**	**$(0.22)**	**$(2.73)**	**$(0.49)**	**$(0.30)**	**$(0.12)**	**$(0.10)**	**$(1.02)**

Source: Company Documents; Bear, Stearns & Co. Inc.

Exhibit 12. XM Satellite Radio – Balance Sheet ('000s)

	1Q06A	2Q06A	3Q06A	4Q06A	2006A	1Q07A	2Q07E	3Q07E	4Q07E	2007E
Assets										
Current Assets										
Cash and Equivalents	$520,820	$431,087	$285,339	$218,216	$218,216	$319,391	$233,354	$201,883	$111,480	$111,480
Short-Term Investments	---	---	---	---	---	---	---	---	---	---
Restricted Investments	---	60,000	---	---	---	---	---	---	---	---
Accounts Receivable, Net of Allowance	41,742	40,926	42,586	62,293	62,293	62,293	64,822	66,898	73,481	73,481
MLB Accounts Payable	---	---	---	---	---	43,875	29,250	14,625	---	---
Due from Related Parties	11,021	13,189	12,275	13,991	13,991	15,002	15,445	16,034	16,866	16,866
Related Parties Prepaid Expenses	49,645	61,053	61,688	66,946	66,946	64,189	61,432	62,067	67,325	67,325
Prepaid and Other Current Assets	133,506	64,788	158,730	71,212	71,212	71,212	71,212	71,212	71,212	71,212
Total Current Assets	**$756,734**	**$671,043**	**$560,618**	**$432,658**	**$432,658**	**$575,962**	**$475,515**	**$432,719**	**$340,364**	**$340,364**
Restricted Investments, Net of Current Portion	5,418	2,658	2,674	2,098	2,098	396	396	396	396	396
Net Property, Plant & Equipment	1,023,654	1,092,820	1,094,657	1,117,098	1,117,098	1,094,830	1,066,314	1,037,798	1,024,282	1,024,282
Intangibles, Net of Amortization	5,591	5,276	4,958	4,640	4,640	4,322	4,004	3,686	3,368	3,368
Goodwill, Net of Accumulated Amortization	---	---	---	---	---	---	---	---	---	---
Deferred Financing Fees	32,991	43,436	42,465	38,601	38,601	35,553	32,505	29,457	26,409	26,409
Related Parties Prepaid Expenses	11,381	175,370	169,936	160,712	160,712	154,208	147,704	141,200	134,696	134,696
Prepaid and Other Assets	175,200	156,991	151,482	84,811	84,811	77,893	77,893	77,893	77,893	77,893
Total Assets	**$2,010,969**	**$2,147,594**	**$2,026,790**	**$1,840,618**	**$1,840,618**	**$1,943,164**	**$1,804,330**	**$1,723,149**	**$1,607,408**	**$1,607,408**
Liabilities & Shareholders' Equity										
Current Liabilities										
Trade Accounts Payable	$97,200	$75,198	$31,996	$51,844	$51,844	$110,357	$88,060	$42,960	$62,623	$62,623
Accrued Expenses	71,092	80,648	103,105	147,591	147,591	127,650	94,442	138,436	178,276	178,276
Accrued XM-4 Liability	134,040	160,180	152,727	64,875	64,875	64,875	64,875	64,875	---	---
Accrued Network Optimization Expenses	---	---	---	---	---	---	---	---	---	---
Current Portion of Long-Term Debt	7,669	14,005	14,675	14,445	14,445	14,445	14,445	14,445	14,445	14,445
Due to Related Parties	47,676	58,629	22,599	46,459	46,459	46,459	46,459	46,459	46,459	46,459
MLB Accounts Payable	---	---	---	---	---	---	---	---	---	---
Accrued Interest	20,285	20,070	35,162	18,482	18,482	18,482	18,482	18,482	18,482	18,482
Deferred Revenue	308,190	323,638	315,835	350,626	350,626	367,189	381,353	398,480	424,308	424,308
Total Current Liabilities	**$686,152**	**$732,368**	**$676,099**	**$694,322**	**$694,322**	**$749,457**	**$708,116**	**$724,137**	**$744,593**	**$744,593**
Related Party Long-term Debt	---	---	---	---	---	---	---	---	---	---
Long-term Debt, Net of Current Portion	995,165	1,341,066	1,342,645	1,286,179	1,286,179	1,464,491	1,285,112	1,284,567	1,284,013	1,284,013
Due to Related Parties	57,648	---	---	---	---	---	---	---	---	---
Deferred Revenue	85,125	85,737	85,325	86,482	86,482	86,482	86,482	86,482	86,482	86,482
Other Non-Current Liabilities	175,504	174,361	175,904	171,515	171,515	87,710	129,162	172,866	231,288	231,288
Total Liabilities	**$1,999,594**	**$2,333,532**	**$2,279,973**	**$2,238,498**	**$2,238,498**	**$2,388,140**	**$2,208,872**	**$2,268,051**	**$2,346,375**	**$2,346,375**
Minority Interest	---	---	---	---	---	$59,397	$59,397	$59,397	$59,397	$59,397
Stockholders' Equity										
Series A Convertible Preferreds	$54	$54	$54	$54	$54	$54	$54	$54	$54	$54
Series B Convertible Preferreds (8.25%)	5	---	---	---	---	---	---	---	---	---
Series C Convertible Preferreds	1	1	1	---	---	---	---	---	---	---
Series D Convertible Preferreds	---	---	---	---	---	---	---	---	---	---
Class A Common Stock	2,584	2,682	2,685	3,058	3,058	3,058	3,058	3,058	3,058	3,058
Class C Common Stock	---	---	---	---	---	---	---	---	---	---
Additional Paid-in Capital	2,935,948	2,964,146	2,985,829	3,097,484	3,097,484	3,113,429	3,287,038	3,281,623	3,275,671	3,275,671
Accumulated Deficit	(2,927,217)	(3,152,821)	(3,241,752)	(3,498,476)	(3,498,476)	(3,620,914)	(3,754,088)	(3,889,035)	(4,077,147)	(4,077,147)
Total Stockholders' Equity (Deficit)	**$11,375**	**$(185,938)**	**$(253,183)**	**$(397,880)**	**$(397,880)**	**$(504,373)**	**$(463,939)**	**$(604,299)**	**$(798,365)**	**$(798,365)**
Commitment & Contingencies	---	---	---	---	---	---	---	---	---	---
Total Liabilities & Shareholders' Equity	**$2,010,969**	**$2,147,594**	**$2,026,790**	**$1,840,618**	**$1,840,618**	**$1,943,164**	**$1,804,330**	**$1,723,149**	**$1,607,408**	**$1,607,408**

Source: Company Documents; Bear, Stearns & Co. Inc.

VALUATION

On the conference call, the company reiterated its high-teens of millions ending subs guidance for 2010; we are more conservative with a 12.9 million subs at 2010-end. Given our more conservative stance with respect to sub growth, we are tweaking our year-end 2007 target price to $15 from $17 previously. Our DCF valuation is based on weighted average cost of capital of 11% that is based on an equity beta of 1.76 and a growth rate in perpetuity of 4%, which offers potential annualized returns of about 40% from current levels. Note that our valuation merely reflects the value of the standalone business; if the proposed merger with Sirius were approved, the potential synergies from the merger would drive valuations in the low-to-mid-$20/share vicinity.

Exhibit 13. XM Satellite Radio – Valuation

Per Share Valuation Multiples	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Per Share Metrics								
Earnings Per Share (EPS), Excl Extraordinary Items	$(2.71)	$(1.89)	$(1.40)	$(0 92)	$(0.52)	$(0.05)	$0 58	$1.46
Adjusted Free Cash Flow per Share (FCF/Share)	(2 73)	(1.02)	(0 33)	0.02	0.34	0 83	1 55	2.46

Enterprise Value Multiples (In Millions)	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Fully Diluted Shares	337.2	337.2	337.2	337.2	337.2	337.2	337.2	337.2
Current Share Price	$11.78	$11 78	$11.78	$11.78	$11 78	$11.78	$11 78	$11 78
Equity Market Capitalization	$3,971.7	$3,971 7	$3,971 7	$3,971.7	$3,971 7	$3,971.7	$3,971.7	$3,971.7
Add: Debt & Preferred	1,267.3	1,265 2	1,362.9	1,227.3	1,191 0	788.4	785.5	582.5
Less: Cash & Equivalents	(279.1)	(170 6)	(184.0)	(113 4)	(216 1)	(118.0)	(665 4)	(1,297.0)
Enterprise Value	**$4,959.9**	**$5,066.2**	**$5,150.6**	**$5,085.6**	**$4,946.6**	**$4,642.0**	**$4,091.8**	**$3,257.2**
Adjusted Operating Cash Flows (EBITDA)	$(166.2)	$(206.7)	$(78 9)	$50 8	$165 1	$315.2	$490.8	$738.8
EV/EBITDA	**NM**	**NM**	**NM**	**100.2x**	**30.0x**	**14.7x**	**8.3x**	**4.4x**
Ending Subscribers ('000s)	7,628	9,102	10,304	11,636	12,937	14,380	15,893	17,225
Value per Subscriber		**$557**	**$500**	**$437**	**$382**	**$323**	**$257**	**$189**
Total ARPU/Month	$11.37	$11.43	$12.29	$12.73	$13.07	$13.57	$14.04	$14.53
Value/Sub/ARPU		**48.7x**	**40.7x**	**34.3x**	**29.2x**	**23.8x**	**18.3x**	**13.0x**
Value/Sub/ARPU/3-Year Fwd Growth		**3.2x**	**3.3x**	**2.9x**	**2.7x**	**2.4x**		

DCF Valuation ('000s, Except Per Share Data)	2007E	2008E	2009E	2010E	2011E	2012E	2013E	Normalized
Operating Income (EBIT)	$(468,464)	$(339,705)	$(182,540)	$(41,018)	$94,854	$253,744	$484,854	$484,854
Less· Cash Taxes on Operating Income	(3,233)	(3,233)	(3,233)	(3,233)	(3,233)	(3,233)	(3,233)	(193,942)
Net Operating Profit Less Adjusted Taxes	**$(471,697)**	**$(342,938)**	**$(185,773)**	**$(44,251)**	**$91,621**	**$250,512**	**$481,621**	**$290,912**
Depreciation & Amortization	187,528	168,593	126,976	85,714	83,727	82,915	82,280	93,333
Change in Working Capital	82,293	95,382	89,212	100,466	108,506	124 553	116,753	116,753
Capital Expenditures	(165,000)	(62,288)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(93,333)
Other	108,004	29,249	29,249	29,249	29,249	29,249	7,849	---
Unlevered Free Cash Flow	**$(258,873)**	**$(112,002)**	**$(336)**	**$111,177**	**$253,102**	**$427,229**	**$628,503**	**$407,666**

Sum of the PV of Interim Unlevered FCF	$741,499
NPV of Unutilized NOLs	2,110,784
PV of Terminal Value	3,327,790
Implied Enterprise Value	**$6,180,072**
Add· Value of Canadian Satellite Radio Stake	83,081
Add. Value of WorldSpace Stake	1,167
Add: Option Proceeds	58,759
Add: Cash & Equivalents	111,876
Less: Debt & Preferred	(1,265,158)
Equity Value	**$5,169,798**
Diluted Shares	337,154
Fair Value per Share	**$15**
Current Price	11.78
Potential Upside	30.2%
Annualized Returns	**47.2%**

DCF Assumptions	
Risk Free Rate (R_f)	5 0%
Estimated Equity Risk Premium (R_m-R_f)	5.4%
Beta (β)	1.76
Cost of Equity (K_e)	14 5%
Cost of Debt (K_d)	9.0%
Target Debt/Capital Ratio	40.0%
Tax Rate	40.0%
Weighted Average Cost of Capital (WACC)	**10.9%**
G (Perpetual Growth Rate)	**4.0%**
Terminal Multiple =(1+G)/(WACC-G)	15.2x
Implied Terminal Year Multiple on EBITDA	10 9x

Sensitivity of DCF Valuation to WACC and g Assumptions								
Implied Beta (β)		1.30	1 45	1.61	1 76	1 91	2.07	2.22
Weighted Average Cost of Capital (WACC)		9.4%	9 9%	10.4%	10.9%	11.4%	11 9%	12.4%
	2 50%	$16.19	$15 15	$14 24	$13.45	$12.74	$12.11	$11.55
	3 00%	17.08	15 90	14.88	14 00	13 22	12.53	11 91
	3.50%	18.11	16 76	15.61	14 62	13.75	12.99	12 32
G (Perpetual Growth Rate)	4.00%	19.34	17 78	16.46	15.33	14.36	13.52	12.78
	4 50%	20 83	18.98	17.45	16.16	15.06	14.12	13.29
	5 00%	22.65	20 43	18 62	17 13	15 87	14.80	13.87
	5 50%	24 94	22.21	20.04	18.28	16.82	15 59	14.54

Source: Company Documents; Bear, Stearns & Co. Inc.

MERGER UPDATE

Sirius and XM filed the Hart-Scott-Rodino application with the Department of Justice on March 12, 2007. On April 12, 2007, the companies received the second request for additional information from the Justice Department, which was expected. The two companies filed the merger application with the FCC on March 20, 2007, and expect the FCC to issue a public notice in the near future. Note, as we have detailed in the following exhibit, Day 0 of the FCC's informal 180-day review timeline starts with the issue of the public notice that sets a schedule for comments on the merger. Once the Commission issues a public notice, it will trigger a comment period followed by a reply period. In addition to the review by the DOJ and the FCC, the proposed merger has been in the spotlight in Washington DC with four congressional hearings on the merger. At the end of the day, Congress has the least direct impact on the deal. Rather, we believe the DOJ and the FCC will ultimately decide the transaction's fate, with the DOJ's antitrust review likely to be the more rigorous of the two evaluations. However, the Congress can send signals to the FCC and others which may be incorporated into the "thought process" involved in evaluating a deal.

Exhibit 14. FCC Informal Timeline for Consideration of Applications for Transfers or Assignments of Licenses or Authorizations Relating to Complex Mergers

Application: Applicants can benefit most from the agency's effort to streamline its process for reviewing applications by getting the necessary accurate information to the agency in the proper form at the earliest time.

Applicants' Tasks—pre-Public Notice

- Identify complete list of licenses, authorizations involved
- Contact relevant Bureaus
- Identify appropriate application forms, appropriate filing process (e.g., electric, paper), and related applications/requests and consolidation, in consultation with relevant FCC staff
- File necessary forms, applications, and special requests for relief
- Send Hart-Scott-Rodino waiver letter to U.S. Department of Justice or Federal Trade Commission (if required)

CLOCK

Day 0: Public Notice (PN)

Minimum requirements for an application to be accepted for filing — facially complete application addressing the relevant issues and providing sufficient support for agency analysis and meaningful public comment, with a complete and accurate identification of licenses and authorizations to be transferred

Consolidated FCC PN for transactions involving multiple licenses and authorizations

Contents of PN:

- General nature of applications and related transaction (*e.g.*, merger), and waivers and other rulings requested by parties
- List of licenses/authorizations to be transferred/assigned/granted/discontinued, with associated file numbers
- Outline of procedures (identify lead Bureau and contacts at all relevant Bureaus, whether proceeding will remain restricted or be permit-but-disclose, initial briefing schedule, procedures for obtaining access to confidential information, any special filing requirements)

PN starts 180 day clock. If separate PNs for the same transaction are issued by different Bureaus, then Day 0 will be the date on which the last related A Protective Order may also be issued at or about this same time (a Protective Order will likely be issued if a Hart-Scott-Rodino waiver letter has been sent).

Days 1-30: Public Comment Period (filing of petitions to deny or comments)

Ordinarily 30 days, occasionally 45 days

Persons and entities that file petitions to deny become parties to the proceeding. They may participate fully in the proceeding, including seeking access to any confidential information that may be filed under a protective order, seeking reconsideration of decisions, and filing appeals of a final decision to the courts. Persons who file comments will have those comments duly considered by the FCC but may not have the right to participate in any formal hearing or file appeals to the courts.

Day 45: Oppositions to Petitions to Deny and Comments

Ordinarily due 15 days after Petitions to Deny and Comments are due. Waiting until the reply stage to introduce arguments and evidence that were clearly available and relevant at the initial application stage is discouraged and may require additional time for public comment that will not be charged against the agency's time clock.

Day 52: Replies to Oppositions

Ordinarily due one week after Oppositions are due.

Day 90: Initial Information Request

The Commission will endeavor to send to the parties an initial request for information, if necessary, by Day 90. In certain cases, the Commission may be able to determine earlier what additional information it will need from the parties, and the Commission's failure to issue an initial information request by Day 90 is without prejudice to sending an initial or subsequent request for information after this date.

Days 52-180: Analysis of Record; Discussions with Parties

Day 180: FCC issues Order granting applications, granting applications with conditions, or designating applications for hearing (denials without a hearing are possible only in very limited circumstances).

Considerations in "Stopping the Clock"

The Commission may "stop the clock," that is, suspend its informal calendar, when the Commission's ability to process and review the merits of an application is impeded by justifiable delay, the parties' actions, or external events. Stopping the clock in such circumstances is intended to provide a more accurate picture of the time the Commission finds necessary to process a particular transaction. Stopping the clock does not itself delay a decision in a proceeding; it merely reflects that a decision could be delayed as a result of some external factor. When this occurs, we endeavor to send the parties a letter explaining our reason for stopping the clock and posting that letter on the web page. In our experience, the following are common, but non-exhaustive, examples of reasons for stopping the clock:

- The Commission extends the time for filing pleadings.
- The Applicants do not respond to a request for information within a stated time period.
- The Commission finds it appropriate to await resolution of issues pending before the relevant U.S. law enforcement or national security
- The Commission receives significant new information about an application, or the parties file a substantial amendment to the application.

If the Commission stops the clock, it generally will restart it as soon as the event justifying its stoppage has been resolved such that the Commission's review process is no longer impeded. On rare occasions the clock may be reset to a prior date.

Source: http://www.fcc.gov/transaction/xm-sirius.html; Bear, Stearns & Co. Inc.