Research Note

May 1, 2007

Price (as of close 5/1/07)
$2.90

Rating
BUY

12- Month Target Price
$4.00

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Company Description

Sirius Satellite Radio was founded in 1990 and is based New York City The company operates in a duopoly, as one of two FCC licensed providers of satellite radio Sirius offers subscribers over 130 channels of commercial free music and talk channels on a coast-to-coast basis for $12 95 per month

Sirius Satellite Radio (SIRI)

Favorable Quarter Not Enough to Offset Longer-Term Challenges

52-Week Range	$2.80 - 5.00	Market Capitalization	$5.0 billion
Shares Outstanding	1.8 billion	Enterprise Value	$5.9 billion
Insider/Institutional	1% / 28%	Debt	$1.1 billion
Public Float	1.3 billion	EBITDA	$(962.0) million
Short Interest	123.6 million	Subscribers	6.0 million

FYE DEC	2006A	2007E		2008E	
EPS($)	ACTUAL	CURRENT	PREVIOUS	CURRENT	PREVIOUS
Q1 Mar	$(0.33)	$(0.10)A	$(0.12)E	$(0.09)E	$(0.06)E
Q2 Jun	(0.17)	(0.07)E	(0.09)E	(0.05)E	(0.02)E
Q3 Sep	(0.12)	(0.08)E	(0.08)E	(0.05)E	(0.02)E
Q4 Dec	(0.17)	(0.12)E	(0.13)E	(0.12)E	(0.10E
Year*	**$(0.79)**	**$(0.38)E**	**$(0.43)E**	**$(0.31)E**	**$(0.21)E**
P/E Ratio	N/A	N/A	N/A	N/A	N/A
Change					

FYE DEC	2006A	2007E		2008E	
Revenue ($ mil.)	ACTUAL	CURRENT	PREVIOUS	CURRENT	PREVIOUS
Q1 Mar	$126.7	$204.0A	$213.0E	$289.8E	$336.0E
Q2 Jun	150.1	222.6E	229.1E	314.8E	362.3E
Q3 Sep	167.1	241.5E	262.1E	336.1E	386.2E
Q4 Dec	193.4	267.9E	282.7E	352.4E	392.1E
Year**	**$637.2**	**$936.0E**	**$996.9E**	**$1,293.1E**	**$1,476.4E**
Change	163%	47%	55%	38%	50%

** Numbers may not add up due to rounding.*

- **Q1 results better than expected, led by subscriber additions.** Although Sirius is continuing to evolve into a more financially driven story, the rate of consumer adoption (e.g., subscriber growth) remains the greatest area of focus, especially since the company still needs considerable growth to justify its present valuation levels. On that note, Sirius reported net subscriber additions of 556k, besting our 496k net adds estimate. We believe the subscriber growth, relative to expectations, came from two areas—an increase in multi-family subscriptions and OEM demand. The results were naturally down from last year's 761k net adds, given a diminished Howard Stern effect and a larger replacement churn burden. Nevertheless, relative to the competition, Sirius' Q1 gross additions were 989k, well ahead of XM's 868k. On net adds, the difference with XM was even greater: 556k vs. 285k.
- **It was surprising to see EPS hold up so well, particularly since subscriber growth was good.** Sirius reported EPS of ($0.10), in line with our ($0.12) estimate and the ($0.11) consensus estimate. The relatively strong bottom-line result is unusual given that the subscriber result was ahead of expectations. Thus, this quarter's result demonstrates that Sirius was able to grow without having to buy its growth (vis-à-vis SAC, which was $104 per addition vs. last year's $114 and our $121 estimate). Good subscriber growth and incremental EPS gains are typically inversely correlated because of SAC, which usually makes the bottom-line contribution from new subscribers incrementally negative.
- **In spite of the positive quarter, we are concerned about ARPU progression; consequently, we are lowering our long-term subscription and advertising ARPU assumptions, reducing our price target from $5 to $4.** Monthly ARPU fell to $10.49 from last quarter's $10.92, impacted by both a weaker advertising contribution and lower subscription rates (due to an increase in multi-family plan additions). Although the impact on this quarter's results was meaningful to revenue, the ARPU impact on the quarter was not so large to overshadow the other positives, namely subscriber growth and lower costs. However, we perceive the positive developments as more short term in duration, at least relative to ARPU, which is an on-going and evolving metric. In other words, we perceive the smaller negative ARPU change as more meaningful than the larger, but more short-term subscriber and SAC variances. The difficulty now is that we perceive advertising ARPUs are not as likely to ramp up as fast as previously modeled and that a greater proportion of our future growth could be coming from multi-family plan subs, which carry lower ARPUs. Keep in mind that we estimate about 150k of this quarter's

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Media

almost one million gross additions came from such promotions. Although it's a positive to earn more from a given household, the share of gross adds under such plans is greater than previously forecast, which is why our model is being negatively impacted aside from the separate negative advertising change. For perspective, we moved our full-year 2007 ARPU to $10.78 from $11.60, though we lowered ARPU throughout our projection horizon. On a brighter note, in light of this quarter's SAC reductions, we accelerated the pace of our 2007 SAC improvements. We now estimate SAC of $99 for full-year 2007, down from our prior estimate of $103. Unfortunately, the SAC changes we perceive are more short-term in nature, at least relative to changes we made in our ARPU progression. Last but not least, in terms of subscribers, we are holding our quarterly net adds at essentially the same level, plus Q1's positive variance. Consequently, we are at 2.15 million net additions, ahead of the company's guidance of approximately 2 million.

- **We still favor Sirius over XM given its competitive strengths and our perception that the proposed merger's approval is unlikely.** We think Sirius' subscriber growth story, which we attribute largely to a content advantage, and better cash flow profile continue to warrant a substantial premium over XM. Based on our DCF analyses, we believe the market is only somewhat differentiating the two companies, making Sirius the more attractive. Having said that, it's hard not to acknowledge that both equities tend to trade largely in tandem and share many of the same risks (e.g., merger risk and subscriber evolution) and opportunities (subscriber evolution). We still see Sirius, and for that matter XM as well, as better second-half 2007 stories, thinking that a stronger OEM ramp and regulatory clarity of the merger, one way or the other, will help investors return to these equities.
- **Reiterate BUY.** Our $4 price target is based on a DCF analysis and does not incorporate any merger premium/benefit, consistent with our view that the transaction has less than a 50% likelihood of approval and thus, will likely be denied within 12 months.
- Risks to attainment of our share price target include shortfalls in subscriber growth; increased competition whether from XM; AM/FM radio, HD Radio, or streaming-media services; new/increased government regulation; a prolonged and/or failed merger attempt; an inability to renew key content and OEM contracts; satellite anomalies; and an unfavorable outcome in the ongoing arbitration process with record labels over royalty rates.

Subscriber Metrics

- **ARPU is our biggest knock on the quarter.** Monthly ARPU was $10.49, down noticeably from last quarter's $10.92 and our $10.99 estimate. The bulk of the difference came from a shortfall in the advertising contribution ($0.36/mo vs. our expected $0.63/mo). Howard Stern's decision not to work Fridays and to take more vacation this year versus last year reportedly impacted the advertising sales. However, even if we exclude the advertising delta, the core subscription rate was also weak, off almost 20 cents. We estimate about 9 cents of that difference came from a positive uptake in cheaper multi-family plan subscriptions. We would like to see ARPU recover in future quarters, closer to $11/mo. Naturally, if ARPU does not recover and growth remains essentially as forecast, the impact on value would be negative, as the change lowers the ROI of a subscriber.
- **Although still below full-year guidance, we consider the pace of Q1 SAC improvements better than expected.** Q1 SAC was $104, excluding marketing costs. Although the figure was well ahead of our $121 estimate, SAC was down materially against last year's $114. Importantly, we think the rate of improvement still keeps the company on pace to achieving its 2007 guidance of approximately $95 in SAC for the year. The reductions in SAC will come from the OEM channel, as newer OEM subs start to contribute subscribers under agreements with less onerous SAC provisions, and cheaper retail receivers, made available by the holiday selling season. For 2007, we previously were forecasting SAC of $103. In light of the early improvements in the year, we are moving our full-year SAC estimate to $99.
- **OEMs additions are ramping earlier and faster than expected...** We the estimate that roughly two-thirds of the positive subscriber variance came from OEM additions. Retail variance, which explains the remaining third, seems to have been helped by a good response to the company's multi-family plan (e.g., additional subscriptions cost $6.99/mo, below the normal $12.99/mo), based on the anecdotal tidbits that we pieced together from today's earnings call. As an aside, the company indicated that 16% of its subscribers are on a multi-family plan. Importantly, we don't expect the OEM strength to diminish in coming quarters or even years. Keep in mind, in the past few weeks, Sirius made five new standard equipment announcements, including Audi (six models) and

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Lincoln (all 2008 model-year vehicles). Mercedes Benz is also targeting a penetration rate that could move to 90% by 2009. Thus, there remains a clear path, based on these and a host of other OEM production announcements, for OEM sales to continue to ramp up.

- **...however, churn from OEM additions signed long ago are now starting to have an impact.** Q1's churn was 2.3% on the company's basis, up dramatically against both our estimate and historical sequential and yearly figures. Although the company did not disclose self-pay churn (which excludes the distortion of OEM subs falling off promotional periods), higher self-pay churn likely explains only a small portion of this quarter's increase. We believe the bulk of the increase comes from OEM subs, namely subs signed six-months to 1-year ago under promotional programs that are not opting to go self-pay when the promotional periods expire. It would be appreciated if Sirius adopted XM's reporting style, which broke out self-pay churn in order to remove confusion about why churn oscillates. Nevertheless, if there is any good news, it is that this quarter's result was within the context of the company's annual guidance of 2.2% to 2.4%. Our issue was that the OEM churn impact arrived a quarter or two ahead of our thinking. Note that there is typically a 6-month promotional period on Ford additions, 12-month promotional period on DaimlerChrysler adds, and no such distortion on Audi/Volkswagen adds as they do not have a comparable automaker-funded promotional period.

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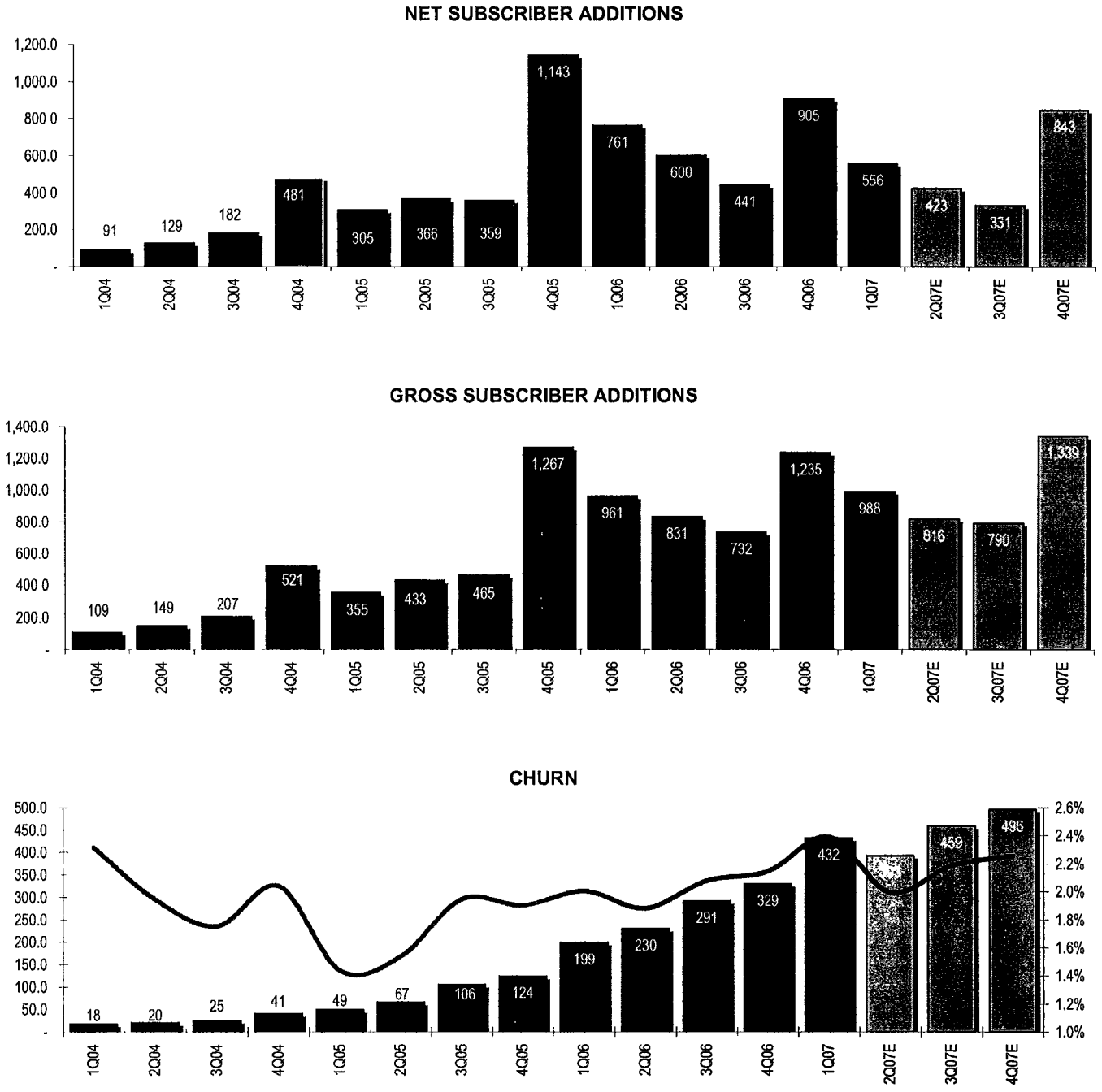
Figure 1. Sirius Subscriber Growth and Churn Trends

($000's)



Note: Projected figures are shaded lightly.
Source: Wedbush Morgan Securities

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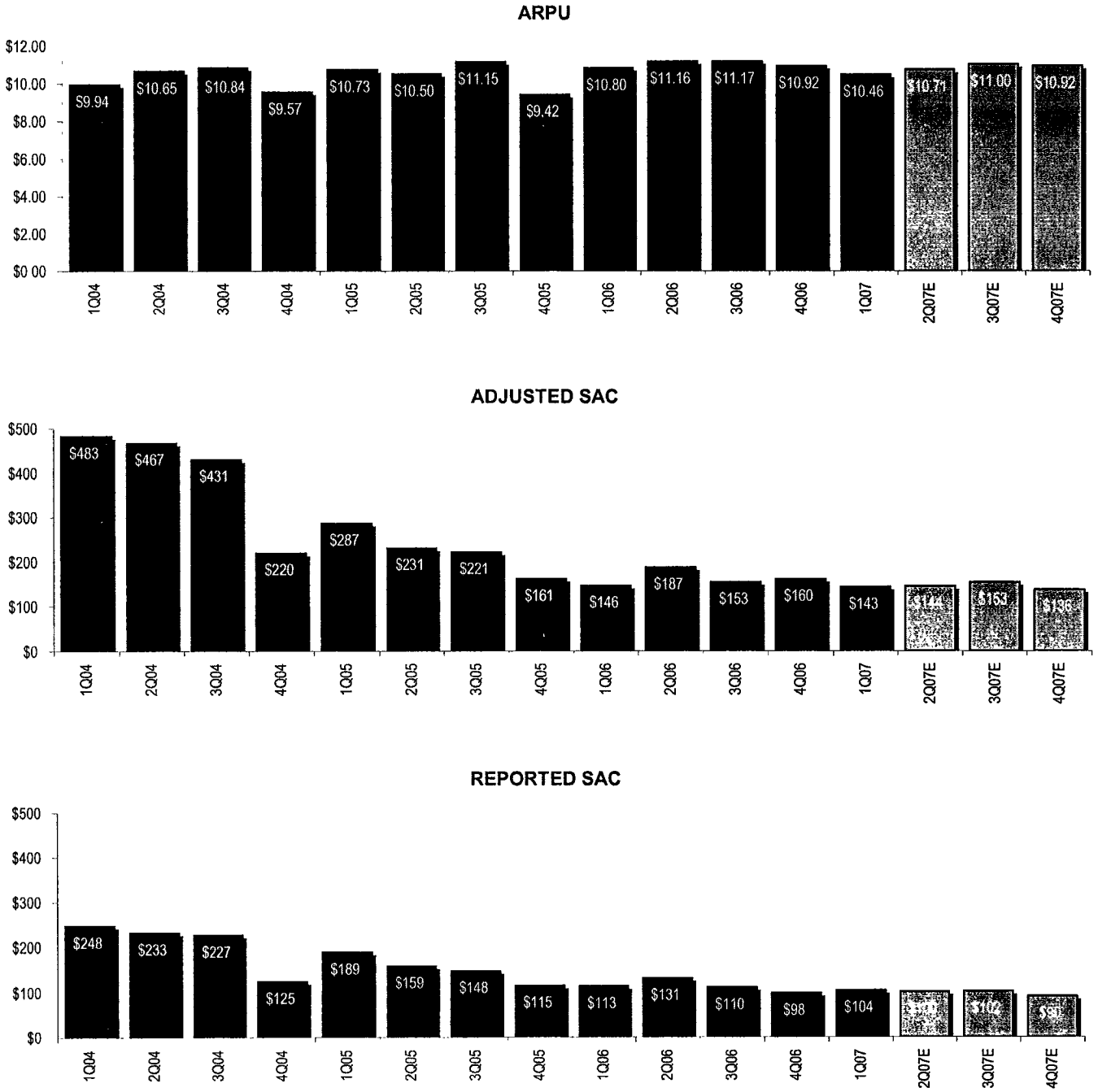
Figure 2. Sirius ARPU, Adjusted SAC, and SAC Trends



Note: Projected figures are shaded lightly.
Source: Wedbush Morgan Securities

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Sirius - Automaker Round-up

The following key OEM agreements/updates are listed by announcement date.

Mercedes-Benz 4/24/07	Mercedes-Benz to offer Sirius in more than **80% of its vehicles in 2007, with plans to continue building to 90% for 2008 and over 90% by 2009.** The growth in the installation rate far exceeds earlier estimates of 50 percent that were set less than two years ago. Mercedes-Benz also plans to offer Sirius as standard equipment on two additional models this year: the S-Class and CLS. Sirius is currently standard in Mercedes-Benz's SL-Class and CL-Class model vehicles, and all AMG and 600 model vehicles.
Audi 4/5/07	Audi offering Sirius as standard equipment on S4, RS 4, A6, A8, R8 and select Audi Q7 models
Mitsubishi 4/5/07	Mitsubishi will offer Sirius as a standard feature on the new 2008 model year Eclipse Spyder, which will be available for sale starting April. Mitsubishi will also extend factory availability of Sirius to the full lineup of Mitsubishi vehicles in all 2008 models.
Lincoln 4/3/07	Starting with the 2008 model year, Sirius to be standard on Lincoln MKZ, Lincoln MKX, Lincoln Navigator, Lincoln Navigator L and Lincoln Mark LT. **Sirius to be factory installed on 23 Ford, Lincoln and Mercury vehicle lines by 2008 model year.**
Land Rover 3/28/07	Land Rover offering Sirius as standard equipment on 2007 model year Range Rover and Supercharged Range Rover Sport. In addition, Sirius will be available as a factory installed option on the all-new LR2, making Sirius available on all Land Rover vehicles.
MINI USA 3/27/07	Sirius available as a factory installed option with a lifetime subscription on the all-new 2007 MINI Cooper and MINI Cooper S hardtops produced beginning this June. The lifetime subscription is transferable with the car from one owner to the next. The factory-installed Sirius radio with a lifetime subscription will be available for an MSRP of $950. MINI USA will also offer Sirius, with a lifetime subscription, as part of its upgraded Audio Pack that also includes MINI's Hi-Fi sound system, for an MSRP of just $1,400.
Volvo 8/8/06	Starting with the 2007 model year, Volvo plans to offer factory installed Sirius with a six-month subscription on the following vehicle lines: Volvo S40, V50, C70, and the new S80.

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Audi 3/17/06	Audi will exclusively offer Sirius for Audi vehicles sold in the U.S., beginning with model year 2007 through 2012. As of the press release date, **the installation rate of satellite radio in Audi models was approximately 50%.**
Volkswagen 3/17/06	Volkswagen will exclusively offer Sirius beginning with the introduction of its 2007 model year vehicles, and **expects to equip approximately 80% with Sirius satellite radio receivers.** Additionally, Volkswagen will offer three months of complimentary service.
Subaru 2/9/06	Beginning in May of 2006, Subaru offered Sirius exclusively as a port and dealer installed option in the 2007 Subaru Forester. In August 2006, Subaru will begin offering Sirius exclusively as a port and dealer installed option in the 2007 Subaru Impreza. All vehicles installed with Sirius will include three months of free service.
Rolls-Royce 1/11/06	Rolls-Royce Motor Cars and Sirius today announced an **exclusive agreement for the inclusion of Sirius radios as standard equipment in all Rolls-Royce vehicles sold in the United States, including a lifetime subscription to the service.**
Mazda 12/1/05	Mazda began offering Sirius as a port-installed option on the following 2006 model year vehicles: MAZDA3, MAZDA6, Mazda RX-8, MPV, Tribute, MAZDA5, and Mazda MX-5 Miata.
Mercedes-Benz 11/17/05	Sirius and Mercedes-Benz USA announced that they have **extended their exclusive relationship to September 1, 2012**, and that the luxury automaker plans to offer Sirius as a **standard feature on select 2007 model year vehicles**, beginning in 2006. Initially, Mercedes-Benz plans to offer Sirius as a standard feature on all 2007 model year SL-Class and CL-Class vehicles, and all AMG and 600 model vehicles. Mercedes-Benz also plans to extend the number of models with Sirius as a standard feature in the future. **Vehicles installed with Sirius will account for approximately 50% of Mercedes-Benz vehicles sold over the next two years.**

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DaimlerChrysler 10/31/05	Sirius and DaimlerChrysler announced that they have **extended their exclusive relationship through September 1, 2012**. The agreement includes all Chrysler Group and Mercedes-Benz vehicles as well as Freightliner Trucks. **The Chrysler Group is now targeting a 40% overall penetration rate for the 2007 model year with their Sirius factory programs, up from approximately 30% in the 2006 model year.**
BMW 9/13/05	Sirius and BMW announced an agreement that **extends Sirius' exclusive relationship with BMW through August 2008**. All BMW models are covered by the agreement. Factory-installed Sirius satellite radios will continue to be available on the BMW 3 Series Sedan and Sports Wagon, and the BMW 5, 6 and 7 Series, with a **one-year bundled subscription included in the price of the vehicle.**
Ford 8/1/05	Beginning with the 2006 model year, Sirius was offered factory- installed on the Ford F150, Lincoln Mark LT, Ford Explorer, and Mercury Mountaineer for an MSRP of $195, which includes a six-month subscription to the Sirius service. Earlier this year, Ford and Lincoln Mercury announced plans to target up to 21 vehicle lines for factory installation of Sirius over the 2006 and 2007 model years. **Ford also announced that they expect to generate up to one million Sirius subscribers over those two model year periods. Nearly ninety percent of Ford and Lincoln Mercury vehicles will have Sirius as a factory- installed option for the 2008 model year**. In mid-2005, Sirius and Ford announced an agreement to extend their **exclusive relationship through September 2011**. All Ford Motor Company brands in the U.S. -- Ford, Lincoln Mercury, Land Rover, Jaguar, Volvo, Aston Martin and Mazda -- are covered by the agreement. Ford has the option to extend the agreement through September 2013. Beginning in January 2009, Ford may elect to become nonexclusive under the agreement, in which case Ford would forfeit all future economic benefits.
Land Rover 7/12/05	Land Rover is offering Sirius as a factory-installed option on the 2006 Range Rover and Range Rover Sport.

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Figure 3. Automobile OEM Production Commitments

OEM	2006 Car Sales	Sirius	XM	OEM Market Share Sirius	OEM Market Share XM	Production Notes by Model Year 2006 MY	2007 MY	2008 MY	2009 MY	Exclusivity
BMW	313,939	✓		1.9%	0.0%					Aug-08
BMW		✓					8 lines			...
Mini		✓					Dealer Only			...
Rolls Royce		✓					All Lines			Exclusive
DaimlerChrysler	2,390,585	✓		14.4%	0.0%	30%	40%			Sep-12
Chrysler		✓					6 lines			...
Dodge		✓					10 lines			...
Jeep		✓					6 lines			...
Maybach		✓					1 line			...
Mercedes-Benz		✓					80%	90%	>90%	...
Ford Motor Co	2,901,090	✓		17.5%	0.0%		21 lines	90%		Jan-09
Aston Martin		✓								...
Ford		✓								...
Jaguar		✓				3 lines				...
Land Rover		✓				2 lines				...
Lincoln		✓						90%		...
Mercury		✓								...
Volvo		✓								...
General Motors	4,065,341		✓	0.0%	24.5%		~45% / 1.8mn			
Buick			✓				5 lines			...
Chevrolet			✓				15 lines			...
Cadillac			✓				6 lines			...
GMC			✓				6 lines			...
Hummer			✓				2 lines			...
Pontiac			✓				6 lines			...
SAAB			✓				3 lines			...
Saturn			✓				5 lines			...
Honda	1,509,358		✓	0.0%	9.1%	~35%	~45% / 650k			YE2016
Acura			✓				5 lines			...
Honda			✓				12 lines			...
Hyundai Group	749,822	✓		4.5%	4.5%					
Hyundai			✓				4 lines			...
Kia		✓							All Lines	YE2014
Isuzu	8,614		✓	0.0%	0.1%		1 line			...
Mazda	268,786	✓		1.6%	0.0%		7 lines			...
Mitsubishi	118,558	✓		0.7%	0.0%		4 lines	All Lines		...
Nissan	1,019,249	✓	✓	0 0%	6.2%					XM Exclusive MY08
Infiniti		✓	✓				5 lines	All Lines		...
Nissan		✓	✓				10 lines			...
Porsche	34,227		✓	0.0%	0.2%		1 line			Exclusive
Subaru	200,703	✓	✓	0.0%	1.2%		6 lines			...
Suzuki	100,990		✓	0.0%	0 6%		3 lines			...
Toyota	2,542,525		✓	0.0%	15.4%				+1mn	YE2017
Lexus			✓				10 lines			...
Toyota			✓				9 lines			...
Scion			✓				3 lines			...
VW	329,112	✓		2.0%	0.0%					2012 MY
Audi		✓								2012 MY
Bently		✓								...
VW		✓					80%			2012 MY
Other OEMs	6,726			0.0%	0.0%					
Ferrari										...
Lamborghini										...
Lotus			✓				1 line			...
Mini								2 lines		
U.S. Car Sales	**16,559,625**			**42.7%**	**61.8%**					

Source: Automotive News Data Center, Wedbush Morgan Securities

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Figure 4. Sirius Quarterly Results Comparison

(millions)	4Q06	3Q07	1Q07	1Q07 % change Y-o-Y	1Q07 % change Q-o-Q	WMS 1Q07 Estimates	WMS Variance
Net Subscriber Additions	761	905	556	(26.9%)	(38.5%)	496	12.2%
Total Subscribers	4,078	6,025	6,581	61.4%	9.2%	6,520	0.9%
Revenue							
Subscriber Revenue	115,181	167,210	190,796	65.6%	14.1%	196,191	(2.7%)
Advertising Revenue	7,338	8,451	6,721	(8.4%)	(20.5%)	12,030	(44.1%)
Equipment Revenue	3,692	16,431	4,671	26.5%	(71.6%)	3,469	34.7%
Other Revenue	453	1,288	1,849	308.2%	43.6%	1,320	40.1%
Total Revenue	**126,664**	**193,380**	**204,037**	61.1%	5.5%	**213,010**	(4.2%)
Cost of Revenue:							
Satellite and Transmission	7,301	7,152	7,330	0.4%	2.5%	7,188	2.0%
Programming and Content	56,444	64,843	57,063	1.1%	(12.0%)	76,878	(25.8%)
Customer Service and Billing	15,841	23,919	21,654	36.7%	(9.5%)	17,059	26.9%
Cost of Equipment	3,465	22,105	3,648	5.3%	(83.5%)	3,816	(4.4%)
Sales and Marketing	39,296	85,113	38,162	(2.9%)	(55.2%)	49,571	(23.0%)
Subscriber Acquisition Cost	109,144	121,046	98,237	(10.0%)	(18.8%)	105,875	(7.2%)
General and Administrative	19,144	23,224	23,403	22.2%	0.8%	19,527	19.9%
Research and Development	12,679	12,787	11,405	(10.0%)	(10.8%)	12,915	(11.7%)
Depreciation Expense	24,933	27,495	26,786	7.4%	(2.6%)	27,445	(2.4%)
Equity Granted to Third Parties	284,586	42,625	24,260	(91.5%)	(43.1%)	50,000	(51.5%)
Total Operating Expense	**572,833**	**430,309**	**339,082**	(40.8%)	(21.2%)	**370,273**	(8.4%)
Operating Profit (loss)	**(446,169)**	**(236,929)**	**(135,045)**	(69.7%)	(43.0%)	**(157,263)**	(14.1%)
Interest and Investment Income	9,937	6,760	6,042	(39.2%)	(10.6%)	1,746	nmf
Interest Expense	(17,124)	(15,327)	(15,192)	(11.3%)	(0.9%)	(15,576)	(2.5%)
Other Income	(4,435)	55	5	(100.1%)	(90.9%)	(2,000)	nmf
Pre-Tax Income	(457,791)	(245,441)	(144,190)	(68.5%)	(41.3%)	(173,093)	(16.7%)
	-	-	-			-	
Income Taxes	(753)	(156)	(555)	(26.3%)	255.8%	(560)	(0.9%)
Net Income (loss)	**(458,544)**	**(245,597)**	**(144,745)**	(68.4%)	(41.1%)	**(173,653)**	(16.6%)
Preferred Stock Dividend	-	-	-	nmf	nmf	-	nmf
Preferred Stock Deemed Dividend	-	-	-	nmf	nmf	-	nmf
Net Income (loss) to Common	**(458,544)**	**(245,597)**	**(144,745)**	(68.4%)	(41.1%)	**(173,653)**	(16.6%)
	-	-	-			-	
Basic EPS	($0.33)	($0.17)	($0.10)	(70.0%)	(42.6%)	($0.12)	(18.0%)
Diluted EPS	**($0.33)**	**($0.17)**	**($0.10)**	(70.0%)	(42.6%)	**($0.12)**	(18.0%)
Basic Shares Outstanding	1,386,982	1,419,334	1,457,011	5.0%	2.7%	1,433,527	1.6%
Diluted Shares Outstanding	1,386,982	1,419,334	1,457,011	5.0%	2.7%	1,433,527	1.6%

Source: Wedbush Morgan Securities

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Figure 5. Sirius Discounted Cash Flow (DCF) Valuation

						2011E	2012E	2013E	2014E	2015E	
Sirius Subscribers	6,025	8,178	10,331	12,185	13,721	15,086	16,350	17,417	18,305	19,132	
Discounted Cash Flow											Terminal Year
EBITDA	(961,975)	(383,045)	(295,225)	(88,467)	87,048	137,702	264,066	391,900	592,456	699,138	720,112
Unlevered Taxes	(2,065)	(2,235)	(2,240)	(2,240)	(2,240)	(2,240)	(2,240)	(2,240)	(185,085)	(225,783)	(232,557)
CapEx	(87,781)	(169,341)	(170,000)	(157,000)	(152,667)	(84,667)	(80,333)	7,667	12,000	12,000	(75,000)
Change in Working Capital	210,644	187,275	277,827	286,005	268,590	304,566	268,742	275,683	237,158	266,171	274,156
Unlevered Cash Flow	(841,177)	(367,346)	(189,639)	38,298	200,732	355,361	450,235	673,009	656,529	751,526	686,712
PV of Cash Flows		1,563,299	1,915,521								
PV of Terminal Value		4,331,392	4,781,856								
Private Market Value		5,894,691	6,697,377								
Private-to-Public Discount		-	-								
Public Enterprise Value		5,894,691	6,697,377								
Add: Cash		252,165	101,558								
Less: Total Debt & Converts		(1,218,249)	(1,198,994)								
Add: Proceeds from Warrants/Options		1,156,313	1,156,313								
Add. Face Value. In-the-money Converts		566,505	530,000								
Market Capitalization		6,651,426	7,286,255								
Shares Outstanding (incl Converts)		1,794,738	1,794,738								
Fair Value per Share (Year-end)		$3 71	$4.06								
Current Price		$2 90	$2.90								
Implied Upside		27 8%	40.0%								

Cost of Equity	**11.0%**
After-tax Cost of Debt	**7.0%**
WACC	**10.4%**
Terminal Growth	**3.0%**
Debt/Capitalization	**15.0%**
Implied TV Multiple	**13.92x**
TV/12 EBITDA	**36.20x**
Private-to-Public Discount	**0.0%**

Valuation Multiples											
EV/EBITDA	@ $3.71	NA	NA	NA	NA	67.7x	42.8x	22.3x	15.0x	9.9x	8.4x
P/E	@ $3.71	NA	NA	NA	NA	NA	343.9x	37.2x	19.9x	8.7x	7.1x
P/FCF	@ $3.71	NA	NA	NA	40.3x	22.7x	14.4x	11.6x	8.3x	5.6x	4.9x
P/BV	@ $3.71	NA	NA	NA	NA	NA	NA	NA	NA	14.7x	4.6x
EV/SUB	@ $3.71	978	721	571	484	430	391	361	338	322	308
EV/EBITDA	@ $2.9	NA	NA	NA	NA	68 5x	43.3x	22.6x	15.2x	10.1x	8 5x
P/E	@ $2 9	NA	NA	NA	NA	NA	269.1x	29.1x	15.6x	6.8x	5.6x
P/FCF	@ $2.9	NA	NA	NA	31.5x	17 7x	11.3x	9.1x	6.5x	4.4x	3.8x
P/BV	@ $2 9	NA	NA	NA	NA	NA	NA	NA	NA	11.5x	3.6x
EV/SUB	@ $2 9	$990	$729	$577	$489	$434	$395	$365	$342	$326	$312

Source: Wedbush Morgan Securities

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Earnings Model

Figure 6. Sirius Annual Subscriber Forecast (2003-2010E)

($000's)	2003	2004	2005	2006	2007E	2008E	2009E	2010E
Gross Additions (WMS estimates)								
Retail	207	781	1,805	2,292	2,014	1,986	1,955	1,959
OEM	22	195	710	1,463	1,918	2,602	3,042	3,380
Other	26	11	5	3	3	3	3	3
Total Gross Additions	**256**	**987**	**2,519**	**3,758**	**3,934**	**4,591**	**5,000**	**5,342**
% Change - Gross Additions (yoy)								
Retail	-	276.7%	131.1%	27.0%	(12.1%)	(1.4%)	(1.5%)	0.2%
OEM	-	770.9%	263.9%	106.1%	31.1%	35.7%	16.9%	11.1%
Other	-	(59.2)%	(55.9)%	(37.3)%	(13.7)%	5.1%	4.9%	4.7%
% Change (yoy)	**712.0%**	**285.7%**	**155.4%**	**49.2%**	**4.7%**	**16.7%**	**8.9%**	**6.8%**
Churn								
Retail	20	85	251	716	1,169	1,489	1,722	1,897
OEM	1	13	90	328	605	945	1,419	1,904
Other	4	6	6	7	6	6	5	5
Total Churn	**25**	**104**	**346**	**1,050**	**1,780**	**2,439**	**3,146**	**3,806**
Churn Rate (Monthly)								
Retail	2.3%	2.0%	1.7%	2.0%	2.3%	2.5%	2.7%	2.9%
OEM	2.7%	2.2%	2.0%	2.2%	2.1%	2.1%	2.2%	2.3%
Other	2.3%	2.0%	1.7%	2.0%	2.2%	2.3%	2.4%	2.5%
Churn Rate	**2.3%**	**2.0%**	**1.8%**	**2.0%**	**2.2%**	**2.3%**	**2.4%**	**2.5%**
Net Additions								
Retail	188	696	1,554	1,576	845	497	234	62
OEM	21	182	620	1,135	1,313	1,658	1,623	1,476
Other	22	5	(1)	(4)	(4)	(3)	(2)	(2)
Total Net Additions	**231**	**882**	**2,173**	**2,708**	**2,154**	**2,152**	**1,855**	**1,536**
Subscribers								
Retail	215	911	2,465	4,042	4,887	5,384	5,618	5,680
OEM	22	203	824	1,959	3,272	4,929	6,553	8,028
Other	24	29	28	24	20	17	15	13
Total Subscribers	**261**	**1,143**	**3,317**	**6,025**	**8,178**	**10,331**	**12,185**	**13,721**
Average Subscribers	111	522	1,851	4,586	6,941	8,980	10,979	12,642
Subscriber Distribution (%)								
Retail	82.4%	79.7%	74.3%	67.1%	59.8%	52.1%	46.1%	41.4%
OEM	8.4%	17.8%	24.8%	32.5%	40.0%	47.7%	53.8%	58.5%
Other	9.2%	2.5%	0.8%	0.4%	0.2%	0.2%	0.1%	0.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Net Additions Distribution (%)								
Retail	81.2%	78.9%	71.5%	58.2%	39.2%	23.1%	12.6%	4.1%
OEM	9.3%	20.6%	28.5%	41.9%	60.9%	77.0%	87.5%	96.1%
Other	9.5%	0.5%	(0.0)%	(0.1)%	(0.2)%	(0.1)%	(0.1)%	(0.1)%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Wedbush Morgan Securities

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Figure 7. Sirius Annual P&L (2003-2010E)

($000's)	2003	2004	2005	2006	2007E	2008E	2009E	2010E
Revenue								
Subscriber Revenue	12,615	62,881	223,615	575,364	857,696	1,178,458	1,502,899	1,862,290
Advertising Revenue	116	906	6,131	31,044	40,441	68,244	95,856	126,849
Equipment Revenue	61	2,898	12,271	26,798	30,142	37,947	42,506	47,154
Other Revenue	80	169	228	4,029	7,678	8,475	9,355	10,326
Total Revenue	**12,872**	**66,854**	**242,245**	**637,235**	**935,957**	**1,293,124**	**1,650,615**	**2,046,619**
Cost of Revenue								
Satellite and Transmission	32,604	31,157	27,856	39,229	29,541	30,136	30,743	31,363
Programming and Content	30,398	63,949	99,195	230,215	230,476	273,647	328,539	403,219
Revenue Share and Royalties	-	-	-	-	141,233	222,882	310,415	410,017
Customer Service and Billing	23,657	22,341	46,653	68,137	94,409	124,251	154,594	181,299
Cost of Equipment	115	3,467	11,827	35,233	31,666	41,742	46,756	51,869
Sales and Marketing	121,216	153,899	171,824	222,492	173,162	176,625	180,158	183,761
Subscriber Acquisition Cost	74,860	173,702	349,641	419,716	381,272	425,850	440,802	446,992
General and Administrative	36,211	44,028	59,831	87,538	93,165	95,028	96,929	98,867
Research and Development	24,534	30,520	42,925	58,732	46,309	48,189	50,146	52,182
Depreciation Expense	95,353	95,370	98,555	105,749	108,832	108,754	108,074	107,448
Equity Granted to Third Parties	11,454	126,725	163,078	437,918	97,770	150,000	100,000	100,000
Total Operating Expense	**450,402**	**745,158**	**1,071,385**	**1,704,959**	**1,427,835**	**1,697,103**	**1,847,157**	**2,067,018**
Pre-Marketing Cash Flow	*(134,673)*	*(128,208)*	*(46,714)*	*122,557*	*404,238*	*675,451*	*937,804*	*1,222,208*
PMCF Margin	*(1057.8%)*	*(201.0%)*	*(20.3%)*	*20.2%*	*45.0%*	*54.2%*	*58.7%*	*61.4%*
Operating Profit (loss)	**(437,530)**	**(678,304)**	**(829,140)**	**(1,067,724)**	**(491,877)**	**(403,979)**	**(196,542)**	**(20,399)**
Debt Restructuring	256,538	-	(6,214)	-	-	-	-	-
Intersest and Investment Income	5,287	11,124	26,878	33,320	11,276	5,923	6,028	10,872
Interest Expense	(50,510)	(41,386)	(45,361)	(64,032)	(67,461)	(76,387)	(58,979)	(35,161)
Other Income	-	605	(6,849)	(4,366)	(5,995)	(4,000)	(4,000)	(4,000)
Pre-Tax Income	(226,215)	(707,961)	(860,686)	(1,102,802)	(554,057)	(478,443)	(253,493)	(48,688)
Income Taxes	-	(4,201)	(2,311)	(2,065)	(2,235)	(2,240)	(2,240)	(2,240)
Effective Tax Rate	0.0%	0.6%	0.3%	0.2%	0.4%	0.5%	0.9%	4.6%
Net Income (loss)	**(226,215)**	**(712,162)**	**(862,997)**	**(1,104,867)**	**(556,292)**	**(480,683)**	**(255,733)**	**(50,928)**
Preferred Stock Dividend	(8,574)	-	-	-	-	-	-	-
Preferred Stock Deemed Dividend	(79,634)	-	-	-	-	-	-	-
Net Income (loss) to Common	**(314,423)**	**(712,162)**	**(862,997)**	**(1,104,867)**	**(556,292)**	**(480,683)**	**(255,733)**	**(50,928)**
Basic EPS	($0.38)	($0.58)	($0.65)	($0.79)	($0.38)	($0.31)	($0.16)	($0.03)
Diluted EPS	**($0.38)**	**($0.58)**	**($0.65)**	**($0.79)**	**($0.38)**	**($0.31)**	**($0.16)**	**($0.03)**
Basic Shares Outstanding	827,186	1,238,521	1,325,673	1,403,905	1,479,012	1,539,066	1,601,558	1,666,588
Diluted Shares Outstanding	827,186	1,238,521	1,325,673	1,403,905	1,479,012	1,539,066	1,601,558	1,666,588

Source: Wedbush Morgan Securities, Company Reports

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Figure 8. Sirius Quarterly Subscriber Forecast (4Q05-4Q07E)

($000's)	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07E	3Q07E	4Q07E
Gross Additions (WMS estimates)									
Retail	986 6	678.2	439.7	401.4	773.0	468.7	395.7	433.9	715.4
OEM	278.2	279.8	389.7	330.5	462.9	519.2	418.8	354.7	625.2
Other	1.9	2.5	1.2	0.5	(1.3)	0.5	1.6	1.8	(1.4)
Total Gross Additions	**1,266.8**	**960.6**	**830.6**	**732.4**	**1,234.6**	**988.5**	**816.1**	**790.4**	**1,339.3**
% Change - Gross Additions (yoy)									
Retail	141.5%	186.2%	49.2%	40.1%	(21.7%)	(30.9%)	(10.0%)	8.1%	(7.4%)
OEM	153.0%	138.1%	183.5%	87.0%	66.4%	85.5%	7.5%	7.3%	35.1%
Other	(36.4%)	901.0%	116.4%	(75.2%)	(166.3%)	(78.8%)	33.7%	264.7%	5.8%
% Change (yoy)	**142.9%**	**170.8%**	**92.0%**	**57.4%**	**(2.5%)**	**2.9%**	**(17.4%)**	**(3.2%)**	**69.5%**
Churn									
Retail	86.0	143.3	163.4	195.5	213.7	275.8	266.8	303.3	323.0
OEM	36.5	54.5	65.1	94.1	113.9	154.5	124.9	154.5	171.5
Other	1.6	1.7	1.6	1.7	1.7	1.7	1.3	1.5	1.6
Total Churn	**124.0**	**199.4**	**230.1**	**291.3**	**329.3**	**432.0**	**393.1**	**459.2**	**496.1**
Churn Rate (Monthly)									
Retail	1.8%	1.9%	1.8%	2.0%	2.0%	2.3%	2.1%	2.3%	2.4%
OEM	2 1%	2.2%	2.1%	2.3%	2.4%	2.6%	1.8%	2.0%	2.0%
Other	2.0%	2.0%	1.9%	2.1%	2.1%	2.4%	2.0%	2.2%	2.3%
Churn Rate	**1.9%**	**2.0%**	**1.9%**	**2.1%**	**2.1%**	**2.4%**	**2.0%**	**2.2%**	**2.3%**
Net Additions									
Net Additions	900.6	535.0	276.3	205.9	559.3	193.0	128.9	130.6	392.4
Net Additions	241.7	225.3	324.6	236.5	348.9	364.7	293.9	200.2	453.7
Net Additions	0.3	0.9	(0.4)	(1.3)	(3.0)	(1.2)	0.2	0.3	(2.9)
Total Net Additions	**1,142.6**	**761.2**	**600.5**	**441.1**	**905.2**	**556.5**	**423.0**	**331.1**	**843.2**
Subscribers									
Total Retail Subs	2,465.4	3,000.3	3,276.6	3,482.5	4,041.8	4,234.8	4,363.7	4,494.3	4,886.7
Total OEM & Special Markets Subs	823.7	1,049.0	1,373.6	1,610.1	1,959.0	2,323.7	2,617.6	2,817.8	3,271.5
Total Rental Subs	27.5	28.4	28.0	26.7	23.7	22.6	22.8	23.1	20.1
Total Subscribers	**3,316.6**	**4,077.7**	**4,678.2**	**5,119.3**	**6,024.6**	**6,581.0**	**7,004.1**	**7,335.2**	**8,178.4**
Average Subscribers	2,507.9	3,780.9	4,354.0	4,850.2	5,360.0	6,295.3	6,770.8	7,139.0	7,559.4
Seasonality Adjustment	29.2%	61.0%	46.0%	39.0%	26.6%	48.6%	44.9%	40.8%	26.6%
Subscriber Distribution (%)									
Retail	74.3%	73.6%	70.0%	68.0%	67.1%	64.3%	62.3%	61.3%	59.8%
OEM	24.8%	25.7%	29.4%	31.5%	32.5%	35.3%	37.4%	38.4%	40.0%
Other	0.8%	0.7%	0.6%	0.5%	0.4%	0.3%	0.3%	0.3%	0.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Net Additions Distribution (%)									
Retail	78.8%	70.3%	46.0%	46.7%	61.8%	34.7%	30.5%	39.5%	46.5%
OEM	21.2%	29.6%	54.1%	53.6%	38.5%	65.5%	69.5%	60.5%	53.8%
Other	0.0%	0.1%	(0.1%)	(0.3%)	(0.3%)	(0.2%)	0.1%	0.1%	(0.3%)
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Wedbush Morgan Securities

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Figure 9. Sirius Quarterly P&L (4Q05-4Q07E)

($000's)	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07E	3Q07E	4Q07E
Revenue									
Subscriber Revenue	67,816	115,181	137,636	155,337	167,210	190,796	208,400	224,459	234,041
Advertising Revenue	3,037	7,338	8,125	7,130	8,451	6,721	9,141	11,083	13,496
Equipment Revenue	8,971	3,692	3,096	3,579	16,431	4,671	3,133	3,978	18,360
Other Revenue	180	453	1,221	1,067	1,288	1,849	1,895	1,943	1,991
Total Revenue	**80,004**	**126,664**	**150,078**	**167,113**	**193,380**	**204,037**	**222,569**	**241,463**	**267,888**
Cost of Revenue:									
Satellite and Transmission	7,147	7,301	17,686	7,090	7,152	7,330	7,367	7,403	7,441
Programming and Content	35,018	56,444	53,011	55,917	64,843	57,063	51,341	60,527	61,544
Revenue Share and Royalties	-	-	-	-	-	27,134	34,785	38,017	41,296
Customer Service and Billing	20,007	15,841	13,659	14,718	23,919	21,654	16,250	22,096	34,408
Cost of Equipment	7,446	3,465	3,467	6,196	22,105	3,648	3,447	4,376	20,196
Sales and Marketing	63,049	39,296	56,609	41,474	85,113	38,162	35,000	40,000	60,000
Subscriber Acquisition Cost	145,180	109,144	108,663	80,863	121,046	98,237	81,944	80,280	120,811
General and Administrative	16,913	19,144	21,653	23,517	23,224	23,403	22,086	23,987	23,688
Research and Development	11,513	12,679	12,775	20,491	12,787	11,405	11,519	11,634	11,751
Depreciation Expense	24,915	24,933	25,738	27,583	27,495	26,786	27,396	27,348	27,301
Equity Granted to Third Parties	46,196	284,586	67,289	43,418	42,625	24,260	24,381	24,503	24,626
Total Operating Expense	**377,384**	**572,833**	**380,550**	**321,267**	**430,309**	**339,082**	**315,517**	**340,173**	**433,063**
Pre-Marketing Cash Flow	*(19,745)*	*11,110*	*26,977*	*40,734*	*43,736*	*76,662*	*108,978*	*109,894*	*108,705*
PMCF Margin	*(27.9%)*	*9.1%*	*18.5%*	*25.1%*	*24.9%*	*38.8%*	*50.1%*	*46.7%*	*43.9%*
Operating Profit (loss)	**(297,380)**	**(446,169)**	**(230,472)**	**(154,154)**	**(236,929)**	**(135,045)**	**(92,948)**	**(98,710)**	**(165,175)**
Debt Restructuring	-	-	-	-	-	-	-	-	-
Interest and Investment Income	9,956	9,937	8,873	7,750	6,760	6,042	1,724	1,478	2,032
Interest Expense	(17,142)	(17,124)	(15,660)	(15,921)	(15,327)	(15,192)	(15,576)	(17,764)	(18,929)
Other Income	(6,199)	(4,435)	9	5	55	5	(2,000)	(2,000)	(2,000)
Pre-Tax Income	(310,765)	(457,791)	(237,250)	(162,320)	(245,441)	(144,190)	(108,800)	(116,996)	(184,071)
Income Taxes	(631)	(753)	(578)	(578)	(156)	(555)	(560)	(560)	(560)
Effective Tax Rate	0.2%	0.2%	0.2%	0.4%	0.1%	0.4%	0.0%	0.0%	0.0%
Net Income (loss)	**(311,396)**	**(458,544)**	**(237,828)**	**(162,898)**	**(245,597)**	**(144,745)**	**(109,360)**	**(117,556)**	**(184,631)**
Preferred Stock Dividend	-	-	-	-	-	-	-	-	-
Preferred Stock Deemed Dividend	-	-	-	-	-	-	-	-	-
Net Income (loss) to Common	**(311,396)**	**(458,544)**	**(237,828)**	**(162,898)**	**(245,597)**	**(144,745)**	**(109,360)**	**(117,556)**	**(184,631)**
Basic EPS	($0.23)	($0.33)	($0.17)	($0.12)	($0.17)	($0.10)	($0.07)	($0.08)	($0.12)
Diluted EPS	**($0.23)**	**($0.33)**	**($0.17)**	**($0.12)**	**($0.17)**	**($0.10)**	**($0.07)**	**($0.08)**	**($0.12)**
Basic Shares Outstanding	1,335,650	1,386,982	1,404,022	1,405,281	1,419,334	1,457,011	1,471,581	1,486,297	1,501,160
Diluted Shares Outstanding	1,335,650	1,386,982	1,404,022	1,405,281	1,419,334	1,457,011	1,471,581	1,486,297	1,501,160

Source: Wedbush Morgan Securities, Company Reports

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Public Companies Mentioned in this Report (priced as of close 5/1/07)

COMPANY	TICKER	RATING	PRICE	PRICE TARGET
XM Satellite Radio	XMSR	HOLD	$11.55	$14

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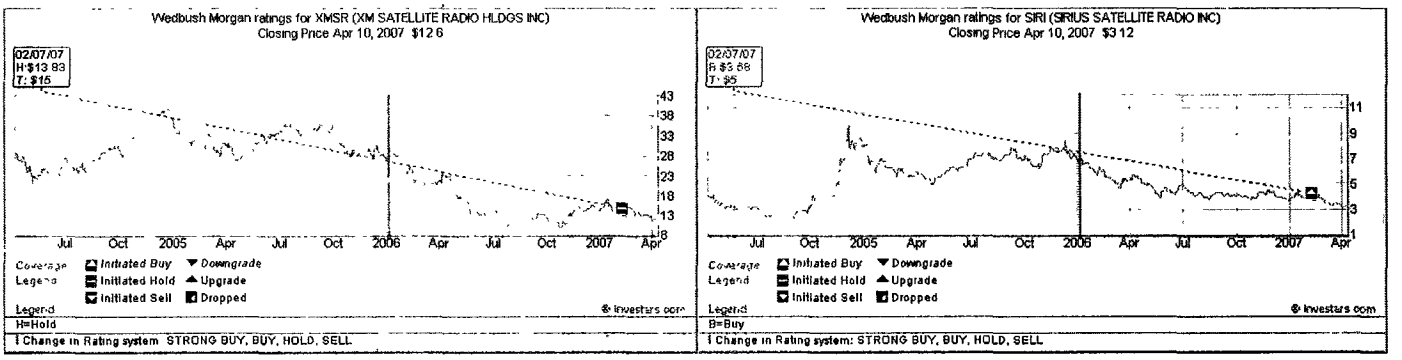
ANALYST CERTIFICATION

I, William Kidd, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

IMPORTANT DISCLOSURES



INVESTMENT RATINGS

STRONG BUY – The stock is expected to return at least 20% over the next 6-12 months.
BUY – The stock is expected to return at least 15% over the next 12 months.
HOLD – The stock is expected to return between -15% and +15% over the next 12 months.
SELL – The stock is expected to decline by at least 15% over the next 12 months.

DISTRIBUTION OF RATINGS (as of March 30, 2007)

BUY – 55% (3% of this rating category were investment banking clients within the last 12 months).
HOLD – 41% (3% of this rating category were investment banking clients within the last 12 months).
SELL – 4% (0% of this rating category were investment banking clients within the last 12 months).

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WMS's total revenues, a portion of which are generated by WMS's investment banking activities.

WMS makes a market in the securities mentioned herein.

WMS changed its rating system from (BUY/ HOLD/SELL) to (STRONG BUY/BUY/HOLD/SELL) on January 5, 2006.

Additional information is available upon request.

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