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EQUITY RESEARCH

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United States of America

Internet & Media

Cable & Satellite Communications

Sirius Satellite Radio (SIRI - US$ 2.90) 1-Overweight

Change of Earnings Forecast

Adjusting Ests After InLine 1Q07 Results

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Investment Conclusion

- We are adjusting our estimates slightly to reflect good, in line 1Q07 results. Our subscriber estimates are generally unchanged; we expect 8.04MM YE 07E subs, vs. our prior 8.03MM est due to above-forecast 1Q07 net adds. Our full-year revenue estimate is essentially unchanged, but our EBITDA loss and FCF loss estimates are better due to lower operating expenses. We continue to believe in LT OEM-driven fundamental story but shares likely range-bound over intermediate term as fundamental story not yet proven & merger uncertainty remains.

Summary

- 2Q07 ests: 575k net adds, 1.04MM gross adds, $110 SAC, churn 2.25%, subscriber ARPU $10.44. Revenue $232MM, EBITDA loss (w/ stock comp) $117MM, FCF loss $63MM.
- Full-year 07 ests: 8.04MM YE subs, $98 SAC, $961MM revenue, $415MM EBITDA loss (w/ stock option expense), $275MM FCF loss.
- Continue to expect mix shift toward OEM but timing of OEM acceleration likely 2H07E, 2008E.
- Expect SIRI to be full-year FCF positive in 09E.

Stock Rating		Target Price	
New:	1-Overweight	New:	US$ 5.40
Old:	1-Overweight	Old:	US$ 5.40

Sector View: 2-Neutral

EPS (US$) (FY Dec)

	2006	2007			2008			% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2007	2008
1Q	-0.33A	-0.11E	-0.10E	-0.11E	N/A	N/A	-0.06E	70%	N/A
2Q	-0.17A	-0.12E	-0.10E	-0.10E	N/A	N/A	-0.05E	41%	N/A
3Q	-0.12A	-0.09E	-0.07E	-0.09E	N/A	N/A	-0.04E	42%	N/A
4Q	-0.17A	-0.15E	-0.11E	-0.14E	N/A	N/A	-0.09E	35%	N/A
Year	-0.79A	-0.47E	-0.38E	-0 44E	-0.21E	-0.18E	-0.26E	52%	53%
P/E			-7.6			-16.1			

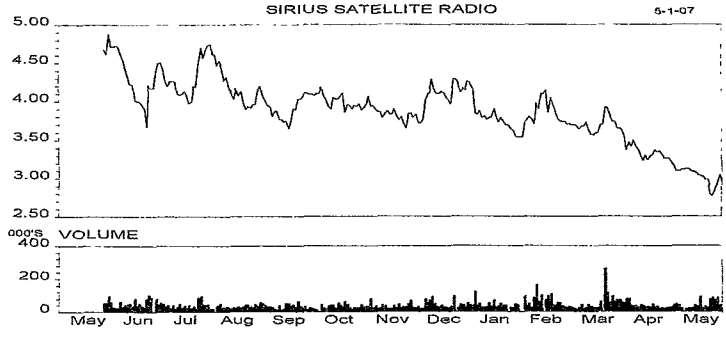
Market Data

Market Cap (Mil.)	4621
Shares Outstanding (Mil.)	1592.00
Float (%)	100
Dividend Yield	N/A
Convertible	Yes
52 Week Range	5 01 - 2.72

Financial Summary

Revenue FY07 (Mil.)	961.0
Five-Year EPS CAGR	N/A
Return on Equity	N/A
Current BVPS	-0.50
Debt To Capital (%)	12 00

Stock Overview



We are adjusting our estimates based on SIRI's good 1Q07 results, which were in line with our estimates. We believe the stock's weak performance Tuesday (SIRI shares closed down 1.9% from prior day's close; vs. S&P500 up 0.3%) supports our thesis that shares will likely remain range-bound over intermediate-term as long-term OEM fundamental story is not yet fully proven and merger uncertainty remains. We expect 8.04MM YE 07E subscribers, in line with company guidance of over 8.0MM and reflecting full-year net adds of 2.02MM. We continue to expect shift in subscriber mix as OEM accelerates in 2H07E and 2008E, with 65/35 OEM/aftermarket mix of SIRI net adds for full-year 07E (vs. 42/58 mix in full-year 2006). Our 2007E estimates for EBITDA (net of stock compensation expense) and FCF loss are better than prior expectations primarily due to lower operating expenses, as we expect continued financial discipline despite a larger subscriber base.

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2Q07 ESTIMATE REVISIONS

Our 2Q07 subscriber estimates remain generally unchanged, with the exception of a decrease in subscriber ARPU. Our revenue estimate decreases, but our EBITDA loss estimate is slightly better than our previous forecast as we expect lower operating expenses to offset lower revenue. We have summarized our key 2Q07 estimates below.

- **Subscriber Metrics.** We expect 575k subscriber net additions in 2Q07E, in line with our prior estimate of 579k. Our gross addition and churn estimates remain generally unchanged at 1.04MM and 2.25%. We now expect subscriber ARPU of $10.44, modestly lower than our prior estimate of $10.61 due to higher percentage of subscribers taking discounted multiple receiver packages.
- **Acquisition Costs.** Our SAC and CPGA estimates remain generally intact at $110 and $157, respectively.
- **Revenue and EBITDA.** For 2Q07E, we estimate revenue will be $232MM, 3.3% lower than our prior estimate due to our expectations of modestly lower subscriber ARPU and lower advertising and equipment revenues. We estimate EBITDA loss (not including stock compensation expense) will be $92MM, modestly better than our prior estimate of $95MM as we expect lower operating expenses to offset lower revenue.
- **FCF and EPS.** We expect FCF loss of $63MM for the quarter, better than our prior estimate of $76MM primarily due to higher cash from operations, driven by higher EBITDA. We now expect EPS loss for the quarter at $0.10.

Figure 1. Sirius Satellite Radio – 1Q07E Estimate Revisions ($000's, except per share data)

	2Q06A	1Q07A	Previous 2Q07E	Revised 2Q07E	% Variance	YoY % Growth
Ending Subscribers	4,678.2	6,581.0	7,125 6	7,155 5	0 4%	53 0%
Aftermarket	3,276 6	4,234.8	4,383.6	4,437.8	1.2%	35.4%
OEM	1,373.6	2,323 7	2,717 8	2,694 9	(0 8%)	96.2%
Rental	28 0	22.6	24.1	22 8	(5.4%)	(18 5%)
Gross Additions	830 6	988.5	1,033 8	1,037.1	0.3%	24.9%
Net Additions	600 5	556 5	578.5	574 5	(0 7%)	(4 3%)
Avg. Monthly Subscriber Revenue per Sub (includes mail-in rebates)	$10.54	$10.10	$10 61	$10.44	(1 6%)	(0 9%)
Monthly Churn	1.76%	2.29%	2.22%	2 25%		
SAC Per Gross Addition	$131	$104	$110	$110	0 0%	(16 2%)
CPGA - Cost Per Gross Addition	188	132	160	157	(1 8%)	(16.7%)
Total Revenues	**$150,078**	**$204,037**	**$239,797**	**$231,990**	**(3.3%)**	**54.6%**
Total Operating Expenses	**$287,523**	**$288,036**	**$334,812**	**$324,354**	**(3.1%)**	**12.8%**
Adjusted EBITDA (not including stock comp.)	**($137,445)**	**($83,999)**	**($95,015)**	**($92,365)**	**n/a**	**n/a**
Equity granted to third parties and employees	67,289	24,260	42,625	24,260	(43.1%)	(63.9%)
Operating Cash Flow (EBITDA)	**($204,734)**	**($108,259)**	**($137,640)**	**($116,625)**	**n/a**	**n/a**
Diluted Earnings per Share	**($0.17)**	**($0.10)**	**($0.12)**	**($0.10)**	**n/a**	**n/a**
Diluted Shares	1,404,022	1,457,011	1,402,538	1,457,011	3 9%	3.8%
Cash Flow From Operations	**$(110,947)**	**$(133,947)**	**$(50,725)**	**$(37,600)**	**n/a**	**n/a**
Less· Capex	(22,284)	(12,458)	(25,000)	(25,000)	n/a	n/a
Free Cash Flow	**$(133,231)**	**$(146,405)**	**$(75,725)**	**$(62,600)**	**n/a**	**n/a**

Source· Lehman Brothers, company reports

FULL YEAR 2007 ESTIMATE REVISIONS

Our full year 2007E subscriber estimates remain generally intact. We have summarized our estimate revisions below.

- **Subscribers.** Our YE 2007E subscriber estimate is now 8.04MM, modestly higher than our prior estimate of 8.03MM and vs. company guidance of over 8.0MM. This reflects 2.02MM net additions for the full year. Our gross additions estimate remains generally in line at 4.00MM.
- **Acquisition Costs.** We now expect SAC of $98 for full-year 2007E, slightly higher than our prior estimate of $97 and above company guidance of $95. Our CPGA estimate is now $143. Our subscriber ARPU estimate is modestly lower at $10.31 (vs our prior estimate of $10.35) due to higher subscriber take-rate on multiple-receiver packages.
- **Revenue and EBITDA.** Our 2007E revenue projection is essentially unchanged at $961MM, vs. our prior estimate of $966MM and company guidance of approximately $1BN. We now expect full-year EBITDA loss (not including stock compensation expense) of $318MM, better than our prior estimate of $343MM due to lower operating expense expectations.
- **FCF and EPS.** We now expect FCF loss of $275MM, better than our prior estimate of $322MM due to higher cash from operations and lower capex, driven by below-forecast capex in 1Q07 We now expect EPS loss of $0.38 vs. our prior estimate of $0.47

Figure 2. Sirius Satellite Radio – Full Year 2007 Estimate Revisions ($000's, except per share data)

	2006A	Previous 2007E	Revised 2007E	% Variance	YoY % Growth
Ending Subscribers	6,024.6	8,033.5	8,043.6	0.1%	33.5%
Aftermarket	4,041.8	4,750.9	4,778 7	0 6%	18 2%
OEM	1,959 0	3,258 1	3,241.6	(0 5%)	65 5%
Rental	23.7	24 5	23 3	(4 9%)	(1.8)%
Gross Additions	3,758.2	3,986 7	4,003 4	0 4%	6.5%
Net Additions	2,708 0	2,008.9	2,019 0	0.5%	(25 4)%
Avg. Monthly Subscriber Revenue per Sub (includes mail-in rebates)	$10.45	$10.35	$10.31	(0 3%)	(1 3)%
Monthly Churn	1.91%	2.34%	2 34%		
SAC Per Gross Addition	$114	$97	$98	0.5%	(14.3)%
CPGA - Cost Per Gross Addition	162	148	143	(2.9%)	(11 6)%
Total Revenues	**$637,235**	**$966,197**	**$960,796**	**(0.6%)**	**50.8%**
Total Operating Expenses	**$1,161,292**	**$1,308,882**	**$1,278,713**	**(2.3%)**	**10.1%**
Adjusted EBITDA (not including stock comp.)	**($524,057)**	**($342,686)**	**($317,917)**	**n/a**	**n/a**
Equity granted to third parties and employees	437,918	170,500	97,040	(43 1%)	(77.8)%
Operating Cash Flow (EBITDA)	**$(961,975)**	**$(513,186)**	**$(414,957)**	**n/a**	**n/a**
Diluted Earnings per Share	**$(0.79)**	**$(0.47)**	**$(0.38)**	**n/a**	**n/a**
Diluted Shares	1,402,538	1,402,538	1,457,011	3 9%	3 9%
Cash Flow From Operations	**$(414,549)**	**$(244,586)**	**$(207,531)**	**n/a**	**n/a**
Less: Capex	(99,827)	(77,000)	(67,458)	n/a	n/a
Free Cash Flow	**$(514,376)**	**$(321,586)**	**$(274,989)**	**n/a**	**n/a**

Source: Lehman Brothers, company reports

Figure 3. Sirius Satellite Radio – Company Guidance vs. Lehman Estimates

	2007 Guidance	2007 Lehman Est
Subscribers (MM)	8.00+	8.04
Churn	2.2-2.4%	2.34%
SAC	$95	$98
Revenue ($MM)	$1,000	$961

Source: Lehman Brothers, company reports

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

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Ending Subscribers	6,024 6	8,043 6	10,054 1	12,201 4	14,049 3	15,752 9	17,191 8	18,446 3
Gross Additions	3,758 2	4,003 4	4,261 8	4,955 8	5,203 3	5,443 6	5,561.0	5,659 0
Net Additions	2,708 0	2,019 0	2,010.5	2,147.3	1,847 9	1,703 6	1,438 9	1,254 5
Avg Monthly Subscriber Revenue per Sub (includes mail-in rebates)	$10 45	$10 31	$11 92	$11.79	$12 53	$12.44	$12 40	$13 20
Avg Monthly Subscriber Revenue + Ad Revenue per Sub	$11 01	$10 88	$12 74	$12.70	$13 60	$13 55	$13 57	$14.51
Total ARPU (includes equipment and other revenue	$11 54	$11 30	$13 09	$13 03	$13 89	$13 82	$13 83	$14 76
Implied Monthly Churn	1 9%	2 3%	2.1%	2 1%	2.1%	2.1%	2 1%	2 1%
SAC Per Gross Addition	$114	$98	$90	$83	$78	$77	$75	$73
CPGA - Cost Per Gross Addition	162	143	141	131	123	125	126	128
Revenues								
Subscriber Revenue, Net of Rebates	$575,364	$875,163	$1,296,116	$1,571,642	$1,963,937	$2,210,082	$2,434,237	$2,800,284
Advertising Revenue, Net of Commissions	31,044	49,110	86,895	123,734	177,501	212,880	249,083	303,255
Equipment Revenue	26,798	30,956	33,006	38,443	40,429	42,363	43,347	44,181
Other	4,029	5,568	5 846	6 139	6,446	6,768	7,106	7 462
Total Revenues	$637,235	$960,796	$1,421,863	$1,739,959	$2,188,313	$2,472,094	$2,733,773	$3,155,182
Operating Expenses								
Satellite and Transmission	$39,229	$30,100	$31,304	$32,557	$33,859	$35,213	$36,622	$38,087
Programming and Content	230,215	273,142	322,186	360,879	404,274	477,949	510,436	551,689
Customer Service and Billing	68,137	101,811	129,062	157,126	183,479	206,220	225,685	241,695
Cost of Equipment	35,233	47,521	50,339	58,247	60,850	63,339	64,375	65,173
Sales and Marketing	222,492	260,597	349,147	418,734	485,842	560,750	634,219	730,998
Subscriber Acquisition Costs	419,716	374,282	362,308	386,664	379,660	391,667	388,919	384,616
General and Administrative	87,538	136,105	141,549	147,211	153,100	159,224	165,593	172,217
Research and Development	58,732	55,155	57,362	59,656	62,042	64,524	67,105	69,789
Equity granted to third parties and employees	437,918	97,040	95 728	95,728	95 728	95 728	95 728	95,728
Total Operating Expenses	$1,599,210	$1,375,753	$1,538,985	$1,716,801	$1,858,835	$2,054,614	$2,188,682	$2,349,991
Operating Cash Flow (EBITDA)	($961,975)	($414,957)	($117,122)	$23,158	$329,478	$417,479	$545,091	$805,191
Depreciation expense	(105,749)	(93,291)	(87,173)	(99,709)	(89,767)	(85,264)	(88,323)	(86,617)
Operating Income (EBIT)	($1,067,724)	($508,248)	($204,295)	($76,552)	$239,711	$332,215	$456,768	$718,574
Other Income/(Expense)								
Special Charges/Debt Restructuring and Other	---	---	---	---	---	---	---	---
Income (expense) from affiliate	(4,376)	5	(2,000)	1,000	2,000	3,000	4,000	5,000
Gain on extinguishment of debt	---	---	---	---	---	---	---	---
Interest and investment income	33,320	15,216	12,284	11,782	11,814	19,227	40,000	68,665
Interest expense, net of amounts capitalized	(64 022)	(60,859)	(63 164)	(66 234)	(56 386)	(40,659)	(26,907)	(16 827)
Total Other Income/(Expense)	($35,078)	($45,637)	($52,880)	($53,452)	($42,572)	($18,432)	$17,093	$56,839
Income Before Income Taxes	($1,102,802)	($553,885)	($257,174)	($130,004)	$197,139	$313,784	$473,862	$775,412
Provision for Income Taxes	(2,065)	(555)	---	---	(78 856)	(125,513)	(189 545)	(310,165)
Net Income/(Loss)	($1,104,867)	($554,440)	($257,174)	($130,004)	$118,284	$188,270	$284,317	$465,247
Preferred stock dividends	---	---	---	---	---	---	---	---
Preferred stock deemed dividends	---	---	---	---	---	---	---	---
Accretion of dividends	---	---	---	---	---	---	---	---
Net loss applicable to common stockholders	($1,104,867)	($554,440)	($257,174)	($130,004)	$118,284	$188,270	$284,317	$465,247
Earnings Per Share (EPS)	($0.79)	($0.38)	($0.18)	($0.09)	$0.08	$0.13	$0 20	$0.32
Average shares outstanding	1,402,538	1,457,011	1,457,011	1,457,011	1,457,011	1,457,011	1,457,011	1,457,011
Diluted Earnings per Share	($0.79)	($0.38)	($0.18)	($0 09)	$0.07	$0.12	$0.18	$0.29
Diluted Shares	1,402,538	1,457,011	1,457,011	1,457,011	1,591,971	1,591,971	1,591,971	1,591,971
Total Revenues	163 1%	50 8%	48 0%	22 4%	25 8%	13 0%	10 6%	15 4%
Pre-Marketing Expenses	80 1%	24 0%	13 7%	11 5%	10 0%	12.1%	6 3%	6 4%
Operating Cash Flow (EBITDA)	---	---	---	---	1322 8%	26.7%	30 6%	47 7%
Operating Income (EBIT)	---	---	---	---	---	38.6%	37 5%	57 3%
Net Income/(Loss)	---	---	---	---	---	59 2%	51 0%	63 6%
Pre-Marketing Margins	18 5%	33 0%	48 5%	53.1%	59 0%	59 3%	60 9%	63 9%
Operating Cash Flow (EBITDA)	(151 0%)	(43 2%)	(8 2%)	1 3%	15.1%	16 9%	19 9%	25 5%
Operating Income (EBIT)	(167 6%)	(52 9%)	(14 4%)	(4 4%)	11 0%	13 4%	16 7%	22 8%
Net Income/(Loss)	(173.4%)	(57.7%)	(18 1%)	(7 5%)	5 4%	7 6%	10 4%	14 7%

Source: Lehman Brothers, company reports

Figure 5. Sirius 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)	($1,104,867)	($554,440)	($257,174)	($130,004)	$118,284	$188,270	$284,317	$465,247
Depreciation expense	105,749	93,291	87,173	99,709	89,767	85,264	88,323	86,617
Non-cash interest expense/Debt accretion	3,107	3,107	3,137	3,137	3,137	618	---	---
Gain/Loss on disposal of assets	1,661	(4)	---	---	---	---	---	---
Non-cash stock compensation expense/(benefit)	437,918	97,040	95,728	95,728	95,728	95,728	95,728	95,728
Deferred Income Taxes	2,065	555	---	---	78,856	125,513	189,545	310,165
Non-cash gain associated with debt restructuring	---	---	---	---	---	---	---	---
Gain on extinguishment of long-term debt	---	---	---	---	---	---	---	---
Costs associated with debt restructuring	---	---	---	---	---	---	---	---
Other	22,875	2,088	---	---	---	---	---	---
Changes in assets and liabilities								
Marketable securities	---	---	---	---	---	---	---	---
Prepaid expenses	(42,367)	(31,973)	(24,032)	(23,857)	(33,627)	(21,284)	(19,626)	(31,606)
Other assets	(59,903)	(2,924)	---	---	---	---	---	---
Accounts payable and accrued expenses	33,519	31,232	49,171	13,674	16,920	46,987	32,176	38,714
Accrued interest	1,239	(11,763)	---	---	---	---	---	---
Deferred revenue	181,003	158,558	156,821	165,680	139,886	126,710	104,358	88,628
Other current liabilities	3,452	7,702	---	---	---	---	---	---
Net Cash From Operating Activities	**($414,549)**	**($207,531)**	**$110,823**	**$224,068**	**$508,952**	**$647,807**	**$774,821**	**$1,053,494**
Cash Flows From Investing Activities								
Additions to property and equipment	($99,827)	($67,458)	($200,000)	($100,000)	($130,000)	($207,236)	($154,472)	($27,236)
Additions to FCC license		---	---	---	---	---	---	---
Proceeds from the sale of assets	127	---	---	---	---	---	---	---
Purchases of restricted investments	(12,339)	---	---	---	---	---	---	---
Maturities of restricted investments	26,000	---	---	---	---	---	---	---
Purchases of available-for-sale securities	(123,500)	---	---	---	---	---	---	---
Maturities of available-for-sale securities	229,715	---	---	---	---	---	---	---
Net Cash From Investing Activities	**$20,176**	**($67,458)**	**($200,000)**	**($100,000)**	**($130,000)**	**($207,236)**	**($154,472)**	**($27,236)**
Cash Flows From Financing Activities								
Proceeds from issuance of long-term debt, net	---	---	($35,595)	($301,744)	---	($230,000)	---	($500,000)
Additional borrowings/(repayments)	---	---	200,000	93,000	(293,000)	---	---	---
Proceeds from issuance of common stock, net	---	---	---	---	---	---	---	---
Costs associated with debt restructuring	---	---	---	---	---	---	---	---
Proceeds from exercise of stock options	25,787	1,510	---	---	---	---	---	---
Proceeds from exercise of warrants	---	---	---	---	---	---	---	---
Other	---	---	---	---	---	---	---	---
Net Cash From Financing Activities	**$25,787**	**$1,510**	**$164,405**	**($208,744)**	**($293,000)**	**($230,000)**	**---**	**($500,000)**
Beginning Cash & Equivalents	$762,007	$393,421	$119,941	$195,170	$110,494	$196,445	$407,016	$1,027,365
Net Change in Cash	(368,586)	(273,479)	75,228	(84,676)	85,952	210,571	620,349	526,258
Ending Cash & Equivalents	**$393,421**	**$119,941**	**$195,170**	**$110,494**	**$196,445**	**$407,016**	**$1,027,365**	**$1,553,623**
Fully-Taxed Levered Free Cash Flow								
Cash Flow from Operations	**($414,549)**	**($207,531)**	**$110,823**	**$224,068**	**$508,952**	**$647,807**	**$774,821**	**$1,053,494**
less. Capital Expenditure	(99,827)	(67,458)	(200,000)	(100,000)	(130,000)	(207,236)	(154,472)	(27,236)
less· Additions to System Under Construction	---	---	---	---	---	---	---	---
less Deferred Tax Benefits	(2,065)	(555)	---	---	(78,856)	(125,513)	(189,545)	(310,165)
Levered Free Cash Flow	**($516,441)**	**($275,544)**	**($89,177)**	**$124,068**	**$300,096**	**$315,058**	**$430,805**	**$716,093**
Levered Fully-Taxed Free Cash Flow per Reported Shares	**($0.37)**	**($0.19)**	**($0.06)**	**$0.09**	**$0.19**	**$0.20**	**$0.27**	**$0.45**

Source: Lehman Brothers, company reports

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

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Current Assets								
Cash And Cash Equivalents	393,421	119,941	195,170	110,494	196,445	407,016	1,027,365	1,553,623
Marketable Securities	15,500	4,960	4,960	4,960	4,960	4,960	4,960	4,960
Prepaid Expenses	52,588	82,608	106,640	130,497	164,123	185,407	205,033	236,639
Restricted Investments	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Other Current Assets	130,757	130,757	130 757	130 757	130 757	130 757	130,757	130,757
Total Current Assets	$617,266	$373,902	$462,527	$401,707	$521,286	$753,140	$1,393,116	$1,950,979
Property And Equipment, Net	$810,389	$784,556	$897,383	$897,674	$937,907	$1,059,878	$1,126,027	$1,066,646
FCC License	83,654	83,654	83,654	83,654	83,654	83,654	83,654	83,654
Restricted Investments, Net Of Current Portion	52,850	52,850	52,850	52,850	52,850	52,850	52,850	52,850
Deferred Financing Fees	13,166	10,029	6,892	3,755	618	---	---	---
Other Long-Term Assets	81 203	80 110	80 110	80,110	1 254	(124 259)	(313,804)	(623 969)
Total Assets	$1,658,528	$1,385,101	$1,583,416	$1,519,751	$1,597,569	$1,825,264	$2,341,843	$2,530,160
Current Liabilities								
Accounts Payable And Accrued Expenses	$437,913	$366,355	$415,526	$429,200	$446,120	$493,107	$525,284	$563,998
Accrued Interest	24,782	24,782	24,782	24,782	24,782	24,782	24,782	24,782
Deferred Revenue	412,370	570,928	727,749	893,429	1,033,316	1,160,025	1,264,383	1,353,011
Other	---	---	---	---	---	---	---	---
Total Current Liabilities	$875,065	$962,065	$1,168,057	$1,347,411	$1,504,218	$1,677,915	$1,814,449	$1,941,791
Long-Term Debt	$1,068,249	$1,067,339	$1,231,744	$1,023,000	$730,000	$500,000	$500,000	---
Accrued Interest, Net Of Current Portion	---	---	---	---	---	---	---	---
Deferred Revenue, Net Of Current Portion	76,580	76,580	76,580	76,580	76,580	76,580	76,580	76,580
Other Long-Term Liabilities	27 705	37 943	37,943	37 943	37 943	37,943	37,943	37,943
Total Liabilities	$2,047,599	$2,143,927	$2,514,324	$2,484,934	$2,348,741	$2,292,437	$2,428,972	$2,056,314
Stockholders' Equity								
Par Value	$1,435	$1,435	$1,435	$1,435	$1,435	$1,435	$1,435	$1,435
Additional Paid-In Capital	3,443,214	3,555,120	3,555,120	3,555,120	3,555,120	3,555,120	3,555,120	3,555,120
Deferred Compensation	---	---	---	---	---	---	---	---
Accumulated Other Comprehensive Income	---	---	---	---	---	---	---	---
Accumulated Deficit	(3,833,720)	(4 315 380)	(4 476 827)	(4 511,103)	(4 297 091)	(4 013 093)	(3 633 048)	(3 072 072)
Total Stockholders' Equity	($389,071)	($758,825)	($920,272)	($954,548)	($740,536)	($456,538)	($76,493)	$484,483
Total Liabilities And Stockholders' Equity	$1,658,528	$1,385,101	$1,594,052	$1,530,387	$1,608,205	$1,835,900	$2,352,479	$2,540,796

Source: Lehman Brothers, company reports

Figure 7. Sirius 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 Subscribers	4,077 7	4,678 2	5,119 3	6,024 6	6,024 6	6,581 0	7,155 5	7,502 6	8,043 6	8,043 6
Gross Additions	960 6	830 6	732 4	1,234 6	3,758 2	988 5	1,037 1	877 1	1,100 8	4,003 4
Net Additions	761 2	600 5	441 1	905 2	2,708 0	556 5	574 5	347 1	541 0	2,019 0
Avg Monthly Subscriber Revenue per Sub (includes mail-in rebates)	$10 15	$10 54	$10 68	$10 39	$10 45	$10 10	$10 44	$10 43	$10 29	$10 31
Avg Monthly Subscriber Revenue + Ad Revenue per Sub	$10 80	$11 16	$11 17	$10 92	$11 01	$10 46	$10 95	$11 06	$11 06	$10 88
Total ARPU (includes equipment and other revenue	$11 16	$11 49	$11 49	$12 02	$11 54	$10 80	$11 26	$11 34	$11 81	$11 30
Implied Monthly Churn	1 8%	1 8%	2 0%	2 0%	1 9%	2 3%	2 2%	2.4%	2 4%	2 3%
SAC Per Gross Addition	$113	$131	$114	$103	$114	$104	$110	$94	$85	$98
CPGA - Cost Per Gross Addition	147	188	155	161	162	132	157	129	152	143
Revenues										
Subscriber Revenue, Net of Rebates	$115,181	$137,636	$155,337	$167,210	$575,364	$190,796	$215,153	$229,330	$239,884	$875,163
Advertising Revenue, Net of Commissions	7,338	8,125	7,130	8,451	31,044	6,721	10,542	13,827	18,020	49,110
Equipment Revenue	3,692	3 096	3,579	16,431	26,798	4,671	5,025	5,143	16,116	30,956
Other	453	1,221	1,067	1,288	4,029	1 849	1,270	1,110	1,340	5,568
Total Revenues	$126,664	$150,078	$167,113	$193,380	$637,235	$204,037	$231,990	$249,411	$275,359	$960,796
Operating Expenses										
Satellite and Transmission	$7,301	$17,686	$7,090	$7,152	$39,229	$7,330	$7,959	$7,374	$7,438	$30,100
Programming and Content	56,444	53,011	55,917	64,843	230,215	72,368	61,330	65,023	74,424	273,142
Customer Service and Billing	15,841	13,659	14,718	23,919	68,137	21,654	21,876	22,583	35,698	101,811
Cost of Equipment	3,465	3,467	6,196	22,105	35,233	9,292	6,753	9,795	21,681	47,521
Sales and Marketing	39,296	56,609	41,474	85,113	222,492	44,349	67,857	51,765	96,626	260 597
Subscriber Acquisition Costs	109,144	108,663	80,863	121,046	419,716	98,237	111,799	77,092	87,154	374,282
General and Administrative	19,144	21,653	23,517	23,224	87,538	23,403	34,645	39,273	38,784	136,105
Research and Development	12,679	12,775	20,491	12,787	58,732	11,405	12,136	19,466	12,148	55,155
Equity granted to third parties and employees	284,586	67,289	43 418	42,625	437 918	24,260	24,260	24,260	24 260	97,040
Total Operating Expenses	$547,900	$354,812	$293,684	$402,814	$1,599,210	$312,296	$348,614	$316,631	$398,212	$1,375,753
Operating Cash Flow (EBITDA)	($421,236)	($204,734)	($126,571)	($209,434)	($961,975)	($108,259)	($116,625)	($67,220)	($122,853)	($414,957)
Depreciation expense	(24,933)	(25,738)	(27,583)	(27,495)	(105,749)	(26,786)	(22,088)	(22,169)	(22,248)	(93,291)
Operating Income (EBIT)	($446,169)	($230,472)	($154,154)	($236,929)	($1,067,724)	($135,045)	($138,713)	($89,389)	($145,101)	($508,248)
Other Income/(Expense)										
Special Charges/Debt Restructuring and Other	—	—	—	—	—	—	—	—	—	—
Income (expense) from affiliate	(4,445)	9	5	55	(4,376)	5		—	—	5
Gain on extinguishment of debt	—	—	—	—	—	—	—	—	—	—
Interest and investment income	9,937	8,873	7,750	6,760	33,320	6,042	3,883	2,852	2,439	15,216
Interest expense, net of amounts capitalized	(17,114)	(15,660)	(15 921)	(15,327)	(64,022)	(15,192)	(15,222)	(15,222)	(15,222)	(60 659)
Total Other Income/(Expense)	($11,622)	($6,778)	($8,166)	($8,512)	($35,078)	($9,145)	($11,339)	($12,371)	($12,783)	($45,637)
Income Before Income Taxes	($457,791)	($237,250)	($162,320)	($245,441)	($1,102,802)	($144,190)	($150,052)	($101,760)	($157,884)	($553,885)
Provision for Income Taxes	(753)	(578)	(578)	(156)	(2,065)	(555)	—	—	—	(555)
Net Income/(Loss)	($458,544)	($237,828)	($162,898)	($245,597)	($1,104,867)	($144,745)	($150,052)	($101,760)	($157,884)	($554,440)
Preferred stock dividends	—	—	—	—	—	—	—	—	—	—
Preferred stock deemed dividends	—	—	—	—	—	—	—	—	—	—
Accretion of dividends	—	—	—	—	—	—	—	—	—	—
Net loss applicable to common stockholders	($458,544)	($237,828)	($162,898)	($245,597)	($1,104,867)	($144,745)	($150,052)	($101,760)	($157,884)	($554,440)
Earnings Per Share (EPS)	($0 33)	($0.17)	($0.12)	($0.17)	($0.79)	($0.10)	($0.10)	($0.07)	($0.11)	($0 38)
Average shares outstanding	1,386,982	1,404,022	1,405,281	1,413,866	1,402,538	1,457,011	1,457,011	1,457,011	1,457,011	1,457,011
Diluted Earnings per Share	($0 33)	($0 17)	($0 12)	($0 17)	($0 79)	($0 10)	($0 10)	($0.07)	($0 11)	($0 38)
Diluted Shares	1,386,982	1,404,022	1,405,281	1,413,866	1,402,538	1,457,011	1,457,011	1,457,011	1,457,011	1,457,011
Total Revenues	193 1%	187 5%	150 1%	141 7%	163 1%	61 1%	54 6%	49 2%	42.4%	50 8%
Pre-Marketing Expenses	72 9%	109 3%	95 6%	57 1%	80 1%	26 6%	18 4%	27 8%	23 5%	24 0%
Operating Cash Flow (EBITDA)	—	—	—	—	—	—	—	—	—	—
Operating Income (EBIT)	—	—	—	—	—	—	—	—	—	—
Net Income/(Loss)	—	—	—	—	—	—	—	—	—	—
Pre-Marketing Margins	9 3%	18 5%	23 4%	20 3%	18 5%	28 7%	37 6%	34 4%	30 9%	33 0%
Operating Cash Flow (EBITDA)	(332 6%)	(136 4%)	(75 7%)	(108 3%)	(151 0%)	(53 1%)	(50 3%)	(27 0%)	(44 6%)	(43 2%)
Operating Income (EBIT)	(352 2%)	(153 6%)	(92 2%)	(122 5%)	(167 6%)	(66 2%)	(59 8%)	(35 8%)	(52 7%)	(52 9%)
Net Income/(Loss)	(362 0%)	(158 5%)	(97 5%)	(127 0%)	(173 4%)	(70 9%)	(64 7%)	(40 8%)	(57 3%)	(57 7%)

Source: Lehman Brothers, company reports

Figure 8. Sirius 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)	($458,544)	($237,828)	($162,898)	($245,597)	($1,104,867)	($144,745)	($150,052)	($101,760)	($157,884)	($554,440)
Depreciation expense	24,933	25,738	27,583	27,495	105,749	26,786	22,088	22,169	22,248	93,291
Non-cash interest expense/Debt accretion	761	786	785	775	3,107	754	784	784	784	3,107
Gain/Loss on disposal of assets	221	320	348	772	1,661	(4)	—	—	—	(4)
Non-cash stock compensation expense/(benefit)	284,586	67,289	43 418	42,625	437,918	24 260	24,260	24,260	24,260	97,040
Deferred Income Taxes	753	578	578	156	2,065	555	—	—	—	555
Non-cash gain associated with debt restructuring	—	—	—	—	—	—	—	—	—	—
Gain on extinguishment of long-term debt	—	—	—	—	—	—	—	—	—	—
Costs associated with debt restructuring	—	—	—	—	—	—	—	—	—	—
Other	4,053	12,920	(369)	6,271	22,875	2,088	—	—	—	2,088
Changes in assets and liabilities										
Marketable securities	—	—	—	—	—	—	—	—	—	—
Prepaid expenses	(13,004)	(24,346)	(19,227)	14,210	(42,367)	(10,576)	(8,386)	(5,226)	(7,784)	(31,973)
Other assets	579	(25 667)	3,414	(38,229)	(59,903)	(2,924)	—	—	—	(2 924)
Accounts payable and accrued expenses	(45,220)	27,202	(52,956)	104,493	33,519	(47,811)	33,413	(29,425)	75,054	31,232
Accrued interest	(10,460)	11,620	(11,620)	11,699	1,239	(11,763)	—	—	—	(11,763)
Deferred revenue	44,458	29,389	1,822	105,334	181,003	21,731	40,292	11,719	84 816	158,558
Other current liabilities	7,543	1,052	(16,646)	11,503	3 452	7,702	—	—	—	7 702
Net Cash From Operating Activities	**($159,341)**	**($110,947)**	**($185,768)**	**$41,507**	**($414,549)**	**($133,947)**	**($37,600)**	**($77,478)**	**$41,494**	**($207,531)**
Cash Flows From Investing Activities										
Additions to property and equipment	($5,496)	($22,284)	($66,588)	($5,459)	($99,827)	($12,458)	($25,000)	($25,000)	($5,000)	($67,458)
Additions to FCC license	—	—	—	—	—	—	—	—	—	—
Proceeds from the sale of assets	52	71	—	4	127	96	—	—	—	—
Purchases of restricted investments	(700)	—	(5,000)	(6,639)	(12,339)	(310)	—	—	—	—
Maturities of restricted investments	—	—	25,000	1,000	26,000	—	—	—	—	—
Purchases of available-for-sale securities	(71,600)	(36,900)	(10,000)	(5,000)	(123,500)	—	—	—	—	—
Maturities of available-for-sale securities	104,450	72 675	24,215	28,375	229,715	10,850	—	—	—	—
Net Cash From Investing Activities	**$26,706**	**$13,562**	**($32,373)**	**$12,281**	**$20,176**	**($1,822)**	**($25,000)**	**($25,000)**	**($5,000)**	**($67,458)**
Cash Flows From Financing Activities										
Proceeds from issuance of long-term debt, net	—	—	—	—	—	—	—	—	—	—
Additional borrowings/(repayments)	—	—	—	—	—	—	—	—	—	—
Proceeds from issuance of common stock, net	—	—	—	—	—	—	—	—	—	—
Costs associated with debt restructuring	—	—	—	—	—	—	—	—	—	—
Proceeds from exercise of stock options	1,459	1 517	1,054	21,757	25,787	1 510	—	—	—	1,510
Proceeds from exercise of warrants	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—	—
Net Cash From Financing Activities	**$1,459**	**$1,517**	**$1,054**	**$21,757**	**$25,787**	**$1,510**	—	—	—	**$1,510**
Beginning Cash & Equivalents	$762,007	$630,831	$534,963	$317,876	$762,007	$393,421	$259,162	$196,562	$94,084	$393,421
Net Change in Cash	(131,176)	(95,868)	(217,087)	75,545	(368 586)	(134,259)	(62,600)	(102 478)	36,494	(273 479)
Ending Cash & Equivalents	**$630,831**	**$534,963**	**$317,876**	**$393,421**	**$393,421**	**$259,162**	**$196,562**	**$94,084**	**$130,577**	**$119,941**
Fully-Taxed Levered Free Cash Flow										
Cash Flow from Operations	**($159,341)**	**($110,947)**	**($185,768)**	**$41,507**	**($414,549)**	**($133,947)**	**($37,600)**	**($77,478)**	**$41,494**	**($207,531)**
less Capital Expenditure	(5,496)	(22,284)	(66,588)	(5,459)	(99,827)	(12,458)	(25,000)	(25,000)	(5,000)	(67,458)
less Additions to System Under Construction	—	—	—	—	—	—	—	—	—	—
less Deferred Tax Benefits	(753)	(578)	(578)	(156)	(2,065)	(555)	—	—	—	(555)
Levered Free Cash Flow	**($165,590)**	**($133,809)**	**($252,934)**	**$35,892**	**($516,441)**	**($146,960)**	**($62,600)**	**($102,478)**	**$36,494**	**($275,544)**
Levered Fully-Taxed Free Cash Flow per Reported Shares	**($0 12)**	**($0 10)**	**($0.18)**	**$0.03**	**($0 37)**	**($0 10)**	**($0.04)**	**($0 07)**	**$0 03**	**($0 19)**

Source: Lehman Brothers, company reports

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

	1Q06A	2Q06A	3Q06A	4Q06A	2006A	1Q07A	2Q07E	3Q07E	4Q07E	2007E
Current Assets										
Cash And Cash Equivalents	$630,831	$534,963	$317,876	$393,421	$393,421	$259,162	$196,562	$94,084	$130,577	$119,941
Marketable Securities	84 400	48,625	34,425	15,500	15,500	4,960	4,960	4,960	4,960	4,960
Prepaid Expenses	37 016	61,362	64,432	52,588	52,588	61,211	69 567	74,823	82,608	82 608
Restricted Investments	25,165	25,165	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Other Current Assets	81 013	106 680	93,243	130,757	130 757	130,757	130 757	130,757	130,757	130,757
Total Current Assets	**$858,425**	**$776,795**	**$534,976**	**$617,266**	**$617,266**	**$481,090**	**$426,876**	**$329,624**	**$373,902**	**$373,902**
Property And Equipment, Net	$806,478	$803,024	$833,599	$810,389	810,389	$795,061	$798,973	$801,804	$784,556	784,556
FCC License	83,654	83,654	83,654	83,654	83,654	83,654	83,654	83,654	83,654	83,654
Restricted Investments, Net Of Current Portion	83,150	83,150	58,300	52,850	52,850	52,850	52,850	52,850	52,850	52,850
Deferred Financing Fees	15,693	15,635	14,123	13,166	13,166	12,382	11,598	10,813	10,029	10,029
Other Long-Term Assets	60,704	49,138	85 964	81,203	81 203	80,110	80 110	80 110	80,110	80 110
Total Assets	**$1,908,104**	**$1,811,396**	**$1,610,616**	**$1,658,528**	**$1,658,528**	**$1,506,147**	**$1,454,060**	**$1,358,855**	**$1,385,101**	**$1,385,101**
Current Liabilities										
Accounts Payable And Accrued Expenses	$293,500	$320,702	$314,242	$437,913	$437,913	$287,312	$320,725	$291,300	$366,355	$366,355
Accrued Interest	13,083	24,703	13,083	24,782	24,782	24,782	24,782	24,782	24,782	24,782
Deferred Revenue	285,186	314,575	314,080	412,370	412,370	434,101	474,393	486,112	570,928	570,928
Other	—	1,052	—	—	—	—	—	—	—	—
Total Current Liabilities	**$591,769**	**$661,032**	**$641,405**	**$875,065**	**$875,065**	**$746,195**	**$819,901**	**$802,195**	**$962,065**	**$962,065**
Long-Term Debt	$1,083,929	$1,083,929	$1,083,929	$1,068 249	1,068,249	$1,067,339	$1,067,339	$1,067,339	$1,067,339	1,067 339
Accrued Interest, Net Of Current Portion	—	—	—	—	—	—	—	—	—	—
Deferred Revenue, Net Of Current Portion	67,219	67,219	69,536	76 580	76,580	76,580	76,580	76,580	76,580	76,580
Other Long-Term Liabilities	30 484	56,339	16 046	27 705	27 705	37,943	37,943	37,943	37 943	37 943
Total Liabilities	**$1,773,401**	**$1,868,519**	**$1,810,916**	**$2,047,599**	**$2,047,599**	**$1,928,057**	**$2,001,762**	**$1,984,056**	**$2,143,927**	**$2,143,927**
Stockholders' Equity										
Par Value	$1,402	$1,402	$1,406	$1,435	1,435	$1,435	$1,435	$1 435	$1,435	1,435
Additional Paid-In Capital	3,320 698	3,366,700	3,386,417	3,443,214	3,443,214	3,555,120	3,555,120	3,555 120	3,555,120	3,555,120
Deferred Compensation	—	—	—	—	—	—	—	—	—	—
Accumulated Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
Accumulated Deficit	(3,187,397)	(3 425 225)	(3,588,123)	(3,833,720)	(3 833,720)	(3,978,465)	(4,104,257)	(4,181,756)	(4,315,380)	(4 315 380)
Total Stockholders' Equity	**$134,703**	**($57,123)**	**($200,300)**	**($389,071)**	**($389,071)**	**($421,910)**	**($547,702)**	**($625,201)**	**($758,825)**	**($758,825)**
Total Liabilities And Stockholders' Equity	**$1,908,104**	**$1,811,396**	**$1,610,616**	**$1,658,528**	**$1,658,528**	**$1,506,147**	**$1,454,060**	**$1,358,855**	**$1,385,101**	**$1,385,101**

Source: Lehman Brothers, company reports

Valuation. Our YE 2007E price target of $5.40 is based on a stand-alone Discounted Cash Flow (DCF) valuation. Our key assumptions include risk free rate of 5.0%, an equity risk premium of 4.8%, levered beta of 1.4, cost of debt at 8.0%, target debt-to-capital of 40%, and unlevered free cash flow (FCF) growth rate in perpetuity of 3.5%, yielding a 9.0% weighted average cost of capital (WACC) and 18.7x multiple on terminal year unlevered FCF.

Figure 10. Sirius 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)	**($508,248)**	**($204,295)**	**($76,552)**	**$239,711**	**$332,215**	**$456,768**	**$718,574**	**$718,574**
Less Income Tax Expense	---	---	---	---	---	---	---	(280,244)
Net Operating Profit Less Adjusted Taxes	**($508,248)**	**($204,295)**	**($76,552)**	**$239,711**	**$332,215**	**$456,768**	**$718,574**	**$438,330**
Depreciation & Amortization	93,291	87,173	99,709	89,767	85,264	88,323	86,617	85,000
Change in Working Capital	150,832	181,960	155,497	123,180	152,413	116,908	95,736	95,736
Capital Expenditures	(67,458)	(200,000)	(100,000)	(130,000)	(207,236)	(154,472)	(27,236)	(85,000)
Total Other	$102,231	$98,865	$98,865	$98,865	$96,346	$95,728	$95,728	$95,728
Unlevered Free Cash Flow	**($229,352)**	**($36,297)**	**$177,520**	**$421,523**	**$459,003**	**$603,256**	**$969,419**	**$629,794**
2007E PV of Unlevered FCF	---	(33,293)	149,353	325,291	324,900	391,669	577,316	
2008E PV of Unlevered FCF	---	---	162,874	354,836	354,507	427,478	630,271	
PV of Terminal Value	7,029,107	7,663,313	8,354,739	9,108,551	9,930,375	10,826,349	11,803,163	

	2007E	2008E
Sum of the PV of Interim Unlevered FCF	$1,735,237	$1,929,966
PV of Terminal Value	7,029,107	7,663,313
Gross Asset Value	**$8,764,344**	**$9,593,278**
Add Option/Warrant Proceeds	255,411	255,411
Add. Cash & Equivalents	202,752	277,980
Add PV of Deferred Tax Benefits	467,955	510,176
Less: Debt	(1,067,339)	(1,231,744)
Net Asset Value (NAV)	**$8,623,122**	**$9,405,102**
Diluted Shares	1,591,971	1,591,971
Fair Value per Share	**$5.42**	**$5.91**
Current Price	$2.90	$2.90
Upside	86.6%	103.5%

Cost of Equity:	11.8%
Tax-Adjusted Cost of Debt:	4.9%
Debt/Total Capitalization	40.0%
Weighted Average Cost of Capital	9.0%
G (Perpetual Growth Rate)	3.5%
Terminal Multiple = (1+G)/(WACC-G)	18.7x
Implied Terminal Yr Multiple on EBITDA:	22.6x

Source: Lehman Brothers, company reports

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

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Per Share Metrics								
Earnings Per Share (EPS), Excluding Extraordinary Items	($0 79)	($0 38)	($0 18)	($0 09)	$0 07	$0.12	$0 18	$0.29
Free Cash Flow per Share	(0 32)	(0 17)	(0 06)	0 08	0 24	0 28	0 39	0.64
Normalized FCF per Share	(0 32)	(0.18)	0 02	0 09	0 22	0 27	0 31	0 41
Per Share Multiples								
Price Earnings (P/E) Ratio	---	---	---	---	39 1x	24 5x	16 3x	9 9x
Price to FCF	---	---	---	37 2x	12 2x	10 5x	7 4x	4 5x
Free Cash Flow Yield	---	---	---	2 7%	8 2%	9 5%	13 4%	22 2%
Price (Net of NPV of Tax Shields) to Normalized FCF	---	---	138 0x	24 9x	10 0x	7 9x	7 1x	5 7x
Free Cash Flow Yield	---	---	0.7%	4.0%	10.0%	12 6%	14 1%	17.5%
Enterprise Value								
Fully Diluted Shares	1,592 0	1,592 0	1,592 0	1,592 0	1,592 0	1,592 0	1,592 0	1,592.0
Current Share Price	$2 90	$2 90	$2 90	$2 90	$2 90	$2.90	$2 90	$2 90
Equity Market Capitalization	$4,620 7	$4 620 7	$4,620 7	$4,620 7	$4,620.7	$4,620.7	$4,620 7	$4,620 7
Add Debt	1,068 2	1,067 3	1,231 7	1,023 0	730 0	500 0	500 0	---
Less Cash, Equivalents & Option Proceeds	(742 2)	(458 2)	(533 4)	(448 7)	(534 7)	(745 2)	(1 365 6)	(1,891 8)
Enterprise Value	**$4,946.8**	**$5,229.9**	**$5,319.0**	**$5,195.0**	**$4,816.0**	**$4,375.5**	**$3,755.1**	**$2,728.9**
Operating Cash Flows (EBITDA)	($962 0)	($415 0)	($117 1)	$23 2	$329 5	$417 5	$545.1	$805 2
EV/EBITDA	**n/a**	**n/a**	**n/a**	**224.3x**	**14.6x**	**10.5x**	**6.9x**	**3.4x**
EV/Forward EBITDA	**n/a**	**n/a**	**229.7x**	**15.8x**	**11.5x**	**8.0x**	**4.7x**	
Ending Subscribers ('000s)	6,025	8,044	10,054	12,201	14,049	15,753	17,192	18,446
Value per Subscriber	**$821**	**$650**	**$529**	**$426**	**$343**	**$278**	**$218**	**$148**
06E EV per Subscriber	**$821**	**$650**	**$529**	**$426**	**$343**	**$278**	**$218**	**$148**
Cash Flow from Operations	**($414.5)**	**($207.5)**	**$110.8**	**$224.1**	**$509.0**	**$647.8**	**$774.8**	**$1,053.5**
less Capital Expenditure	(99 8)	(67 5)	(200 0)	(100 0)	(130 0)	(207 2)	(154 5)	(27 2)
Levered Free Cash Flow	**($514.4)**	**($275.0)**	**($89.2)**	**$124.1**	**$379.0**	**$440.6**	**$620.3**	**$1,026.3**
Ending Subscribers ('000s)	**6,024.6**	**8,043.6**	**10,054.1**	**12,201.4**	**14,049.3**	**15,752.9**	**17,191.8**	**18,446.3**
FCF per Subscriber	($85 38)	($34 19)	($8 87)	$10.17	$26 97	$27 97	$36 08	$55 63
FCF / EBITDA Conversion	**---**	**---**	**---**	**535.8%**	**115.0%**	**105.5%**	**113.8%**	**127.5%**
Cash Flow from Operations	***($414.5)***	***($207.5)***	***$110.8***	***$224.1***	***$509.0***	***$647.8***	***$774.8***	***$1,053.5***
less: Normalized Capital Expenditure	(85 0)	(85 0)	(85.0)	(85 0)	(85 0)	(85 0)	(85 0)	(85 0)
less: Deferred Tax Benefits	(2 1)	(0 6)	---	---	(78 9)	(125 5)	(189 5)	(310 2)
Levered Free Cash Flow	**($501.6)**	**($293.1)**	**$25.8**	**$139.1**	**$345.1**	**$437.3**	**$500.3**	**$658.3**
NPV of NOLs	**$890.7**	**$970.5**	**$1,058.1**	**$1,153.6**	**$1,178.8**	**$1,159.7**	**$1,074.7**	**$861.5**
Per Share	$0 56	$0 61	$0 66	$0.72	$0 74	$0.73	$0 68	$0 54
Ending Subscribers ('000s)	**6,024.6**	**8,043.6**	**10,054.1**	**12,201.4**	**14,049.3**	**15,752.9**	**17,191.8**	**18,446.3**
FCF per Subscriber	($83 26)	($36 44)	$2 57	$11 40	$24 56	$27.76	$29 10	$35 69
FCF / EBITDA Conversion	**---**	**---**	**---**	**600.5%**	**104.7%**	**104.7%**	**91.8%**	**81.8%**
Net Debt/EBITDA	NM	NM	NM	39 4x	1 6x	0 2x	(1 0)x	(1.9)x
Debt/Subscriber	$177	$133	$123	$84	$52	$32	$29	---
Net Debt/Subscriber	97	106	95	68	32	1	n/a	n/a
Coverage Ratios								
EBITDA/Net Interest & Dividends	---	---	---	0 4x	7 4x	19.5x	(41 6)x	(15 5)x
(EBITDA-Capex)/Net Interest & Dividends	---	---	---	---	5 1x	13 4x	(25 8)x	(12.6)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:

Sirius 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.