A publication of
WACHOVIA CAPITAL MARKETS, LLC

Equity Research

XM Satellite Radio Holdings Inc.

XMSR: Q1 Mixed--Retain Cautious Stance

Market Perform / V
Sector: Satellite Radio, Market Weight
April 27, 2007

- **XM Q1 SUB RESULTS GENERALLY BELOW EXPECTATIONS-** XM reported net new sub additions of 285K (a 50% y-o-y decline), which was -19% below our 350K and -8% below consensus forecasts of 311K. Lower results were driven by fewer than expected gross additions relative to us at 1M (and consensus of 961K) at 868K (14% y-o-y decline) and modestly higher than forecast Q1 '07 churn (excl. promotional disconnects was 1.78% vs. our forecast of 1.72%). OEM conversion rate continues to be disappointing at 51.5% in Q1 versus 52.4% last quarter. XM reported that it expects the conversion rate to remain in the low 50's, which provides further evidence of waning consumer interest in the product.
- **FINANCIAL RESULTS IN LINE WITH OUR ESTIMATES-** All-in subscriber monthly ARPU for the quarter was $11.34, above $11.20 consensus (we were at a conservative $11.06). XM reported revenue of $264M, directly in-line with $265M consensus (and our $259M estimate) on the modestly higher ARPU. Cost Per Gross Addition (or CPGA as XM defines it, which includes all promotional subscribers), or the cost to acquire a new subscriber, was $103, above our est. of $96 (although in-line with consensus of $103). Net operating cash flow was $41M loss (including stock options), directly in-line with our $41M loss and consensus $44MM loss. While the Company did not modify subscriber, subscription revenue and cash flow guidance for 2007.
- **BOTTOM LINE: SAT RADIO DEMAND CONTINUES TO BE WEAK A PROBLEM THAT WILL NOT BE SOLVED THROUGH AN SIRI/XMSR COMBINATION-** Overall Q1 subscriber results were again below expectations, XM boosted its CPGA guidance (from ($108) to ($111-$114)) as they try to refocus on the OEM channel and the OEM conversion rate remained stubbornly at the ~50% level despite aggressive efforts by the company. This was partially offset by in-line ARPU and churn results. Despite considerable underperformance, we continue to be cautious on the sat radio industry based on: 1) 5 of the last 6 quarters below expectations, 2) retail demand continues to be weak, a trend that appears to be spreading into the all important OEM channel, 3) significant merger approval overhang, 4) synergies (while still material) likely to be materially lower (we estimate $250M vs. $500M consensus) and take far longer to realize than the market anticipates and 5) most importantly, the current valuation is still arguably rich (assuming a merger is not approved, we estimate the current $5B EV implies XMSR will reach the roughly ~20M sub level vs. 7.5M non promotional subs at Q1; with merger approval we assume it implies roughly ~12M.)

Valuation Range: $10 to $14
Our valuation range is based on a discounted cash flow. We assume a discount rate of 12% and a terminal value of 31x estimated 2010 free cash flow. Risks include slower-than-expected subscriber growth and competing terrestrial alternatives.

Investment Thesis:
XM has over 8 million subscribers, strong OEM relationships and impressive technology. We are cautious on the outlook for satellite radio and XM and are concerned about the aggressive growth expectations implied by the market value.

Earnings Reported

EPS	2006A	2007E Curr.	2007E Prior	2008E Curr.	2008E Prior
Q1 (Mar.)	($0.60)	**($0.40)**	**A (0.40)**	NE	
Q2 (June)	(0.87)	(0.41)	NC	NE	
Q3 (Sep.)	(0.32)	**(0.41)**	**(0.33)**	NE	
Q4 (Dec.)	(0.90)	**(0.49)**	**(0.51)**	NE	
FY	($2.71)	**($1.70)**	**(1.64)**	**($1.22)**	**(1.24)**
CY	($2.71)	($1.70)		($1.22)	
FY P/E	NM	NM		NM	
Rev.(MM)	$933.4	$1,121.6		$1,401.3	

Source Company Data, Wachovia Capital Markets, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

Ticker	XMSR
Price (04/26/2007)	$11.78
52-Week Range:	$9-23
Shares Outstanding: (MM)	306.0
Market Cap.: (MM)	$3,604.7
S&P 500:	1,494.25
Dividend/Yield:	$0.00/0.0%
LT Debt: (MM)	$1,113.0
LT Debt/Total Cap.:	45.0%
ROE:	NM
3-5 Yr. Est. Growth Rate:	NM
CY 2007 Est. P/E-to-Growth:	NM
Last Reporting Date:	04/26/2007 *Before Open*

Source Company Data, Wachovia Capital Markets, LLC estimates, and Reuters

Media/Cable/Satellite

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Please see page 8 for rating definitions, important disclosures and required analyst certifications.

WCM does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report *and* investors should consider this report as only a single factor in making their investment decision.

Company Description:
XM Satellite Radio is a satellite radio service with more than 8 million subscribers. XM's lineup includes more than 170 digital channels of choice from coast to coast: 69 commercial-free music channels, 80 channels of premier sports, talk, comedy, children's and entertainment programming; and more than 21 channels of the most advanced traffic and weather information for major metropolitan areas nationwide.

XM Q1 SUBSCRIBER (SUB) RESULTS GENERALLY BELOW EXPECTATIONS- XM reported net new sub additions of 285K (a 50% y-o-y decline), which was -19% below our 350K and -8% below consensus forecasts of 311K. The lower result was driven by fewer than expected gross additions relative to us at 1M (and consensus of 961K) at 868K (a 14% y-o-y decline) and modestly higher than forecast Q1 '07 churn (excluding promotional disconnects was 1.78% compared to our forecast of 1.72%). The OEM conversion rate continues to be disappointing at 51.5% in Q1 versus 52.4% last quarter. The Company also reported that it expects the conversion rate to remain in the low 50's, which provides further evidence of waning consumer interest in the product.

FINANCIAL RESULTS IN LINE WITH OUR ESTIMATES- All-in subscriber monthly ARPU for the quarter was $11.34 above $11.20 consensus (we were at a conservative $11.06). XM reported revenue of $264MM, directly in-line with $265MM consensus (and our $259M estimate) on the modestly higher ARPU. Cost Per Gross Addition (or CPGA as XM defines it, which includes all promotional subscribers), or the cost to acquire a new subscriber, was $103, above our est. of $96 (although in-line with consensus of $103). Net operating cash flow was $41MM loss (including stock options), directly in-line with our $41M loss and consensus $44MM loss. While the Company did not modify subscriber, subscription revenue and cash flow guidance for 2007, it did increase 2007 CPGA guidance (as they define it) to $111-114 (vs. previous ~$108 guidance and our original $106 forecast).

BOTTOM LINE: SAT RADIO DEMAND CONTINUES TO BE WEAK A PROBLEM THAT WILL NOT BE SOLVED THROUGH AN SIRI/XMSR COMBINATION— During Q1 overall subscriber results were again below expectation, XM boosted its CPGA guidance (from ($108) to ($111-$114)) as they try to refocus on the OEM channel and the OEM conversion rate remained stubbornly at the ~50% level despite aggressive efforts by the company. This was partially offset by in-line ARPU and churn results. Despite considerable underperformance we continue to be cautious on the sat radio industry based on: 1) 5 of the last 6 quarters below expectations, 2) retail demand continues to be weak a trend that appears to be spreading into the all important OEM channel, 3) significant merger approval overhang, 4) we believe synergies (while still material) are likely to be materially lower (we estimate $250M vs. $500M consensus) and take far longer to realize than the market anticipates and 5) most importantly, the current valuation is still arguably rich (assuming a merger is not approved, we estimate the current $5B EV implies XMSR will reach the roughly ~20M sub level vs. 7.5M non promotional subs at Q1; with merger approval we assume it implies roughly ~12M.)

XM Satellite Radio

Quarterly Subscriber Model (Figures in thousands)

	Q1 2007A	Q2 2007E	Q3 2007E	Q4 2007E	2007E
Satellite Radio Industry Subscribers					
Beginning of Period	13,653	14,488	15,238	16,063	13,653
End of Period	14,488	15,238	16,063	17,038	17,038
% Annual Change	36.9%	31.6%	30.5%	24.8%	24.8%
XMSR Net Additions	285	300	400	450	1,435
Sirius Net Additions	550	450	425	525	1,950
Industry Net Additions	835	750	825	975	3,385
Growth rate	-37.2%	-24 9%	13.5%	-27.7%	-23.1%
XM share net adds	34.1%	40.0%	48 5%	46.2%	42.4%
Siri share net adds	66%	60%	52%	54%	58%
XM Satellite Radio Subscribers					
Beginning of Period	7,628	7,913	8,213	8,613	7,628
End of Period	**7,913**	**8,213**	**8,613**	**9,063**	**9,063**
% Annual Change	21 7%	19.0%	19.9%	18.8%	18.8%
% Market Share of Industry Subscribers	54.6%	53.9%	53.6%	53.2%	53.2%
Average XMSR Subscribers	7,771	8,063	8,413	8,838	8,272
Gross Additions	**868**	**901**	**1,047**	**1,132**	**3,948**
% Annual Change	-13.8%	-2.7%	20.6%	6.3%	2.1%
% Sequential Change	-18.5%	3.8%	16.2%	8.1%	
	19.9%	20.9%	27 9%	31.4%	
Net Additions	**285**	**300**	**400**	**450**	**1,435**
% Annual Change	-49.9%	-24.6%	39.9%	1.7%	-15.4%
% Sequential Change	-35.6%	5 2%	33.3%	12.5%	-
% of Industry Net Additions	34.1%	40.0%	48.5%	46.2%	42.4%
Total disconnects	583	601	647	682	2,513
Promotional Plan disconnects	200	200	225	240	865
Promotional Plan % disconnects	36%	35%	40%	40%	
Adjusted Disconnects	383	401	422	442	1,648
Monthly % Churn Rate excl. promotional plan disconnects	1 78%	1 80%	1.82%	1.82%	1.79%
Monthly % Churn Rate	2 50%	2.48%	2 56%	2.57%	2.5%

Source: Company data and Wachovia Capital Markets, LLC estimates

XM Satellite Radio

Quarterly Income Statement (Dollars in millions, except for per subscriber and per share amounts)

	Q1 2007A	Q2 2007E	Q3 2007E	Q4 2007E	2007E
Revenue					
Subscriber Revenue	$236 486	$242.192	$251 956	$263.883	$994 518
Annual growth	25 7%	19 8%	17 3%	19 7%	20 5%
Average Monthly Revenue Per Subscriber	$10 14	$10.01	$9 98	$9.95	$10 02
% Sequential Gain	0 9%	-1 3%	-0 3%	-0 3%	-0 4%
Annual growth	1%	0%	-2%	0%	0%
Activation Revenue	4 654	4 505	5 235	5 660	20 054
Equipment Revenue	5 297	3 604	4 188	10 188	23 277
Net ad sales revenue	7 478	9 676	10 096	13 258	40 508
Royalties and other	10 197	8 467	11 358	13 258	43 279
Total Revenue	264 112	268.444	282.834	306.246	1,121.635
% Annual Change	27 0%	17 8%	17 6%	19 1%	20 2%
Total Average Monthly Revenue Per Subscriber -calculated	$11 33	$11 10	$11 21	$11 55	$11 30
Operating Expenses					
Cost Of Revenue					
Revenue share and royalties	(47 426)	(46 017)	(47 872)	(50 138)	(191.452)
% of subscriber revenue	20 1%	19 0%	19 0%	19 0%	19 25%
Customer care and billing	(27.488)	(31.485)	(32.754)	(34 305)	(126.032)
% of subscriber revenue	12%	13%	13%	13%	13%
Average Customer Care Billing Per Month	$1 18	$1 30	$1 30	$1 29	$1 27
Cost of equipment	(18 277)	(7 208)	(8.376)	(20.378)	(54.237)
% of equipment revenue	345%	200%	200%	200%	233%
Ad sales	(3 029)	(3 870)	(4 038)	(5.303)	(16.241)
% of ad revenue	41%	40%	40%	40%	40%
Satellite and terrestrial	(13.362)	(11.613)	(11.883)	(12 305)	(49.163)
% annual growth	6%	5%	8%	5%	6 0%
Broadcast and operations	(15.282)	(14.535)	(14 251)	(14 616)	(58 684)
% annual growth	12%	12%	12%	12%	12%
Programming and content	(41 786)	(43 595)	(46 168)	(50 665)	(182 154)
% of subscriber revenue	17 7%	18%	18%	19%	18%
% annual growth	17%	9%	27%	20%	18%
Total Cost Of Revenue	*(166 660)*	*(158 323)*	*(165 283)*	*(187 708)*	*(677 963)*
% of revenue	-63%	-59%	-58%	-61%	-60%
Research and development	(5 584)	(7 412)	(7 357)	(6.405)	(26.758)
% annual growth	-41%	10%	10%	10%	-7%
General and administrative	(28 137)	(31.638)	(34 452)	(23 542)	(117 768)
% of subscriber revenue	11%	12%	12%	8%	10%
% annual growth	124%	150%	120%	20%	95%
% Sequential growth	43%	12%	9%	-32%	
Pre- Marketing Cash Flow	63 741	71 072	75.742	88 591	299.146
% of total revenue					26 7%
Marketing					
Retention and support	(7 859)	(7 471)	(6 837)	(7 411)	(29 578)
% annual growth	22%	30%	30%	30%	28%
% of Total Revenue	2 98%	2 78%	2 42%	2 42%	
Subsidies and distribution	(43 602)	(54 057)	(73 293)	(84 898)	(255 851)
% annual growth	-27%	-12%	55%	16%	6%
Advertising and marketing	(32 809)	(40 679)	(30 270)	(58 068)	(161 826)
% annual growth	11%	8%	10%	10%	10%
% sequential growth	-38%	24%	-26%	92%	
Amortization of GM liability	(6 504)	(7 291)	(6 374)	(6 374)	(26 543)
Total marketing expenses	(90 774)	(109 499)	(116.774)	(156 752)	(473.798)
SAC - as calculated	*($65)*	*($84)*	*($74)*	*($84)*	*($65)*
SAC excluding promotional disconnects	($85)	($82)	($94)	($107)	($93)
CPGA- total $ cost	(89 391)	(98 340)	(107 751)	(153 154)	(448 636)
CPGA	($103)	($109)	($103)	($135)	($114)
CPGA - as reported	$103				
CPGA excluding promotional disconnects	($134)	($140)	($131)	($172)	($146)
% Annual Change	11%	-3%	9%	5%	6%
% Sequential Change	-4 4%	6 0%	-5 7%	31 5%	
Operating Cash Flow (Before Stock Compenstation Expense	(27 03)	(38 43)	(41 03)	(68 16)	(174 652)
Stock-based compensation*	(14 131)	(13 750)	(13 750)	(13 750)	(55 381)
Operating Cash Flow	(41 164)	(52 177)	(54 781)	(81.910)	(230 033)
Impairment of goodwill					
Depreciation and amortization	(46 882)	(45 944)	(45 025)	(44 125)	(181 977)
Total operating expenses	(352 158)	(366 565)	(382 641)	(432 281)	(1 533 645)
Operating Losses	(88 046)	(98 121)	(99 807)	(126 035)	(412 009)
Margin on Total Revenues	-33 3%	-36 6%	-35 3%	-41 2%	-36 7%
% Change Year-to-Year	-12 6%	-3 6%	64 3%	-9 9%	2 2%

Note Q2 Q3 & Q4 2006 Stock-based compensation included in Operating Expenses

Source Company data and Wachovia Capital Markets LLC estimates

XM Satellite Radio

Quarterly Income Statement (continued) (Dollars in millions, except for per subscriber and per share amounts)

	Q1 2007A	Q2 2007E	Q3 2007E	Q4 2007E	2007E
Operating Losses	(88 046)	(98 121)	(99 807)	(126 035)	(412 009)
Other Income (Expense)					
Interest Income	3 544	5 416	5 416	5 416	19 792
Interest Expense	(27 609)	(30 188)	(30 188)	(30 188)	(118 173)
Other	(9 643)	-	-	-	(9 643)
Net Income (Loss) before income taxes	(121 754)	(122 893)	(124 579)	(150 807)	(520 033)
Provision for deferred income taxes	(0 684)	(0 579)	(0 579)	(0 579)	(2 421)
Net Income (Loss)	(122 438)	(123 472)	(125 158)	(151 386)	(522.454)
Preferred Stock Dividends	-	(1 929)	(1 929)	(1 929)	(5 788)
Series B preferred stock retirement gain (loss)					
Series C preferred stock retirement gain (loss)					
Net Income (Loss) attributable to common shareholders	(122 438)	(125 401)	(127 087)	(153 315)	(528 821)
Average Diluted Common Shares Outstanding	306	308	310	312	309
Earnings Per Share	($0 40)	($0 41)	($0.41)	($0.49)	($1.70)

Source Company data and Wachovia Capital Markets, LLC estimates

XM Satellite Radio

Annual Subscriber Model (Figures in thousands)

	2006A	2007E	2008E	2009E	2010E
					For Fiscal Years Ended December 31
XM Satellite Radio Subscribers					
Beginning of Period	5,933	7,628	9,063	10,456	11,468
XM Satellite Radio Subscribers	**7,628**	**9,063**	**10,456**	**11,468**	**12,286**
% Annual Change	29%	19%	15%	10%	7%
% Market Share of Industry Subscribers	**56%**	**53%**	**53%**	**52%**	**53%**
Average XMSR Subscribers	6,842	8,272	9,759	10,962	11,877
Net Additions	**1,696**	**1,435**	**1,392**	**1,013**	**818**
% Annual Change	-37%	-15%	-3%	-27%	-19%
% of Industry Net Additions	39%	42%	49%	51%	55%
Gross Additions (Including Disconnects)	**3,866**	**3,948**	**4,558**	**4,643**	**4,851**
% Annual Change	-7%	2%	15%	2%	4%
% Sequential Change					
Gross Additions (Excluding OEM Promotional Disconnects)	3,029	3,083	3,359	3,264	3,287
% Annual Change	-10%	2%	9%	-3%	1%
Monthly % Churn Rate excl. promotional plan disconnects	1 8%	1 8%	1.9%	1 9%	1.9%
Monthly % Churn Rate	2.64%	2 53%	2.70%	2.76%	2 83%

Source Company data and Wachovia Capital Markets, LLC estimates

XM Satellite Radio

Annual Income Statement Forecast (Dollars in millions, except for per share and per subscriber amounts) — **For Fiscal Years Ended December 31**

	2006A	2007E	2008E	2009E	2010E
Revenue:					
Subscriber Revenue	$825 626	$994.518	$1,248.545	$1,461.929	$1,651.217
Annual growth	62 82%	20 46%	25 54%	17 09%	12 95%
Average Monthly Revenue Per Subscriber -calculated	$10 06	$10 02	$10 66	$11 11	$11 59
Annual growth	6.86%	-0 36%	6 40%	4 25%	4 24%
Activation Revenue	16.193	20 054	17.092	16.251	16 977
Revenue per gross addition	$4.19	$5 08	$3 75	$3.50	$3 50
% of Total Revenue	1 7%	1 8%	1.2%	1.0%	0 9%
Equipment Revenue	21 719	23 277	22.789	23.216	24.253
Revenue per gross addition	$5 62	$5 90	$5 00	$5.00	$5.00
% of Total Revenue	2 3%	2 1%	1 6%	1.4%	1 3%
Net ad sales revenue	35.331	40.508	66.006	91.529	120.131
% Annual Growth	76%	15%	63%	39%	31%
Average Monthly Revenue Per Subscriber	$0 43	$0 41	$0 56	$0.70	$0 84
% of Total Revenue	3 8%	3 6%	4 7%	5 6%	6.4%
Royalties and other	34.549	43.279	46 845	52.617	57.011
% Annual Growth	373%	25%	8%	12%	8%
Average Monthly Revenue Per Subscriber	$0.42	$0 44	$0 40	$0 40	$0.40
% of Total Revenue	3 7%	3.9%	3 3%	3 2%	3.0%
Total Revenue	933.418	1,121 635	1,401.277	1,645.543	1,869.590
% Annual Change	67%	20%	25%	17%	14%
Total Average Monthly Revenue Per Subscriber -calculated	$11.37	$11.30	$11.97	$12.51	$13.12
	8 8%	-0 6%	5 9%	4.5%	4.9%
Operating Expenses:					
Cost Of Revenue					
Revenue share and royalties	(149.010)	(191.452)	(230.981)	(263 147)	(280.707)
% of subscriber revenue	18 0%	19.3%	18.5%	18.0%	17 0%
Customer care and billing	(103.533)	(126.032)	(156.068)	(175.432)	(181.634)
% of subscriber revenue	12.5%	12 7%	13%	12%	11%
Average Monthly Expense Per Customer	($1 26)	($1 27)	($1 33)	($1 33)	($1 27)
Cost of equipment	(48.949)	(54.237)	(45.578)	(29.020)	(24.253)
% of equipment revenue	225%	233%	200%	125%	100%
Ad sales	(13.564)	(16 241)	(23.102)	(29.747)	(36.039)
% of ad revenue	38%	40%	35%	33%	30%
Satellite and terrestrial	(46 370)	(49.163)	(51.621)	(54.202)	(56.913)
% annual growth	10%	6%	5%	5%	5%
Broadcast and operations	(52.427)	(58 684)	(71.595)	(80.186)	(87.403)
% annual growth	29%	12%	22%	12%	9%
Programming and content	(154 318)	(182.154)	(206.585)	(235.902)	(265 805)
% of subscriber revenue	18 7%	18 3%	16 5%	16 1%	16 1%
% annual growth	54%	18%	20%	20%	17%
Total Cost Of Revenue	(568.171)	(677.963)	(785.530)	(867.636)	(932.754)
Research and development	(28 773)	(26.758)	(29.701)	(32.671)	(35.285)
% annual growth	-5%	-7%	11%	10%	8%
General and administrative	(60.502)	(117.768)	(100.103)	(106.109)	(111.415)
% annual growth	44%	95%	-15%	6%	5%
Pre- Marketing Cash Flow	275 972	299 146	491.136	645 752	797.514
% of total revenue	29 6%	26 7%	35 0%	39 2%	42.7%
Marketing					
Retention and support	(23 142)	(29 578)	(36 973)	(45 107)	(54.128)
% annual growth	42%	28%	25%	22%	20%
Per Average Subscriber Per Year	$3 38	$3.58	$3 79	$4 11	$4 56
Retention Costs As A % of Subscriber Revenue	2 6%	3.0%	3 0%	3 1%	3.3%
Subsidies and distribution	(241 601)	(255 851)	(268 910)	(264 663)	(261 936)
% annual growth	-9%	6%	5%	-2%	-1%
Advertising and marketing	(147 639)	(161 826)	(174 772)	(188 754)	(203 854)
% annual growth	-10%	10%	8%	8%	8%
Amortization of GM liability	(29 761)	(26 543)	(26 543)	(26 543)	(26.543)
Total marketing expenses	(442.143)	(473.798)	(507.197)	(525.067)	(546.461)
SAC - as calculated	($70)	($73)	($64)	($58)	($54)
SAC (excluding promotional disconnects) - as calculated by Wachovia	($89)	($93)	($87)	($83)	($80)
CPGA- total $ cost	(416.470)	(448.636)	(466 471)	(459 221)	(465 790)
% annual growth	-8%	8%	4%	-2%	1%
CPGA - as defined by XMSR (excluding retention and support)	($108)	($114)	($102)	($99)	($95)
% Annual Change	-1%	5%	-10%	-3%	-3%
CPGA excluding promotional disconnects (as defined by Wachovia)	($138)	($146)	($139)	($141)	($142)
% Annual Change	3%	6%	-5%	1%	1%
Stock Compensation Expense	($68)	($55)	($55)	($55)	($55)
Operating Cash Flow	(234.217)	(230.033)	(76.635)	58 678	188.294
% Operating Margin	-25 1%	-20 5%	-5 5%	3 6%	10.1%
Impairment of goodwill					
Depreciation and amortization	(168 881)	(181 977)	(180 157)	(178 355)	(176 572)
Total operating expenses	(1,336 516)	(1,478 264)	(1,658 069)	(1,765.220)	(1,857 867)
Operating (Loss) Gain	(403.098)	(412.009)	(256.793)	(119.678)	11.722
Margin on Total Revenues	-43 2%	-36 7%	-18 3%	-7 3%	0 6%
% Change Year-to-Year	27%	-2%	38%	53%	-110%

Source Company data and Wachovia Capital Markets, LLC estimates

XM Satellite Radio

Annual Income Statement (continued) (Dollars in millions, except for per subscriber and per share amounts) — For Fiscal Years Ended December 31

	2006A	2007E	2008E	2009E	2010E
Operating Income (loss)	(403.098)	(412.009)	(256.793)	(119.678)	11.722
Other Income (Expense) :					
Net interest expense	(99.641)	(98 381)	(124 106)	(160.973)	(136.680)
Other	(216 148)				
Net Income (loss) before income taxes	(718 887)	(510 390)	(380 899)	(280 650)	(124.957)
Provision for deferred income taxes	0 014	(2 421)	(2 316)	(2.316)	(2 316)
Net Income (Loss)	(718.873)	(512 811)	(383 215)	(282 966)	(127.273)
Preferred Stock Dividends	(6.127)	(5 788)	(7 717)	(7.717)	(7.717)
Series B preferred stock retirement gain (loss)	(0 755)				
Series C preferred stock retirement gain (loss)	(5.938)				
Net Income (Loss) attributable to common shareholders	(731.707)	(516.178)	(388.616)	(288.367)	(132.674)
Average Diluted Common Shares Outstanding	270	309	319	329	339
Earnings Per Share	($2 71)	($1.67)	($1 22)	($0 88)	($0 39)

Source· Company data and Wachovia Capital Markets, LLC estimates

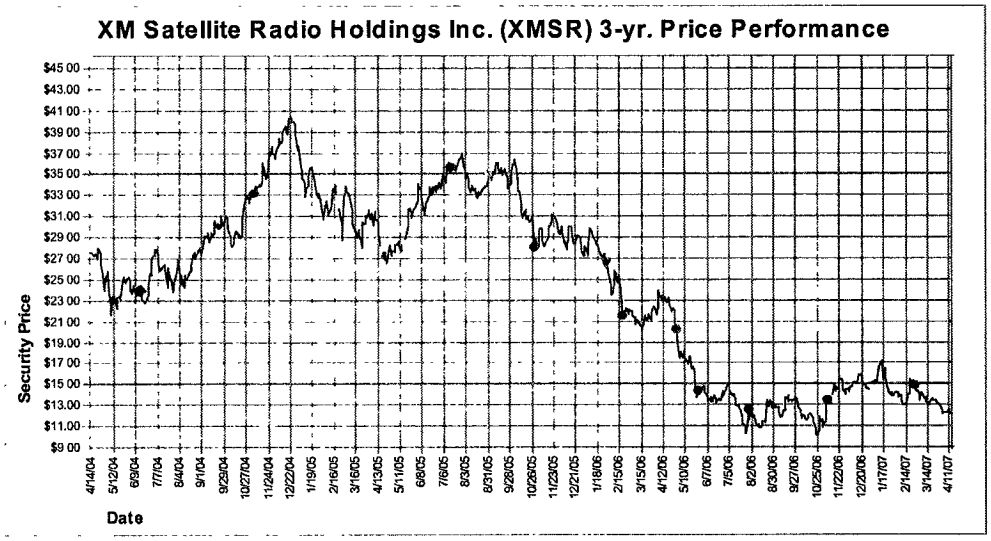
XM Satellite Radio

Discounted Cash Flow Valuation (Dollars in millions, except for per share and per subscriber amounts) — For Fiscal Years Ended December 31

	2006A	2007E	2008E	2009E	2010E
Free cash flow	(567)	(400)	(161)	(34)	141
Interest expense	100	98	124	133	128
Unlevered Free Cash Flow	(468)	(302)	(37)	99	268
YE 2006 PV of UFCF discounted at	12%	(270)	(29)	70	171
YE 2007 PV of UFCF discounted at	12%		(33)	79	191
Terminal Value @ __x free cash flow	31X				6,278
Terminal Value @ __x operating cash flow	33X				
Sum of Free Cash Flow at PV		237			
Add· Terminal Value (__% discount rate)		4,469	Implied terminal subscriber value		$510
Total Value		4,706			
Less Estimated Year End Debt		(1,788)			
Plus Estimated Year End Cash & Securities		275			
Estimated option proceeds/ convertible debt elimination		417			
Net Asset Value		$3,610			
Shares Outstanding (millions)					
Common Shares Outstanding		258			
Preferred A Shares		5			
Preferred B Shares		0			
Preferred C Shares		15			
10% Convertibles		49			
HYD 1 Warrants		3			
HYD 2 Warrants		12			
Employee Options		15			
Fully Diluted Shares outstanding		356			
Valuation per share		$10.14			
Valuation range		$14.00			
		$10.00			

Source Company data and Wachovia Capital Markets, LLC estimates

Required Disclosures



	Date	Close Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High
	6/15/2004	Wlodarczak			
◆	6/15/2004	23.98	2	21.00	24.00
●	11/5/2004	33.12	2	24.00	30.00
●	7/14/2005	35.62	2	29.00	35.00
●	9/1/2005	35.25	1	36.00	44.00
●	10/28/2005	28.07	1	33.00	36.00
▼●	1/30/2006	26.43	2	27.00	30.00
●	2/17/2006	21.57	2	24.00	27.00
●	4/28/2006	20.28	2	22.00	24.00
●	5/25/2006	14.35	2	14.00	16.00
●	7/28/2006	12.67	2	11.00	13.00
●	11/7/2006	13.49	2	13.00	15.00
●	2/26/2007	14.93	2	10.00	14.00

Source: Wachovia Capital Markets, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- Split Adjustment

Rating Code Key

1	Outperform	SR	Suspended
2	Market Perform	NR	Not Rated
3	Underperform	NE	No Estimate

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2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

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- Wachovia Capital Markets, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from XM Satellite Radio Holdings Inc.

Risks include slower-than-expected subscriber growth and competing terrestrial alternatives.

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1 = Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

2 = Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

3 = Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O = Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M = Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U = Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: April 27, 2007

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