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United States of America
Internet & Media
Cable & Satellite Communications

XM Satellite Radio (XMSR - US$ 11.01) 1-Overweight

Earnings Review/Sales Analysis

Updating Model, Long Term Story Intact

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Investment Conclusion

- We are adjusting our 07E estimates to reflect in line 1Q07 results and incorporate data points from incremental company guidance. We expect 9.13MM YE07 subs, slightly lower than our prior estimate of 9.21MM due to fewer retail net adds. We now expect larger EBITDA losses for full year 07E, partially driven by higher CPGA. Shares could be range-bound over intermediate-term as the LT OEM fundamental story is not fully proved out yet and merger uncertainty remains. We are adjusting our 07E price target to $20 from $22 but remain constructive on the name.

Summary

- Adjusting our estimates for actual 1Q07 results and additional company guidance data points.
- Full-year 07 ests: 9.13MM YE subs, $113 CPGA, $1.02BN subscription revenue, $178MM EBITDA loss excluding merger costs and stock option expense, $400MM FCF loss.
- 2Q07 ests: 332k net adds, 958k gross adds, $65 SAC, $117 CPGA, churn 2.6%, subscriber ARPU $10.23. Revenue $279MM, EBITDA loss (w/ stock comp, merger costs) $71MM, FCF loss $70MM.
- Continue to expect mix shift toward OEM but timing of OEM acceleration likely 2H07E, 2008E.
- Company will likely be FCF positive in 2009E.

Stock Rating		Target Price	
New:	1-Overweight	New:	US$ 20.00
Old:	1-Overweight	Old:	US$ 22.00

Sector View: 2-Neutral

EPS (US$) (FY Dec)

	2006	2007			2008			% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2007	2008
1Q	-0.60A	-0.34E	-0.40A	-0.40E	N/A	N/A	-0.28E	0%	0%
2Q	-0.87A	-0.39E	-0.45E	-0.42E	N/A	N/A	-0.23E	0%	0%
3Q	-0.32A	-0.36E	-0.42E	-0.37E	N/A	N/A	-0.17E	0%	0%
4Q	-0.90A	-0.58E	-0.59E	-0.54E	N/A	N/A	-0.30E	0%	0%
Year	-2.71A	-1.68E	-1.87E	-1.77E	-0.92E	-0.98E	-1.18E	0%	0%
P/E			-6.5			-11.9			

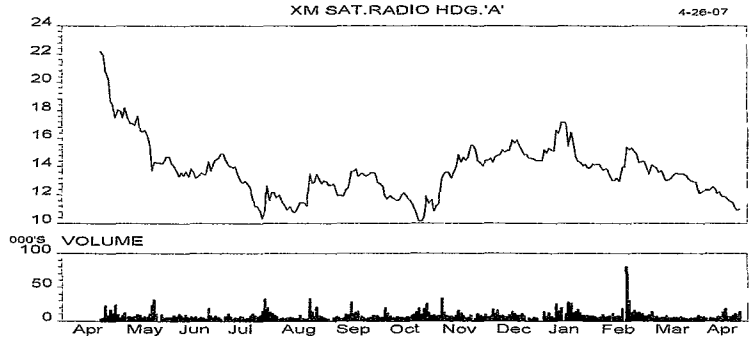
Market Data

Market Cap (Mil.)	3854
Shares Outstanding (Mil.)	327.00
Float (%)	91
Dividend Yield	0.00
Convertible	Yes
52 Week Range	22.75 - 9.63

Financial Summary

Revenue FY07 (Mil.)	1141.0
Five-Year EPS CAGR	N/M
Return on Equity	N/M
Current BVPS	-2.80
Debt To Capital (%)	27.00

Stock Overview



We are adjusting our estimates to reflect 1Q07 results, which were generally in line with our expectations, and revised company guidance on CPGA and adjusted EBITDA loss for full-year 2007. We now expect 9.13MM YE 07E subscribers, which remains in line with the company's reiterated subscriber guidance (9.0-9.2MM at YE 07E) but is down slightly from our prior estimate of 9.21MM due to fewer retail net additions. Our revised estimates reflect 1.50MM total net additions for full-year 07E. We continue to expect shift in subscriber mix as OEM accelerates in 2007E and 2008E, with 75/25 OEM/retail mix of net additions for full-year 2007E. With 1Q07 results, the company provided additional details on full-year 07E guidance; guidance for CPGA is $111-114 and adjusted EBITDA (excluding merger costs) is $170-180MM. We are adjusting our EBITDA estimate to reflect larger loss, reflecting higher CPGA (partially due to write-down of obsolete hardware), and a higher estimate for merger-related costs. We are adjusting our YE 07E price target for XM to $20/share from $22/share.

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We continue to be constructive on XMSR based on the long-term OEM-driven fundamental story; stock may, however, remain range-bound in intermediate term as fundamental story is not yet fully proved out (OEM will likely accelerate in 2H07E and 2008E) and merger uncertainty remains.

Estimate Revisions. We are adjusting our estimates to reflect 1Q07 actual results and revised company guidance. We have summarized our estimate revisions below.

- **Subscribers.** Our YE 2007E subscriber estimate is now 9.13MM (vs. our prior estimate of 9.21MM), with 1.50MM net additions for full-year 2007E (vs. our prior estimate of 1.58MM). This is directly in line with guidance that the company reiterated, 9.0-9.2MM YE 07E subscribers. We expect 4.16MM gross additions in 2007E, down from our prior estimate of 4.21MM as our churn estimate remains unchanged at 2.6%. Our subscriber ARPU estimate is now $10.23, slightly below our prior estimate of $10.29.
- **SAC and CPGA.** We now expect full-year 07E SAC of $66, flat YoY and vs. our prior estimate of $65. We are increasing our CPGA estimate to $113 (vs. our prior estimate of $110), due to a combination of lower gross additions and hardware write-offs.
- **Revenue.** Our full-year 07E revenue estimates are slightly lower, driven by slightly lower subscriber ARPU. Our subscription revenue estimate ($1.02BN) remains in line with company guidance.
- **EBITDA.** Excluding estimated merger costs ($44MM), we now expect full-year 07E EBITDA loss (excluding stock compensation) of $177MM, which is in line with company guidance of $170-180MM. We expect full-year 07E EBITDA loss (including stock compensation and merger costs) of $222MM (vs. our prior estimate of $185MM) due to higher CPGA and merger costs.
- **Free Cash Flow.** We now expect XM to generate positive free cash flow (FCF) positive for full-year 2009E, vs. our previous expectation of 2008E, reflecting lower 08E EBITDA and deferred revenue.

Figure 1. XM Satellite Radio – Guidance vs. Lehman Estimates

	Previous Guidance	Guidance at 4/26/07	Lehman 2007 Est.
Year End Subscribers	9,000-9,200	9,000-9,200	9,130
Net Subscriber Adds	1,370-1,570	1,370-1,570	1,501
CPGA	Flat to higher YoY, $108	$111-114	$113
Subscription Revenue ($MM)	$1,000 range	$1,000 range	$1,015
Adj EBITDA Loss (excl merger costs) ($MM)	N/A	$170-180	($178)

Source: Lehman Brothers, company reports

Figure 2. XM Satellite Radio – 2Q07 Estimate Revisions ($ 000's except per share data)

	2Q06A	1Q07A	Previous 2Q07E	Revised 2Q07E	% Change	YoY % Growth
Key Subscriber Statistics						
Ending XMSR Subscribers	6,900	7,914	8,287	8,246	(0 5%)	19.5%
Gross Additions	926	868	968	958	(1.0%)	3.4%
Net Additions	398	285	371	332	(10.4%)	(16.6%)
Subscription Average Revenue Per Subscriber (ARPU)	$10.08	$10.15	$10.38	$10.23	(1.4%)	1.5%
Implied Monthly Churn	2.6%	2.5%	2 5%	2.6%	5.1%	(1.8%)
SAC Per Gross Addition	$64	$65	$65	$65	0.1%	1 9%
CPGA - Cost Per Gross Addition	112	103	116	117	1.4%	4.5%
Income Statement						
Subscription Services Revenues	$202,165	$236,486	$252,278	$248,050	(1.7%)	22.7%
Activation Revenues	3,942	4,654	4,821	4,814	(0.1%)	22.1%
Equipment Revenues	4,928	5,297	5,019	5,813	15.8%	18.0%
Net Ad Sales Revenues	8,982	7,478	11,003	10,863	(1.3%)	20 9%
Other	7,869	10,197	9,000	9,000	---	14.4%
Total Revenue	**$227,886**	**$264,112**	**$282,121**	**$278,541**	**(1.3%)**	**22.2%**
Operating Expenses						
Revenue Share and Royalties	$37,923	$47,426	$55,194	$54,501	(1 3%)	43.7%
Cost of Equipment Sales	10,254	18,277	10,093	13,258	31.4%	29.3%
Advertising Sales	4,460	3,385	4,710	4,710	---	5 6%
Customer Care & Billing	26,395	27,928	29,857	30,299	1.5%	14 8%
Satellite & Terrestrial	11,571	13,882	11,918	12,265	2.9%	6.0%
Broadcast	5,169	6,544	5,324	5,531	3.9%	7.0%
Operations	8,805	9,716	9,245	9,421	1 9%	7.0%
Programming & Content	42,253	43,952	50,699	50,972	0.5%	20 6%
Total Cost of Revenue	**$146,830**	**$171,110**	**$177,040**	**$180,957**	**2.2%**	**23.2%**
Research & Development	8,518	7,310	8,774	8,774	---	3.0%
General & Administration	18,672	34,185	28,232	40,000	41.7%	114.2%
Stock-Based Compensation	---	---	---	---	n/a	n/a
Total Pre-Marketing Expenses	**$174,020**	**$212,605**	**$214,046**	**$229,730**	**7.3%**	**32.0%**
Marketing Expenses						
Retention & Support	$7,443	$9,756	$7,666	$7,815	1.9%	5.0%
Subsidies & Distribution	61,126	43,602	67,974	63,011	(7.3%)	3.1%
Advertising & Marketing	37,666	32,809	39,000	42,000	7.7%	11.5%
Marketing Related Expenses	**$106,235**	**$86,167**	**$114,640**	**$112,826**	**(1.6%)**	**6.2%**
Amortization of GM Liability	7,440	6,504	6,504	6,504	---	(12.6%)
Total Marketing Costs	**$113,675**	**$92,671**	**$121,144**	**$119,330**	**(1.5%)**	**5.0%**
Total Operating Expenses (inc. stock comp)	**$287,695**	**$305,276**	**$335,189**	**$349,060**	**4.1%**	**21.3%**
EBITDA (not including stock comp)	**($45,895)**	**($27,033)**	**($38,069)**	**($55,520)**	**n/a**	**n/a**
EBITDA (not including stock comp and merger costs)	($45,895)	($19,033)	($33,360)	($43,458)	n/a	n/a
EBITDA (including stock comp)	($59,809)	($41,164)	($53,069)	($70,520)	n/a	n/a
Income Available to Common Shareholders	**($231,678)**	**($122,438)**	**($122,964)**	**($138,918)**	**n/a**	**n/a**
Diluted EPS	**($0.87)**	**($0.40)**	**($0.40)**	**($0.45)**	**n/a**	**n/a**
Cash Flow From Operations	**$(241,266)**	**$(50,872)**	**$2,660**	**$(29,785)**	**n/a**	**n/a**
Less· Capex	(58,327)	(40,314)	(40,874)	(40,682)	n/a	n/a
Free Cash Flow	**$(299,593)**	**$(91,186)**	**$(38,214)**	**$(70,466)**	**n/a**	**n/a**

Source: Lehman Brothers, company reports

Figure 3. XM Satellite Radio – Full Year 2007 Estimate Revisions

	2006A	Previous 2007E	Revised 2007E	% Change	YoY % Growth
Key Subscriber Statistics					
Ending XMSR Subscribers	7,629	9,206	9,130	(0.8%)	19 7%
Gross Additions	3,866	4,208	4,160	(1 1%)	7.6%
Net Additions	1,696	1,577	1,501	(4 8%)	(11.4%)
Subscription Average Revenue Per Subscriber (ARPU)	$10.09	$10 29	$10.23	(0 6%)	1.3%
Implied Monthly Churn	2.7%	2 6%	2 6%	1.5%	(0 9%)
SAC Per Gross Addition	$64	$65	$66	1.0%	2 4%
CPGA - Cost Per Gross Addition	108	110	113	2.4%	4.8%
Income Statement					
Subscription Services Revenues	$825,626	$1,025,132	$1,015,228	(1.0%)	23.0%
Activation Revenues	16,193	19,299	18,793	(2 6%)	16 1%
Equipment Revenues	21,719	23,294	28,349	21.7%	30 5%
Net Ad Sales Revenues	35,331	44,792	41,687	(6.9%)	18.0%
Other	34,549	36,000	37,197	3.3%	7.7%
Total Revenue	**$933,418**	**$1,148,517**	**$1,141,255**	**(0.6%)**	**22.3%**
Operating Expenses					
Revenue Share and Royalties	$149,010	$227,739	$222,569	(2.3%)	49.4%
Cost of Equipment Sales	48,949	50,398	73,392	45.6%	49.9%
Advertising Sales	15,962	16,962	16,741	(1.3%)	4.9%
Customer Care & Billing	104,871	122,409	122,852	0.4%	17.1%
Satellite & Terrestrial	49,019	50,490	52,010	3.0%	6 1%
Broadcast	23,048	23,739	24,944	5.1%	8.2%
Operations	34,683	36,417	37,318	2.5%	7.6%
Programming & Content	165,196	189,164	187,992	(0.6%)	13.8%
Total Cost of Revenue	**$590,738**	**$717,319**	**$737,817**	**2.9%**	**24.9%**
Research & Development	37,428	38,551	34,550	(10.4%)	(7 7%)
General & Administration	88,626	142,126	164,185	15 5%	85.3%
Stock-Based Compensation	---	---	---	n/a	n/a
Total Pre-Marketing Expenses	**$716,792**	**$897,996**	**$936,553**	**4.3%**	**30.7%**
Marketing Expenses					
Retention & Support	$31,842	$32,797	$34,741	5 9%	9.1%
Subsidies & Distribution	241,601	280,459	257,811	(8.1%)	6.7%
Advertising & Marketing	147,639	156,500	166,809	6.6%	13.0%
Marketing Related Expenses	**$421,082**	**$469,756**	**$459,361**	**(2.2%)**	**9.1%**
Amortization of GM Liability	29,761	26,016	26,016	---	(12.6%)
Total Marketing Costs	**$450,843**	**$495,772**	**$485,377**	**(2.1%)**	**7.7%**
Total Operating Expenses (inc. stock comp)	**$1,167,635**	**$1,393,768**	**$1,421,930**	**2.0%**	**21.8%**
EBITDA (not including stock comp)	**($166,171)**	**($185,250)**	**($221,544)**	**n/a**	**n/a**
EBITDA (not including stock comp and merger costs)	($166,171)	($163,124)	($177,359)	n/a	n/a
EBITDA (including stock comp)	($234,217)	($245,250)	($280,675)	n/a	n/a
Income Available to Common Shareholders	**($731,693)**	**($522,656)**	**($571,369)**	**n/a**	**n/a**
Diluted EPS	**($2.71)**	**($1.71)**	**($1.87)**	**n/a**	**n/a**
Cash Flow From Operations	**$(462,091)**	**$(225,221)**	**$(235,375)**	**n/a**	**n/a**
Less: Capex	(275,019)	(164,466)	(163,782)	n/a	n/a
Free Cash Flow	**$(737,110)**	**$(389,687)**	**$(399,157)**	**n/a**	**n/a**

Source: Lehman Brothers, company reports

Figure 4. XM Satellite Radio – Key Statistics and Income Statement ($000's, except per share data)

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Ending XMSR Subscribers	7,628 6	9,130 0	10,643 6	12,169.4	13,662 0	15,148 7	16,601 1	17,988 3
Gross Additions	3,866.5	4,159 7	4,809 9	5,114 5	5,472 3	5,879 9	6,235 0	6,525 0
Net Additions	1,695 6	1,501.5	1,513.6	1,525 8	1,492 6	1,486 8	1,452 4	1,387 2
Implied Monthly Churn	2 7%	2.6%	2 8%	2 6%	2 6%	2 5%	2 5%	2 5%
Subscription Average Revenue Per Subscriber (ARPU)	$10.09	$10 23	$11 51	$11 54	$11.51	$12.14	$12 04	$12 65
SAC Per Gross Addition	$64	$66	$67	$68	$67	$68	$68	$68
CPGA - Cost Per Gross Addition	108	113	111	111	110	110	109	109
Revenue								
Subscription Services Revenues	$825,626	$1,015,228	$1,365,652	$1,579,412	$1,783,901	$2,098,941	$2,293,511	$2,626,172
Activation Revenues	16,193	18,793	21,652	19,608	20,391	17,678	16,994	15,684
Equipment Revenues	21,719	28,349	32,020	33,257	34,758	36,479	37,784	38,623
Net Ad Sales Revenues	35,331	41,687	59,379	72,852	87,302	108,240	124,922	150,294
Other	34,549	37 197	42,777	49,193	56,572	65 058	74,816	86,039
Total Revenue	$933,418	$1,141,255	$1,521,479	$1,754,322	$1,982,924	$2,326,397	$2,548,027	$2,916,813
Operating Expenses								
Revenue Share and Royalties	$149,010	$222,569	$340,228	$425,682	$494,047	$595,494	$653,023	$763,126
Cost of Equipment Sales	48,949	73,392	82,575	85,432	88,940	92,980	95,927	97,671
Advertising Sales	15,962	16,741	17,741	18,741	19,741	20,741	21,741	22,741
Customer Care & Billing	104,871	122,852	139,023	159,707	180,063	199,967	219,415	238,000
Satellite & Terrestrial	49,019	52,010	53,571	55,178	56,833	58,538	60,294	62,103
Broadcast	23,048	24,944	25,692	26,463	27,257	28,074	28,917	29,784
Operations	34,683	37,318	39,184	41,143	43,200	45,360	47,628	50,009
Programming & Content	165,196	187,992	195,599	202,109	211,178	217,091	223,299	229,818
Total Cost of Revenue	$590,738	$737,817	$893,611	$1,014,454	$1,121,258	$1,258,245	$1,350,244	$1,493,253
Research & Development	37,428	34,550	35,587	36,655	37,754	38,887	40,053	41,255
General & Administration	88,626	164,185	93,944	96,762	99,665	102,655	105,734	108,906
Stock-Based Compensation	—	—	—	—	—	—	—	—
Total Pre-Marketing Expenses	$716,792	$936,553	$1,023,142	$1,147,871	$1,258,677	$1,399,786	$1,496,031	$1,643,414
Marketing Expenses								
Retention & Support	$31,842	$34,741	$35,783	$36,856	$37,962	$39,101	$40,274	$41,482
Subsidies & Distribution	241,601	257,811	302,908	323,154	342,861	370,501	395,074	414,225
Advertising & Marketing	147,639	166,809	179,320	192,769	207,226	217 588	228 467	239,890
Marketing Related Expenses	$421,082	$459,361	$518,011	$552,779	$588,050	$627,190	$663,815	$695,597
Amortization of GM Liability	29,761	26 016	26,016	26,016	26,016	26 016	26,016	19 512
Total Marketing Costs	$450,843	$485,377	$544,027	$578,795	$614,066	$653,206	$689,831	$715,109
Impairment of Goodwill	—	—	—	—	—	—	—	—
Total Operating Expenses	$1,167,635	$1,421,930	$1,567,168	$1,726,666	$1,872,743	$2,052,992	$2,185,862	$2,358,523
Operating Cashflow (EBITDA)	($234,217)	($280,675)	($45,689)	$27,656	$110,181	$273,405	$362,164	$558,289
Depreciation & Amortization	168,881	183,786	181,622	144,060	105,621	105 784	106,964	108,301
Operating Income (EBIT)	($403,098)	($464,461)	($227,311)	($116,403)	$4,560	$167,621	$255,200	$449,988
Interest Income	21,664	12,076	10,311	7,737	6,718	13,609	35,741	75,183
Interest Expense	(121,305)	(108,657)	(81,898)	(66,367)	(77,270)	(62,448)	(50,703)	(34,348)
Other Income (Expense)	(216 148)	(9,643)	—	—	—	—	—	—
Pretax Income	($718,887)	($570,685)	($298,898)	($195,033)	($65,993)	$118,782	$240,238	$490,824
Income Tax	14	(684)	—	—	—	(47,513)	(96,095)	(196,330)
Net Income / Loss	($718,873)	($571,369)	($298,898)	($195,033)	($65,993)	$71,269	$144,143	$294,494
8 25% Series B and C Preferred Dividend	(6,127)	—	—	—	—	—	—	—
Series B Preferred Stock Retirement Gain (Loss)	(755)	—	—	—	—	—	—	—
Series C Preferred Stock Retirement Gain (Loss)	(5,938)	—	—	—	—	—	—	—
Income Available to Common Shareholders	($731,693)	($571,369)	($298,896)	($195,033)	($65,993)	$71,269	$144,143	$294,494
Shares Outstanding	270,368	305,829	305,813	305,813	305,813	305,813	305,813	305,813
Basic Earnings Per Share (EPS)	($2.71)	($1.87)	($0.98)	($0.64)	($0.22)	$0.23	$0.47	$0.96
Fully Diluted Shares	270,368	305,829	305,813	305,813	305,813	327,159	327,159	327,159
Diluted EPS	($2.71)	($1.87)	($0.98)	($0.64)	($0.22)	$0.22	$0.44	$0.90
Total Revenue	67 2%	22 3%	33 3%	15 3%	13 0%	17 3%	9 5%	14 5%
Total Pre-Marketing Expenses	49 2%	30 7%	9 2%	12.2%	9 7%	11 2%	6 9%	9 9%
Operating Cashflow (EBITDA)	—	—	n/a	n/a	298 4%	148 1%	32 5%	54 2%
Operating Income (EBIT)	—	—	n/a	n/a	n/a	3576 2%	52.2%	76 3%
Net Income / Loss	—	—	n/a	n/a	n/a	n/a	102 3%	104 3%
Pre-Marketing Margins	23.2%	17 9%	32 8%	34 6%	36 5%	39 8%	41 3%	43 7%
Operating Cashflow (EBITDA)	(25.1%)	(24 6%)	(3 0%)	1 6%	5 6%	11 8%	14 2%	19.1%
Operating Income (EBIT)	(43 2%)	(40 7%)	(14 9%)	(6 6%)	0 2%	7.2%	10 0%	15.4%
Net Income / Loss	(77 0%)	(50.1%)	(19 6%)	(11 1%)	(3 3%)	3 1%	5 7%	10.1%

Source: Lehman Brothers, company reports

Figure 5. XM Satellite Radio – Cash Flow Statement ($ 000's, except per share data)

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Cash Flows From Operating Activities								
Net Income / Loss For Common Shareholders	($718,872)	($571,369)	($298,898)	($195,033)	($65,993)	$71,269	$144,143	$294,494
Provision for Doubtful Accounts	15,223	18,719	25,180	29,121	32,892	38,701	42,288	48,422
Ad Sales Barter Revenue	---	---	---	---	---	---	---	---
Depreciation & Amortization	168,880	183,786	181,622	144,060	105,621	105,784	106,964	108,301
Accretion of Interest	---	---	---	---	---	---	---	---
Loss on Disposal of Computer Equipment	---	---	---	---	---	---	---	---
Non-Cash Loss on Debt Conversion	122,189	---	---	---	---	---	---	---
Amortization of Def Financing Fees and Debt Disc	41,285	9,435	9,441	9,449	3 978	3,978	3 978	3,978
Non-Cash Gain Stock Based Compensation	68,046	59,131	60,000	60,000	60,000	60,000	60 000	60,000
Impairment of Goodwill	---	---	---	---	---	---	---	---
Provision for Deferred Income Taxes	(14)	684	---	---	---	47,513	96,095	196,330
Prepaid MLB Fees	---	---	---	---	---	---	---	---
Other Due to Related Parties	---	26,016	26,016	26,016	26,016	26,016	26,016	19,512
Long-term Prepaid and Other Assets	---	---	---	---	---	---	---	---
Other	85,494	15,423	---	---	---	---	---	---
Change in Working Capital	(244,322)	22,800	39 091	105,393	131 863	139,596	141,003	145,591
Net Cash From Operating Activities	**($462,091)**	**($235,375)**	**$42,452**	**$179,006**	**$294,378**	**$492,857**	**$620,488**	**$876,628**
Cash Flows From Investing Activities								
Purchase of Property, Plant & Equipment	($54,895)	($75,000)	($75,000)	($75,000)	($75,000)	($75,000)	($75,000)	($75,000)
Additions to System Under Construction	(220,124)	(88,782)	(18,285)	(19,909)	(21,676)	(23,600)	(25,695)	(27,976)
Short-term Investments	---	---	---	---	---	---	---	---
Restricted Investments	3,390	(396)	---	---	---	---	---	---
Other Investing Activities	7 182	---	---	---	---	---	---	---
Net Cash From Investing Activities	**($264,447)**	**($164,178)**	**($93,285)**	**($94,909)**	**($96,676)**	**($98,600)**	**($100,695)**	**($102,976)**
Cash Flows From Financing Activities								
Sale of Common Stock and Capital Contributions	$6,420	---	---	---	---	---	---	---
Additional Borrowings/(Repayments)	313,455	296,511	104,963	(209,482)	(100,550)	(300,575)	(600)	(200,625)
Series B Preferred Stock	(23,960)	---	---	---	---	---	---	---
Deferred Financing Costs	(21,451)	---	---	---	---	---	---	---
GM SAC Arrangement ($150Mn in Subsidy)	---	---	---	---	---	---	---	---
Other Net Financing Activities	(40,701)	---	---	---	---	---	---	---
Net Cash From Financing Activities	**$233,763**	**$296,511**	**$104,963**	**($209,482)**	**($100,550)**	**($300,575)**	**($600)**	**($200,625)**
Beginning Cash	$710,991	$218,216	$115,175	$169,304	$43,920	$141,072	$234,754	$753,947
Net Increase/(Decrease) in Cash	(492,775)	(103,041)	54 130	(125 384)	97,152	93 682	519,193	573 027
Ending Cash	**$218,216**	**$115,175**	**$169,304**	**$43,920**	**$141,072**	**$234,754**	**$753,947**	**$1,326,974**
Fully-Taxed Levered Free Cash Flow								
Cash Flow from Operations	**($462,091)**	**($235,375)**	**$42,452**	**$179,006**	**$294,378**	**$492,857**	**$620,488**	**$876,628**
less: Capital Expenditure	(54,895)	(75,000)	(75,000)	(75,000)	(75,000)	(75,000)	(75,000)	(75,000)
less: Additions to System Under Construction	(220,124)	(88,782)	(18,285)	(19,909)	(21,676)	(23,600)	(25,695)	(27,976)
less: Deferred Tax Benefits	14	(684)	---	---	---	(47,513)	(96,095)	(196,330)
evered Free Cash Flow	**($737,096)**	**($399,841)**	**($50,833)**	**$84,097**	**$197,702**	**$346,744**	**$423,698**	**$577,322**
Levered Fully-Taxed Free Cash Flow per Reported Shares	**($2.73)**	**($1.31)**	**($0.17)**	**$0.27**	**$0.65**	**$1.06**	**$1.30**	**$1.76**

Source: Lehman Brothers, company reports

Figure 6. XM Satellite Radio – Balance Sheet ($ 000's, except per share data)

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Current Assets								
Cash and Equivalents	$218,216	$115,175	$169,304	$43,920	$141,072	$234,754	$753,947	$1,326,974
Short-Term Investments	---	---	---	---	---	---	---	---
Restricted Investments	---	396	396	396	396	396	396	396
Accounts Receivable, Net of Allowance	62,293	98,255	127,187	142,265	155,846	180,515	195,164	223,411
Prepaid Programming Content	28,172	---	---	---	---	---	---	---
Due from Related Parties	13,991	13,991	13,991	13,991	13,991	13,991	13,991	13,991
Related Parties Prepaid Expenses	66,946	79,146	89,767	103,505	116,992	137,257	150,334	172,092
Prepaid and Other Current Assets	43,040	61,410	81,869	94,398	106,699	125,181	137,106	156,950
Total Current Assets	$432,658	$368,372	$482,515	$398,475	$534,996	$692,094	$1,250,938	$1,893,814
Restricted Investments, Net of Current Portion	$2,098	$2,098	$2,098	$2,098	$2,098	$2,098	$2,098	$2,098
Net PP&E	1,117,098	$1,082,336	$995,256	$947,361	$939,287	$932,103	$925,834	$920,509
Intangibles, Net of Amortization	4,640	3,384	2,128	872	—	---	---	---
Goodwill, Net of Accumulated Amortization	—	---	---	---	---	---	---	---
Deferred Financing Fees	38,601	29,166	19,724	10,276	6,298	2,320	(1,658)	(5,636)
Due to Related Parties	---	---	---	---	---	---	---	---
Related Parties Prepaid Expenses	160,712	134,696	108,680	82,664	56,648	30,632	4,616	(14,896)
Prepaid and Other Assets	84,811	128,303	128,303	128,303	128,303	128,303	128,303	128,303
Total Assets	$1,840,618	$1,748,355	$1,738,704	$1,570,049	$1,667,630	$1,787,549	$2,310,130	$2,924,191
Current Liabilities								
Trade Accounts Payable	$51,844	$49,128	$57,888	$75,518	$95,274	$111,777	$127,521	$145,978
Accrued Expenses	147,591	147,383	166,056	191,469	216,419	253,906	278,095	318,345
Accrued XM-4 Liability	64,875	64,875	64,875	64,875	64,875	64,875	64,875	64,875
Accrued Network Optimization Expenses	—	---	—	---	---	---	—	—
Current Portion of Long-Term Debt	14,445	14,445	14,445	14,445	14,445	14,445	14,445	14,445
Due to Related Parties	46,459	46,459	46,459	46,459	46,459	46,459	46,459	46,459
MLB Fees Due	---	---	—	---	---	—	---	---
Accrued Interest	18,482	18,482	18,482	18,482	18,482	18,482	18 482	18,482
Deferred Revenue	340,711	404,795	476,465	580,160	706,687	855,709	996,429	1,153,163
Other Current Liabilities	9 915	9,915	9 915	9 915	9,915	9,915	9 915	9,915
Total Current Liabilities	$694,322	$755,482	$854,585	$1,001,324	$1,172,556	$1,375,567	$1,556,222	$1,771,662
Related Party Long-term Debt	---	---	---	$150,000	$150,000	—	---	---
Long-term Debt, Net of Current Portion	1,286,179	1,582,690	1,687,653	1,328,172	1,227,622	1,077,047	1,076,447	875,822
Due to Related Parties	---	---	---	---	---	---	—	---
Deferred Revenue	86,482	86,482	86,482	86,482	86,482	86,482	86,482	86,482
Other Non-Current Liabilities	171,515	172 608	197,788	226 909	259 801	298,502	340 790	389 212
Total Liabilities	$2,238,498	$2,597,262	$2,826,509	$2,792,887	$2,896,461	$2,837,598	$3,059,940	$3,123,177
Total Stockholders' Equity (Deficit)	($397,880)	($908,304)	($1,147,202)	($1,282,235)	($1,288,228)	($1,109,446)	($809,207)	($258,383)
Commitment & Contingencies	—	---	---	---	---	---	---	—
Minority Interest	—	59,397	59,397	59,397	59,397	59,397	59,397	59,397
Total Liabilities & Shareholders' Equity	$1,840,618	$1,748,355	$1,738,704	$1,570,049	$1,667,630	$1,787,549	$2,310,130	$2,924,191

Source: Lehman Brothers, company reports

Figure 7. XM Satellite Radio – Quarterly Key Statistics and Income Statement ($ 000's, except per share data)

	1Q06A	2Q06A	3Q06A	4Q06A	2006A	1Q07A	2Q07E	3Q07E	4Q07E	2007E
Ending XMSR Subscribers	6,501 9	6,899 9	7,185 9	7,628 6	7,628 6	7,913 7	8,245 9	8,712 5	9,130 0	9,130 0
Gross Additions	1,007 3	926 3	868 0	1,064 9	3 866 5	868 1	957 6	1,133 9	1,200 1	4,159 7
Net Additions	568 9	398 0	286 0	442 7	1,695 6	285 2	332 1	466 6	417 5	1 501 5
Implied Monthly Churn	2 4%	2 6%	2 8%	2 6%	2 7%	2 5%	2 6%	2 6%	3 0%	2 6%
Subscription Average Revenue Per Subscriber (ARPU)	$10 07	$10 08	$10 15	$10 07	$10 09	$10 15	$10 23	$10 26	$10 25	$10 23
SAC Per Gross Addition	$62	$64	$60	$70	$64	$65	$65	$62	$71	$66
CPGA - Cost Per Gross Addition	93	112	94	128	108	103	117	99	130	113
Revenue										
Subscription Services Revenues	$188,102	$202,165	$214,817	$220 542	$825,626	$236,486	$248,050	$261,557	$269,135	$1,015,228
Activation Revenues	3,579	3,942	4,213	4 459	16 193	4,654	4,814	4,843	4,682	18,793
Equipment Revenues	3 551	4 928	3,164	10,076	21,719	5,297	5 813	4 984	12,256	28,349
Net Ad Sales Revenues	6,516	8,962	8,786	11,045	35,331	7,478	10 863	11,371	11,975	41,687
Other	9,216	7 869	9 464	11,000	34,549	10,197	9,000	9 000	9,000	37 197
Total Revenue	$207,966	$227,886	$240,444	$257,122	$933,418	$264,112	$278,541	$291,564	$307,048	$1,141,265
Operating Expenses										
Revenue Share and Royalties	$34,276	$37,923	$33,406	$43,405	$149 010	$47,426	$54,501	$58 747	$61,894	$222 569
Cost of Equipment Sales	7,993	10,254	10,177	20 525	48,949	18,277	13,258	16,279	25 678	73,392
Advertising Sales	3 355	4,460	3,378	4,768	15,962	3,385	4,710	3,628	5,018	16,741
Customer Care & Billing	22 455	26 395	27,171	28,850	104,871	27,928	30,299	31,797	32,828	122,852
Satellite & Terrestrial	13,049	11,571	11,670	12,729	49 019	13,882	12,265	12,370	13,493	52,010
Broadcast	5,852	5 169	6 158	5 869	23,048	6,544	5 531	6 589	6,280	24 944
Operations	8,887	8 805	7,827	9,164	34,683	9,716	9,421	8 375	9,805	37,318
Programming & Content	37,643	42,253	38 673	46,427	165,196	43 952	50,972	42,530	50,538	187 992
Total Cost of Revenue	$133,511	$146,830	$138,660	$171,737	$590,738	$171,110	$180,957	$180,315	$206,435	$737,817
Research & Development	10,981	8,518	8,849	9,080	37,428	7 310	8 774	9,114	9,352	34,550
General & Administration	17 630	18 672	21,997	30 327	88,626	34,185	40,000	45,000	45 000	164,185
Stock-Based Compensation	—	—	—	—	—	—	—	—	—	—
Total Pre-Marketing Expenses	$162,122	$174,020	$169,506	$211,144	$716,792	$212,605	$229,730	$234,430	$259,787	$936,553
Marketing Expenses						$8,000	$12,062	$12,062	$12,062	$44,185
Retention & Support	$8,047	$7,443	$7,288	$9,064	$31,842	$9,756	$7,815	$7,652	$9,517	$34 741
Subsidies & Distribution	59,732	61 126	47,279	73,464	241,601	43,602	63,011	66,668	84,531	257,811
Advertising & Marketing	29 666	37,666	27,518	52 789	147,639	32,809	42,000	34 000	58,000	166 809
Marketing Related Expenses	$97,445	$106,235	$82,085	$135,317	$421,082	$86,167	$112,826	$108,320	$152,048	$459,361
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	$119,330	$114,824	$158,552	$485,377
Impairment of Goodwill	—	—	—	—	—	—	—	—	—	—
Total Operating Expenses	$268,880	$287,695	$258,095	$352,965	$1,167,635	$305,276	$349,060	$349,254	$418,339	$1,421,930
Operating Cashflow (EBITDA)	($60,914)	($59,809)	($17,651)	($95,843)	($234,217)	($41,164)	($70,520)	($57,700)	($111,291)	($280,676)
Depreciation & Amortization	39 882	41,847	43,109	44,043	168,881	45,882	45,474	46,757	44,673	183,786
Operating Income (EBIT)	($100,796)	($101,656)	($60,760)	($139,886)	($403,098)	($88,046)	($115,894)	($104,457)	($155,965)	($464,461)
Interest Income	6,573	6,376	5,216	3,499	21,664	3 544	3,755	2 832	1,945	12,076
Interest Expense	(33,236)	(29,317)	(23,794)	(34,958)	(121,305)	(27,609)	(26 680)	(27,019)	(27,350)	(108,657)
Other Income (Expense)	(22 630)	(105,688)	(3 687)	(84,142)	(216 148)	(9,643)	—	—	—	(9 643)
Pretax Income	($150,089)	($230,286)	($83,025)	($255,487)	($718,887)	($121,754)	($138,918)	($128,643)	($181,369)	($570,685)
Income Tax	858	1 177	(794)	(1,237)	14	(684)	—	—	—	(684)
Net Income / Loss	($148,221)	($229,109)	($83,819)	($256,724)	($718,873)	($122,438)	($138,918)	($128,643)	($181,369)	($571,369)
8 25% Series B and C Preferred Dividend	(2,149)	(1,814)	(1 634)	(530)	(6,127)	—	—	—	—	—
Series B Preferred Stock Retirement Gain (Loss)	—	(755)	—	—	(755)	—	—	—	—	—
Series C Preferred Stock Retirement Gain (Loss)	—	—	—	(5,938)	(5,938)	—	—	—	—	—
Income Available to Common Shareholders	($151,370)	($231,678)	($85,453)	($263,192)	($731,693)	($122,438)	($138,918)	($128,643)	($181,369)	($571,369)
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)	($0.45)	($0.42)	($0 59)	($1.87)
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 45)	($0.42)	($0 59)	($1.87)
Total Revenue	102 8%	81 6%	57 0%	45 2%	67 2%	27 0%	22 2%	21 3%	19.4%	22 3%
Total Pre-Marketing Expenses	84 9%	55 4%	35 2%	36 0%	49 2%	31 1%	32 0%	38 3%	23 0%	30 7%
Operating Cashflow (EBITDA)	—	—	—	—	—	—	—	—	—	—
Operating Income (EBIT)	—	—	—	—	—	—	—	—	—	—
Net Income / Loss	—	—	—	—	—	—	—	—	—	—
Pre-Marketing Margins	22 0%	23 6%	29 5%	17 9%	23 2%	19 5%	17 5%	19 6%	15 4%	17 9%
Operating Cashflow (EBITDA)	(29 3%)	(26 2%)	(7 3%)	(37 3%)	(25 1%)	(15 6%)	(25 3%)	(19 8%)	(36 2%)	(24 6%)
Operating Income (EBIT)	(48 5%)	(44 6%)	(25 3%)	(54 4%)	(43 2%)	(33 3%)	(41 6%)	(35.8%)	(50 8%)	(40 7%)
Net Income / Loss	(71 8%)	(100 5%)	(34 9%)	(99 8%)	(77 0%)	(46 4%)	(49 9%)	(44 1%)	(59 1%)	(50 1%)

Source: Lehman Brothers, company reports

Figure 8. XM Satellite Radio – Quarterly Cash Flow Statement ($ 000's, except per share data)

	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)	($136,918)	($128,643)	($181,369)	($571,369)
Provision for Doubtful Accounts	3,117	4,293	4,275	3 538	15,223	4,360	4,574	4 623	4,962	18,719
Ad Sales Barter Revenue	—	—	—	—	—	—	—	—	—	—
Depreciation & Amortization	39 882	41,847	43,109	44,042	168,880	46 882	45,474	46,757	44,673	183,786
Accretion of Interest	—	—	—	—	—	—	—	—	—	—
Loss on Disposal of Computer Equipment	—	—	—	—	—	—	—	—	—	—
Non-Cash Loss on Debt Conversion	18,380	82,344	22	21,443	122,189	—	—	—	—	—
Amortization of Def Financing Fees and Debt Disc	5,771	17,717	3,048	14,749	41,285	2,360	2,358	2 358	2 359	9,435
Non-Cash Gain Stock Based Compensation	12,061	13,914	16,047	26,024	68,046	14 131	15 000	15,000	15,000	59,131
Impairment of Goodwill	—	—	—	—	—	—	—	—	—	—
Provision for Deferred Income Taxes	(868)	(1 177)	794	1,237	(14)	684	—	—	—	684
Prepaid MLB Fees	—	—	—	—	—	—	—	—	—	—
Other Due to Related Parties	9,313	7 440	6 504	(23,257)	—	6,504	6,504	6 504	6 504	26,016
Long-term Prepaid and Other Assets	14,362	—	—	(14,362)	—	—	—	—	—	—
Other	(33,356)	25 651	(33,136)	126,335	85,494	15,423	—	—	—	15,423
Change in Working Capital	(111,544)	(204 186)	(28,607)	100 015	(244,322)	(18,779)	35,224	(77,954)	84,309	22,800
Net Cash From Operating Activities	($192,103)	($241,266)	($71,762)	$43,040	($462,091)	($50,872)	($29,785)	($131,156)	($23,562)	($235,375)
Cash Flows From Investing Activities										
Purchase of Property, Plant & Equipment	($23,000)	($11,457)	($11,846)	($8,592)	($54,895)	($18,750)	($18,750)	($18,750)	($18,750)	($75,000)
Additions to System Under Construction	(15,865)	(46 870)	(58,169)	(99,220)	(220,124)	(21,564)	(21,932)	(22 403)	(22,884)	(88,782)
Short-term Investments	—	—	—	—	—	—	—	—	—	—
Restricted Investments	20	2,761	34	575	3,390	(396)	—	—	—	(396)
Other Investing Activities	29 740	(22,558)	—	—	7,182	—	—	—	—	—
Net Cash From Investing Activities	($8,105)	($78,124)	($69,981)	($107,237)	($264,447)	($40,710)	($40,682)	($41,153)	($41,634)	($164,178)
Cash Flows From Financing Activities										
Sale of Common Stock and Capital Contributions	$52 000	($47,490)	$873	$1,037	$6,420	—	—	—	—	—
Additional Borrowings/(Repayments)	(40,358)	313,455	40 358	—	313,455	192,757	1,251	101,251	1,252	296,511
Series B Preferred Stock	—	(23 960)	—	—	(23,960)	—	—	—	—	—
Deferred Financing Costs	(605)	—	(20,846)	—	(21,451)	—	—	—	—	—
GM SAC Arrangement ($150Mn in Subsidy)	—	—	—	—	—	—	—	—	—	—
Other Net Financing Activities	—	(12,346)	(24,390)	(3 963)	(40 701)	—	—	—	—	—
Net Cash From Financing Activities	$11,037	$228,657	($4,005)	($2,926)	$233,763	$192,757	$1,251	$101,251	$1,252	$296,511
Beginning Cash	$710,991	$520,820	$431,087	$285,339	$710,991	$218,216	$319 391	$250,176	$179,118	$218,216
Net Increase/(Decrease) in Cash	(190,171)	(89,733)	(145,748)	(67,123)	(492,775)	101,175	(69,215)	(71,058)	(63,944)	(103,041)
Ending Cash	$520,820	$431,087	$285,339	$218,216	$218,216	$319,391	$250,176	$179,118	$115,175	$115,175
Fully-Taxed Levered Free Cash Flow										
Cash Flow from Operations	($192,103)	($241,266)	($71,762)	$43,040	($462,091)	($50,872)	($29,785)	($131,156)	($23,562)	($235,375)
less. Capital Expenditure	(23,000)	(11,457)	(11,846)	(8,592)	(54,895)	(18,750)	(18,750)	(18,750)	(18 750)	(75,000)
less. Additions to System Under Construction	(15,865)	(46,870)	(58,169)	(99,220)	(220 124)	(21,564)	(21,932)	(22 403)	(22 884)	(88,782)
less Deferred Tax Benefits	868	1 177	(794)	(1,237)	14	(684)	—	—	—	(684)
Levered Free Cash Flow	($230,100)	($298,416)	($142,571)	($66,009)	($737,096)	($91,870)	($70,466)	($172,308)	($65,196)	($399,841)
Levered Fully-Taxed Free Cash Flow per Reported Shares	($0.91)	($1.12)	($0 53)	($0 22)	($2 73)	($0 30)	($0 23)	($0.56)	($0 21)	($1.31)

Source: Lehman Brothers, company reports

Figure 9. XM Satellite Radio – Quarterly Balance Sheet ($ 000's, except per share data)

	1Q06A	2Q06A	3Q06A	4Q06A	2006A	1Q07A	2Q07E	3Q07E	4Q07E	2007E	2007E
Current Assets											
Cash and Equivalents	$520,820	$431,087	$285,339	$218 216	$218,216	$319,391	$250 176	$179,118	$115,175	$115,175	$77,609
Short-Term Investments	—	—	—	—	—	—	—	—	—	—	—
Restricted Investments	—	—	—	—	—	396	396	396	396	396	—
Accounts Receivable, Net of Allowance	41,742	40 926	42,586	62,293	62,293	63,576	61 165	63,300	98 255	98,255	96,535
Prepaid Programming Content	83 364	62,854	52,324	28 172	28,172	—	—	—	—	—	—
Due from Related Parties	11,021	13 189	12 275	13,991	13,991	13 991	13 991	13,991	13 991	13,991	13,991
Related Parties Prepaid Expenses	49,645	61 053	61,688	66 946	66,946	62,418	73,878	74 053	79,146	79 146	77,760
Prepaid and Other Current Assets	50,122	61,934	106,406	43,040	43,040	63,387	68,850	116,622	61,410	61,410	60,334
Total Current Assets	$766,734	$671,043	$560,618	$432,658	$432,658	$523,168	$466,456	$447,480	$368,372	$368,372	$326,229
Restricted Investments, Net of Current Portion	$5 418	$2,658	$2,674	$2,098	$2 098	$2,098	$2,098	$2 098	$2,098	$2 098	$2 098
Net PP&E	$1,023 654	$1,092,820	$1,094,657	$1 117 098	1,117 098	$1,094,830	$1,090,352	$1,085 062	$1,082,336	1,082,336	1,102,610
Intangibles Net of Amortization	5,591	5,276	4 958	4,640	4,640	4,326	4 012	3,698	3,384	3,384	3,384
Goodwill Net of Accumulated Amortization	—	—	—	—	—	—	—	—	—	—	—
Deferred Financing Fees	32 991	43,436	42 465	36,601	36,601	36 241	33 883	31,525	29 166	29,166	29,166
Due to Related Parties	—	—	—	—	—	—	—	—	—	—	—
Related Parties Prepaid Expenses	11 381	175,370	169 936	160 712	160 712	154,208	147,704	141,200	134 696	134 696	134,696
Prepaid and Other Assets	175,200	156,981	151,482	84,811	84,811	128,303	128,303	128,303	128,303	128,303	84,811
Total Assets	$2,010,969	$2,147,594	$2,026,790	$1,840,618	$1,840,618	$1,943,164	$1,872,806	$1,839,365	$1,748,355	$1,748,355	$1,682,994
Current Liabilities											
Trade Accounts Payable	$97,200	$75,198	$31,996	$51,844	$51,844	$52,822	$89,133	$38,797	$49 128	$49,128	$48,268
Accrued Expenses	71,092	80 648	103,105	147,591	147 591	90,285	98,574	125,021	147 383	147 383	144,803
Accrued XM-4 Liability	134,040	160,180	152 727	64 875	64 875	64,875	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	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	46 459
MLB Fees Due	—	—	—	—	—	—	—	—	—	—	—
Accrued Interest	20 285	20 070	36,162	18 482	18,482	18,482	18 482	18 482	18 482	18,482	18 482
Deferred Revenue	298,053	313 501	305 754	340 711	340,711	367,189	370,325	368 342	404,795	404,795	384,126
Other Current Liabilities	10,137	10,137	10,081	9,915	9,915	9,915	9,915	9,915	9,915	9,915	9,915
Total Current Liabilities	$666,152	$732,368	$676,099	$694,322	$694,322	$664,473	$712,208	$686,337	$765,482	$755,482	$731,372
Related Party Long-term Debt	—	—	—	—	—	—	—	—	—	—	—
Long-term Debt, Net of Current Porbon	995 165	1 341,066	1 342 645	1 286,179	1 286,179	1,478 938	1 480,167	1 581 438	1 582,690	1,582 690	1 535 259
Due to Related Parties	57,648	—	—	—	—	—	—	—	—	—	—
Deferred Revenue	85,125	136,749	85,325	86,462	86 462	86 482	86,482	86 482	86,482	86,482	86,482
Other Non-Current Liabilities	175,504	123,349	175 904	171,515	171,515	158,249	163,823	167,646	172,608	172 608	190,417
Total Liabilities	$1 999,594	$2,333,532	$2,279,973	$2,238,498	$2,238,498	$2,388,140	$2,441,700	$2,521,903	$2,597,262	$2,597,262	$2,543,630
Total Stockholders' Equity (Deficit)	$11,375	($185,938)	($253,183)	($397,880)	($397,880)	($504,373)	($628,291)	($741,934)	($908,304)	($908,304)	($860,636)
Commitment & Contingencies	—	—	—	—	—	—	—	—	—	—	—
Minority Interest	—	—	—	—	—	59,397	59 397	59,397	59,397	59 397	
Total Liabilities & Shareholders' Equity	$2,010,969	$2,147,594	$2,026,790	$1,840,618	$1,840,618	$1,943,164	$1,872,806	$1,839,365	$1,748,355	$1,748,355	$1,682,994

Source: Lehman Brothers, company reports

Valuation. We are adjusting our YE 07E price target to $20/share from $22/share due to lower free cash flow expectations over LT (our 2013E unlevered free cash flow declines from $781MM to $733MM); our DCF assumptions remain the same. Our YE07 price target of $20 is based a Discounted Cash Flow stand-alone valuation. Our key assumptions include risk free rate of 4.8%, equity risk premium of 5%, levered beta of 1.4, cost of debt at 8.5%, target debt-to-capital of 40%, and unlevered free cash flow growth rate in perpetuity of 3.5%, yielding a 9.1% weighted average cost of capital and 18.5x multiple on terminal year unlevered FCF.

Figure 10. XM Satellite Radio – Discounted Cash Flow Valuation ($ millions, except per share data)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	Terminal Year Cash Flows
Operating Income (EBIT)	**($464,461)**	**($227,311)**	**($116,403)**	**$4,560**	**$167,621**	**$255,200**	**$449,988**	**$449,988**
Less Income Tax Expense	---	---	---	---	---	---	---	(175 495)
Net Operating Profit Less Adjusted Taxes	**($464,461)**	**($227,311)**	**($116,403)**	**$4,560**	**$167,621**	**$255,200**	**$449,988**	**$274,493**
Depreciation & Amortization	183,786	181,622	144,060	105,621	105,784	106,964	108,301	115,000
Change in Working Capital	22,800	39,091	105,393	131,863	139,596	141,003	145,591	145,591
Capital Expenditures	(75,000)	(75,000)	(75,000)	(75,000)	(75,000)	(75,000)	(75,000)	(75,000)
Additions to System Under Construction	(88,782)	(18,285)	(19,909)	(21,676)	(23,600)	(25,695)	(27,976)	(40 000)
Total Other	$119,081	$120,637	$124,586	$122.886	$128,695	$132,282	$131,912	131,912
Unlevered Free Cash Flow	**($302,576)**	**$20,754**	**$162,727**	**$268,254**	**$443,095**	**$534,755**	**$732,816**	**$551,996**
2007E PV of Unlevered FCF	---	19,026	136,761	206,681	312,971	346,269	435,016	
2008E PV of Unlevered FCF	---	---	149,180	206,681	312,971	346,269	435,016	
PV of Terminal Value	6,077,005	6,628,846	7,230,798	7,887,412	8,603,652	9,384,933	10,237,160	
Sum of the PV of Interim Unlevered FCF	$1,456,724	$1,450,117						
PV of Terminal Value	6,077,005	6,628,846						
Gross Asset Value	**$7,533,729**	**$8,078,962**						
Add: Option Proceeds	57 024	57,024						
Add: Cash & Equivalents	117,669	171,798						
Add: PV of Remaining Deferred Tax Benefits	361,114	393,906						
Less: Debt & Preferred	(1,597 135)	(1,702,098)						
Net Asset Value (NAV)	**$6,472,400**	**$6,999,592**						
Diluted Shares	327,159	327,159						
Fair Value per Share	**$19.78**	**$21.40**						
Current Price	11.78	11.78						
Upside	67.9%	81.6%						

Cost of Equity:	11 7%
Tax-Adjusted Cost of Debt	5 2%
Debt/Total Capitalization	40 0%
Weighted Average Cost of Capital.	9 1%
G (Perpetual Growth Rate):	3 5%
Terminal Multiple = (1+G)/(WACC-G)	18 5x
Implied Terminal Yr. Multiple on EBITDA:	24 3x

Source: Lehman Brothers, company reports

Figure 11. XM Satellite Radio – Returns and Multiples ($ millions, except per share data)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Per Share Metrics							
Earnings Per Share (EPS)	($1 87)	($0.98)	($0.64)	($0.22)	$0.22	$0 44	$0 90
Free Cash Flow per Share (FCF/Share)	(1 22)	(0.16)	0.26	0.60	1 21	1.59	2.36
Fully-Taxed FCF per Share	(1.22)	(0.16)	0 26	0 60	1 06	1.30	1.76
Per Share Multiples							
Price Earnings (P/E) Ratio	n/a	n/a	n/a	n/a	54 1x	26 7x	13.1x
Price to Free Cash Flow per Share	---	---	45.8x	19 5x	9.8x	7.4x	5 0x
Free Cash Flow Yield	---	---	2.2%	5.1%	10.2%	13.5%	20.1%
Price (Net of NPV of NOL) to Normalized FCF	---	---	34.3x	14 1x	7.9x	6 5x	4.9x
Normalized FCF Yield	---	---	2 9%	7 1%	12.6%	15 5%	20.4%
Enterprise Value							
Fully Diluted Shares	327 2	327.2	327 2	327 2	327 2	327.2	327 2
Current Share Price	$11.78	$11.78	$11.78	$11.78	$11.78	$11.78	$11.78
Equity Market Capitalization	$3,853.9	$3,853 9	$3,853 9	$3,853 9	$3,853 9	$3,853.9	$3,853.9
Add: Debt & Preferred	1,597 1	1,702.1	1,492 6	1,392.1	1,091.5	1,090.9	890.3
Less: Cash & Options/Conversion Proceeds	(174.7)	(228 8)	(103.4)	(200.6)	(294.3)	(813.5)	(1,386 5)
Enterprise Value	**$5,276.4**	**$5,327.2**	**$5,243.1**	**$5,045.4**	**$4,651.2**	**$4,131.4**	**$3,357.7**
Operating Cash Flows (EBITDA, inc. stock compensation)	($280.7)	($45.7)	$27 7	$110 2	$273.4	$362.2	$558.3
EV/EBITDA	**n/a**	**n/a**	**189.6x**	**45.8x**	**17.0x**	**11.4x**	**6.0x**
Ending Subscribers ('000s)	9,130	10,644	12,169	13,662	15,149	16,601	17,988
Value per Subscriber	**$578**	**$501**	**$431**	**$369**	**$307**	**$249**	**$187**
Cash Flow from Operations	**($235.4)**	**$42.5**	**$179.0**	**$294.4**	**$492.9**	**$620.5**	**$876.6**
less. Capital Expenditure	(163.8)	(93.3)	(94.9)	(96.7)	(98.6)	(100.7)	(103 0)
Levered Free Cash Flow	**($399.2)**	**($50.8)**	**$84.1**	**$197.7**	**$394.3**	**$519.8**	**$773.7**
less: Deferred Tax Benefits	(0.7)	---	---	---	(47.5)	(96 1)	(196 3)
Fully-Taxed Free Cash Flow	**($399.8)**	**($50.8)**	**$84.1**	**$197.7**	**$346.7**	**$423.7**	**$577.3**
NPV of NOLs	**$667.3**	**$890.2**	**$971.1**	**$1,059.3**	**$1,107.9**	**$1,112.5**	**$1,017.2**
Per Share	$2.04	$2.72	$2.97	$3.24	$3.39	$3 40	$3 11
Ending Subscribers ('000s)	9,130	10,644	12,169	13,662	15,149	16,601	17,988
FCF per Subscriber	($43.72)	($4.78)	$6.91	$14.47	$26 03	$31.31	$43.01
FCF / EBITDA Conversion	---	---	304.1%	179.4%	144.2%	143.5%	138 6%
Leverage Ratios							
Net Debt & Preferred/EBITDA	---	---	52.3x	11.3x	3.1x	0.9x	(0 8)x
Debt/Subscriber	$175	$160	$123	$102	$72	$66	$49
Net Debt/Subscriber	162	144	119	91	56	20	(24)
Coverage Ratios							
EBITDA/Net Interest & Dividends	---	---	0.4x	1 6x	5.6x	24.2x	(13.7)x
(EBITDA-Capex)/Net Interest & Dividends	---	---	---	0.2x	3.6x	17.5x	(11 1)x

Source: Lehman Brothers, company reports

Analyst Certification:

We, Vijay Jayant and James M. Ratcliffe, hereby certify (1) that the views expressed in this research Company Note accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

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Company Description:

XM Satellite Radio is one of only two FCC licensed satellite radio operators and offers more than 100 music, talk & traffic channels with limited or no commercials for $13/month.