XM Satellite Radio

Stifel, Nicolaus & Company, Incorporated

XMSR: Major Milestone Imminent; Reiterate Market Outperform & $44 Target

Media – Satellite Radio
September 14, 2005

XM Satellite Radio
XMSR/NASDAQ
Closing Price on 09/13/05: $35.59
12-Month Price Target: $44.00
Market Outperform

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52-Week Range	$40.89-$26.16
Market Capitalization (Bil)	$12.3B
F.D. Shares Outstanding (MM)	346
Float (MM)	204
Average Daily Volume	2,739,690

FY (Dec)	2003A	2004A	2005E	2006E
Revs (MM)	$92	$244	$533	$1144
EBITDA	($311)	($314)	($382)	$7.3
Previous	-	-	-	$17
EPS	($4.83)	($3.30)	($2.79)	($1.09)
Previous	-	-	-	($1.05)

Qtrly EPS	Mar	Jun	Sep	Dec
2004A	($0.82)	($0.84)	($0.59)	($0.93)
2005E	($0.58)A	($0.70)A	($0.70)	($0.81)

Required Disclosures: A
See Page 14 for Required Disclosures

See Page 15 for Risks to Price Target

Investment Summary

XM should hit the 5 million subscriber milestone within 2 weeks: We predict that XMSR will reach 5MM subscribers, a major milestone, around September 23, based on our analysis of monthly new car sales, OEM factory install schedules, historical and projected monthly retail sales data and new product offerings.

Adoption pace is among fastest ever for a consumer electronics product: Over the past two years, each incremental million subscriber milestone has proved to be positive when the headline was announced. Around million-mark headlines, XMSR's stock price had an average positive swing of 7% intra-day and 11% the following month. We see potential for a similar reaction around the 5MM mark as the milestone may remind investors that satellite radio is being adopted faster than cable television, online subscription services, CD players, MP3 players, cell phones, personal computers, local radio, broadcast TV, satellite TV, and DVRs.

Analysis of proprietary retail market share data indicates an improved quarter thus far for XMSR: According to proprietary retail sales data we purchase from NPD Techworld, XMSR's retail market share so far in 3Q rebounded substantially relative to 2Q (specifically May & June), as XMSR offered higher-tech radios at a lower price.

Reiterate our Market Outperform rating and $44 target: We have a high degree of conviction that XMSR shares will surpass $40 before year-end. Our 1-year target of $44 equals 2010 subs of 20 million times $1,250 per sub (about a third of cable) discounted back to early 2006 at a WACC of 10.5%. Potential catalysts from here include future device deals (MP3 players, cellphones, PDAs), seasonal excitement around the Holiday selling season and January Consumer Electronics Show, technology improvements such as enhanced TIVO-like functionality of radios and channel capacity advancements, and expectations of free cash flow positive in 2006. While XMSR shares are expensive on traditional valuation metrics, it is a well-managed leader in one of the fastest-growing sub-sectors of media and is undervalued on a discounted cash flow model basis, in our opinion. We are positive on Sirius (SIRI/NASDAQ/$7.22/Market Perform/Required Disclosures: A/See Page 14 for Required Disclosures) shares between now and the year end as well, but believe XMSR shares offer a better risk/reward scenario given the relative enterprise values.

Internet services over high speed wireless networks are the biggest long term risk we see: We don't think the market is yet discounting future competition from services such as Yahoo! (YHOO/NASDAQ/$34.30/Not Rated) Music unlimited. However, we believe it will be 3-5 years before robust wireless networks are available and 2-3 years before investors care. Short term, we view the biggest risk as a slight up-tick in churn due to Howard Stern's arrival at Sirius in 1Q05.

Shares of XMSR are best suited to aggressive growth investors tolerant of near term volatility.

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DETAILS

XM should hit the 5 million subscriber milestone within 2 weeks: We predict that XMSR will reach 5MM subscribers, a major milestone, around Sep 23, based on our analysis of monthly new car sales, OEM factory install schedules, historical and projected monthly retail sales data and new product offerings. In the past, XM has typically reported each million subscriber mark. At the end of June, XM was at 4.42MM subscribers. We're predicting that the company adds 628,000 subs in the third quarter, ending Q3 with slightly over 5 million subscribers. Our analysis is based on historical propriety retail sales data for 3Q04 and 3Q05 that we purchase from the NPD Group and vehicle sales data from GM, Honda, and Toyota, XM's major OEM partners. XMSR's retail sub adds should be more heavily weighted towards the back end of the quarter because July and August are particularly slow months (July sales were down 30% sequentially from June this summer). On the other hand, subscriptions arising from OEM car installations are more heavily weighted towards the months of July, because of "employee pricing" programs, and September, due to new models equipped with XM. In light of these two offsetting factors, we believe that XM will reach 5 million subscribers around September 23rd. See below for retail and OEM subs/day historicals and assumptions, as well as GM, Honda, and Toyota sales data for 2005.

Figure 1: Retail and OEM subs/day historicals and 3Q assumptions

	1Q	2Q	July	August	September
OEM/Day	2,465	3,627	4,000	3,300	3,100
Retail/Day	3,547	3,485	3,275	3,275	3,500
Total/Day	6,011	7,112	7,275	6,575	6,600
		Subs added each month:	225,525	203,825	198,000
Running total of ending subs (millions):	**3.770**	**4.417**	**4.643**	**4.847**	**5.045**

Source: Company reports, Stifel Nicolaus estimates

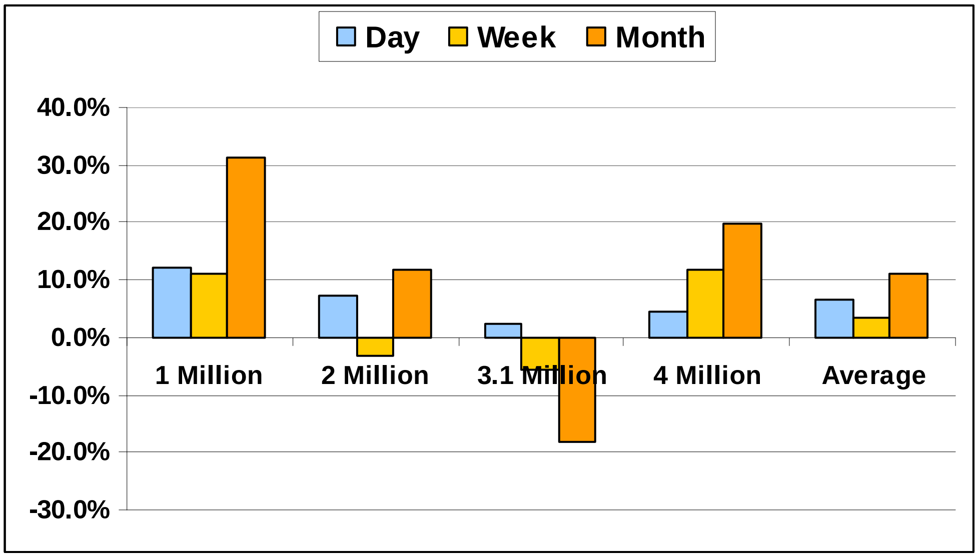
Figure 2: 2005 GM, Honda, and Toyota U.S. vehicle sales data

	GM	YOY Growth	Honda	YOY Growth	Toyota	YOY Growth
January	279653	1.0%	81504	-2.1%	140954	6.2%
February	309375	-12.0%	98130	-7.2%	163059	11.1%
March	426114	3.0%	128548	6.9%	203223	12.3%
April	385939	-7.0%	135597	13.6%	210466	21.3%
May	393197	-5.0%	122169	-7.6%	201493	7.8%
June	558892	41.0%	126416	4.7%	194875	10.0%
July	530027	20.0%	143217	14.5%	216417	12.3%
August	355180	-16.0%	156173	18.6%	205362	9.5%

Source: Company press releases

Historically, milestone announcements have proved to be positive catalysts: Over the past two years, each incremental million subscriber milestone has proved to be positive when the headline was announced. XMSR's stock price has exhibited, on average, a positive swing of 6.5% on the specific day of the announcement (in terms of that day's high compared to the previous day's low). Accordingly, we believe that the 5 million subscriber mark will be a mild positive for XM shares. Please see the next page for a chart on the history of XM's stock performance around the million subscriber milestones, as measured on the day, week, and month immediately following the press release.

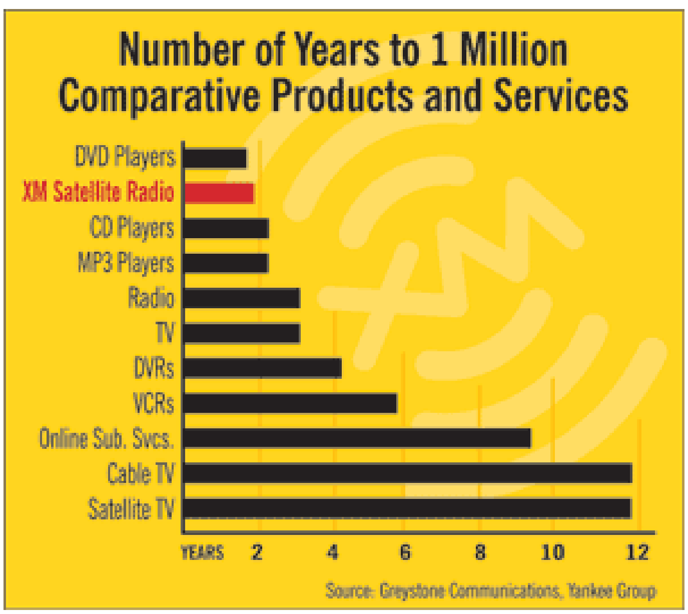
Figure 3: Milestone stock price swings



Source: Company reports, Stifel Nicolaus estimates

Adoption pace is among fastest ever for a consumer electronics product: We believe that these million subscriber milestones will continue to remind investors that satellite radio is being adopted faster than cable television, online subscription services, CD players, MP3 players, cell phones, personal computers, local radio, broadcast TV, satellite TV, and digital video recorders were. XMSR also noted that it hit 4MM subs faster than all the previously mentioned technologies. The table below outlines the number of years it took these products to reach 1MM subscribers.

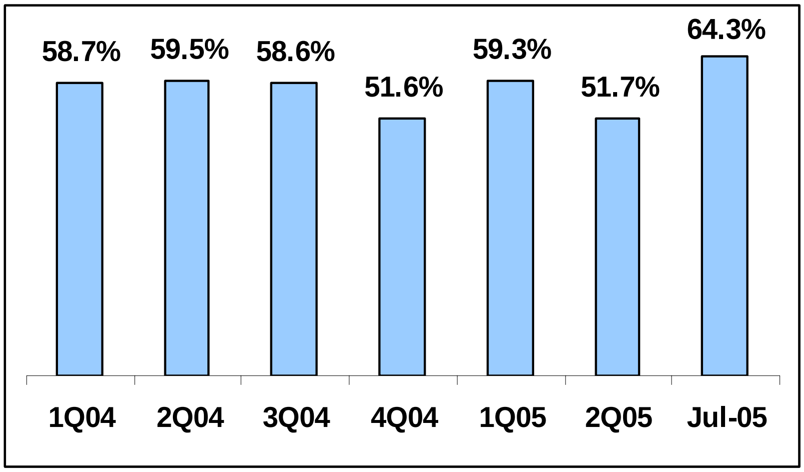
Figure 4: Adoption pace of XM Satellite Radio



Source: Company reports

Analysis of proprietary retail market share data indicates an improved quarter thus far for XM: According to proprietary retail sales data we purchase from NPD Techworld, XMSR's retail market share so far in 3Q rebounded substantially relative to 2Q (specifically May & June), as XMSR offered higher-tech radios at a lower price. XM's market share in the month of July of 64% represented a substantial sequential increase from the month of June and from 2Q, where XMSR's share versus SIRI was 46% and 52%, respectively. The NPD data tabulates bar code receipts from virtually all the major consumer electronics retailers, but excludes Wal-Mart, small independents, and XMSR's company owned kiosks – most of which sell more XM than Sirius. Therefore, the actual retail market share tends to skew a little higher toward XMSR. While we don't glean too many long term conclusions from month to month data, the key element that we believe contributed the most to XM's strong performance in July was the price point of the Roady II relative to its counterpart, SIRI's Starmate. In June the Roady II was sold at $100 with a buy one get one free coupon, relative to SIRI's $50 Starmate (after a $50 rebate). In July, the Roady II was priced at $50 and was up against a $100 Starmate. The Starmate has since dropped to $80 ($50 after a $30 rebate) and it is our belief that the clean, rebate free $50 price of the Roady II is more appealing to the potential satellite radio customer than the Starmate. See below for XM's incremental retail market share trend over the past year and a half.

Figure 5: XM's incremental retail market share



Source: NPD Techworld, Stifel Nicolaus estimates

LONG TERM INVESTMENT THESIS

Reiterate our Market Outperform rating and $44 target: We have a high degree of conviction that XMSR shares will surpass $40 before year-end. Our 1-year target of $44 equals 2010 subs of 20 million times $1,250 per sub (about a third of cable) discounted back to early 2006 at a WACC of 10.5%. Potential catalysts from here include future device deals (MP3 players, cellphones, PDAs), seasonal excitement around the Holiday selling season and January Consumer Electronics Show, technology improvements such as enhanced TIVO-like functionality of radios and channel capacity advancements, and expectations of free cash flow positive in 2006. While XMSR shares are expensive on traditional valuation metrics, it is a well-managed leader in one of the fastest-growing sub-sectors of media and is undervalued on a discounted cash flow model basis, in our opinion. We are positive on Sirius shares between now and the year end as well, but believe XMSR shares offer a better risk/reward scenario given the relative enterprise values. XMSR's enterprise value including all warrants options and in-the-money converts is about equal to SIRI at $12B, despite a current market-share of approximately 70% and about 53% of the new car market secured under long-term agreements.

Street is likely underestimating how much we'll ultimately pay for satellite radio service – just like cable TV: Twenty years ago, cable industry analysts and investors underestimated how much people would be paying for television service and couldn't fathom the thought of $45 a month of Internet service (as the Internet had yet to be commercially invented). Similarly, we believe investors may be underestimating just how sticky pay-radio will become. Our models assume 5-7% annual price increases (similar to cable television in the 80s and 90s) versus investor expectations of inflationary increases, driving a decade end ARPU of $14, above our current assumption of $9.50 for 2005. Our decade-end EBITDA margin assumption is 44%. The key reasons for our thinking on profitability are:

1) Subscriber growth is coming more quickly than we anticipated in both retail and new car channels.

2) XMSR is evidencing strong pricing power – no up-tick in churn (a very low 1.4% in 2Q) despite a 30% price increase!

3) New partnerships (Starbucks, Audible, Napster, Samsung, etc.) and spectrum acquisition will mean new services and future revenue streams (downloading, data, video, increased local content, etc.)

Auto OEM partnerships and huge commuting market is the key: Evidence still points out that consumers LOVE this product. In 2Q05 roughly 60% of GM trial subscribers ended up paying for XM after their trial subscription. We view this take rate as quite high – potentially indicating that 50-60% of the 108MM automobile commuters will eventually pay for satellite radio as the service becomes standard in new cars over the next 5-7 years. Hyundai is the first automaker to indicate plans to make satellite radio a standard feature beginning in 2006 and completed by the 2007 model years.

Figure 6: OEM partner split

	2005E Sales	% of Total	
BMW	0.127	0.8%	SIRI
Daimler Chrysler	2.746	16.6%	SIRI
Ford	4.054	24.5%	SIRI
General Motors	5.713	34.5%	XMSR
Honda	1.162	7.0%	XMSR
Isuzu	0.033	0.2%	XMSR
Mazda	0.138	0.8%	SIRI
Mercedes Benz	0.090	0.5%	SIRI
Mitsubishi	0.178	1.1%	SIRI
Nissan	0.767	4.6%	XMSR/SIRI**
Toyota	1.220	7.4%	XMSR/SIRI**
Volkswagon	0.340	2.0%	XMSR/SIRI
Other	0.300	1.8%	XMSR/SIRI
	16.568		

Total Vehicle Penetration	
XMSR	53%
SIRI	47%

**Assume 75% of Toyota & Nissan go to XMSR

Source: Company reports, Ward's Automotive, Stifel Nicolaus estimates

INVESTMENT RISKS

Internet services over high-speed wireless networks are the biggest long term risks we see: We see streaming digital audio services over high-speed wireless Internet services as the biggest long-term threat to satellite radio, and we don't think the market is yet discounting future competition from these services (such as Yahoo! Music Unlimited). However, we don't expect robust, user friendly, services until next decade – likely too far out for investors to care about for the next two years. Also, while other pay-audio alternatives to satellite radio exist and will continue to prosper – iPod/podcasts and wireless Internet services – satellite radio has two other huge advantages. First, satellite radio will likely be an easy-to-navigate standard feature in the car. Alternatively, wireless Internet services or MP3 podcasts will likely be a bit more difficult to manage while driving, except for the true technocrats that implement voice enabled products. Second, satellite radio has a large critical mass of news and entertainment content in one place. It is not clear when a virtual cable TV operator will emerge – to date most audio and video news content is available at the content owners' website. For example, even if you subscribe to Yahoo! Music Unlimited or Napster, you have to go to another place on the web to hear the CNN audio feed. In summary, satellite radio is so much easier.

Short term, we believe the biggest risk to XMSR shares is a slight up-tick in churn due to Howard Stern: Howard Stern will begin broadcasting on Sirius in January of next year, and SIRI is promoting him on a Howard Stern "preview" channel that has already begun broadcasting. We expect just a mild one-time up-tick in churn during 1Q06. Howard Stern is without a doubt the single biggest personality in radio with 2-3MM daily listeners, 5-6M weekly listeners, and 12MM+ fans. Prior to being kicked off Clear Channel stations, Stern was in only 46 of 350 radio markets and reached approximately 50% of the population. Thus, were he available everywhere, his fan base would likely be more like 50-70% of the population (not 100% because he's in the markets where he plays the best). According to a 50-page marketing document we obtained from CBS radio, the Stern listener demographic is surprisingly white-collar and affluent – about 30% more annual income than the average radio listener. Nevertheless, we expect Stern's impact on churn to be mild as dedicated fans either haven't bought a satellite radio yet or may be unlikely to bother switching if their car already has XM. In the retail marketplace, we expect an initial swing in market share of about 10% towards SIRI radios, but expect the impact to level off over time. Another short term risk is that XM has recently partnered with non-Apple MP3 manufacturers and digital music services, increasing the possibility for a Sirius/Apple partnership (though our base case is that Apple views both as competitors and chooses neither company as a partner).

ANALYSIS OF RECENT EVENTS

NHL programming through 2015 – good for expansion into Canada: On Monday XM announced a 10-year, $100-million agreement that makes the company the exclusive satellite radio network of the NHL beginning with the 2007-2008 season. XM will begin to broadcast the games in the 2005-2006 season along with Sirius, but will not have exclusivity for another 2 years. Canadian Satellite Radio, XM's partner in Canada, will be funding a portion of the content fees. We view the event as a mild positive for the shares, as it increases XM's ability to penetrate the Canadian market in the years to come. We had already projected programming and content fees to substantially increase in the next 5 years; therefore we are not meaningfully increasing those expenses going forward as a result of this deal. We estimate that XM will need to generate roughly 80 to 100k incremental subscribers as a result of this deal to break even (assuming $156 in revenue/sub/year, avg. SAC of $35, a 10% discount rate, and that CSR contributes little to nothing for the content).

XMSR was the first to announce a satellite radio service integrated with an MP3 player: XMSR announced a strategic alliance with Samsung to produce the first MP3 players with XM Satellite Radio capability. We believe this product is a major innovation and may be the best total solution for portable digital music to date (until a satellite radio compatible Apple iPod is announced). The product will combine the capabilities of 1) satellite radio's commercial free music, real-time news, and entertainment broadcasts (unclear if broadcasts will initially be portable, similar to the MyFi), 2) MP3 player functionality of storing and playing digital music files (flash-based rather than hard drive, so probably about 500-1000 songs), 3) TIVO-like capability to play recorded XM Satellite broadcasts when out of satellite signal (ex: on a subway), 4) music downloading services to buy songs that you hear on your satellite radio permanently, and 5) iTunes-like ability to customize playlists and manage song libraries.

MP3 players are a large market opportunity – 50MM plus by decade end: By decade end, we believe in excess of 50MM U.S. households will have at least one MP3 player, which equates to about 75% of projected U.S. households with a broadband Internet connection. Obviously, this market is not totally incremental to XMSR's core market (the 108MM automobile commuters), as there is a high degree of overlap. Nevertheless, more consumers will be exposed to satellite radio - a positive for the industry, which we currently peg at 36MM subscribers by decade end.

Music downloading offers low-margin, but incremental new revenue stream: The announcement also marked XMSR's first move into music downloading, which we believe opens up a new revenue stream for the company. We believe XM will sell music downloads at prices in line with the industry at $0.79-0.99 per song. Given that margins on music downloads are a low 10% and that MP3/iPod users historically have only bought about 24 songs per player, we see the cash flow upside to XMSR from the downloading business as limited. Nevertheless, we believe XM has an opportunity to add incremental cash flow given the convenience of selecting a song as it is broadcasted.

XM boosted its spectrum position by approximately 31%: XMSR announced it acquired WCS Wireless, a private company, for 5.5MM XMSR shares, or roughly $196MM based on last night's closing price. The principal assets of WCS Wireless are wireless spectrum licenses in geographic areas covering 163 million people throughout the United States, including 15 of the top 20 metropolitan markets. On average, WCS Wireless licenses cover 10 megahertz in the frequency bands adjacent to XM's satellite radio service. XM and WCS Wireless expect to close the transaction before the end of the year, subject to necessary government approvals. XM currently has 12.5 MHz of spectrum in the S-band reaching the entire U.S. population (about 295MM people). Thus, the additional frequency equals about a 31% increase overall and an 80% increase in specific markets. XM plans to use the spectrum for video, additional radio channels in other languages, and/or data services. However, XM will likely need additional transmitters, receivers, and potentially satellites to offer these potential additional services. We see limited risk to the acquisition as spectrum value has historically appreciated over time.

COMPANY DESCRIPTION

XM Satellite Radio Holdings provides music, entertainment, and information programming for reception by vehicle, home, and portable radios in the United States. It had approximately 4.4MM subscribers as of June 30, 2005. XM offers approximately 151 digital channels, including music channels from hip hop to opera, classical to country, and bluegrass to blues; 40+ channels of sports, talk, comedy, children, and entertainment programming; and 21 channels of traffic and weather information. The company markets its satellite radio service through various distribution channels, including automotive manufacturers and dealers, national and regional electronics retailers, car audio dealers and mass retailers, and rental car companies. XM Satellite Radio Holdings was formed in 1997 and is headquartered in Washington, DC.

XM Satellite Radio – XMSR/NASDAQ

Summary Model

($ in millions except per share data)

	2003A	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Beginning of period subs	0.347	1.360	3.229	6.100	9.464	12.431	15.336	17.986
Gross new additions	1.109	2.573	4.030	5.500	6.000	7.150	7.850	8.400
Less Churn	(0.096)	(0.688)	(1.159)	(2.137)	(3.033)	(4.245)	(5.199)	(6.099)
Monthly churn (incl OEM Trial Churn)		*2.8%*	*2.3%*	*2.9%*	*2.7%*	*2.8%*	*2.8%*	*2.8%*
Monthly churn (ex OEM Trial Churn)	*1.3%*	*1.2%*	*1.5%*	*1.7%*	*1.7%*	*1.9%*	*2.0%*	*2.0%*
Net Additions	**1.013**	**1.885**	**2.871**	**3.363**	**2.967**	**2.905**	**2.651**	**2.301**
Ending subscribers	**1.360**	**3.229**	**6.100**	**9.464**	**12.431**	**15.336**	**17.986**	**20.287**
Revenue	**91.8**	**244.4**	**532.5**	**1,143.9**	**1,687.7**	**2,257.9**	**2,864.1**	**3,479.3**
EBITDA	**(311.1)**	**(313.9)**	**(382.3)**	**7.3**	**432.1**	**794.8**	**1,165.2**	**1,513.4**
EBITDA Margin			-72%	1%	26%	35%	41%	43%
EPS ex one-time items	**($4.83)**	**($3.17)**	**($2.80)**	**($1.09)**	**$0.46**	**$1.47**	**$2.35**	**$3.30**
Ending Fully Diluted Shares Outstanding	311.0	301.9	346.4	354.8	364.1	374.2	385.2	386.3
Avg FD Shs (Treasury method) - EPS	125.2	197.3	216.6	216.6	369.1	374.2	385.2	386.3
YOY Growth Rates:								
Subscribers		137%	89%	55%	31%	23%	17%	13%
Revenues		166%	118%	115%	48%	34%	27%	21%
EBITDA						84%	47%	30%
EPS						221%	61%	40%
FCF						133%	38%	25%

CASH FLOW AND VALUATION MODEL	**2003A**	**2004A**	**2005E**	**2006E**	**2007E**	**2008E**	**2009E**	**2010E**
Cash Flow from Operations	(245.1)	(85.6)	(233.9)	163.3	570.2	968.7	1,328.7	1,635.2
Cash Flow from Investing	14.6	(36.3)	(92.1)	(217.1)	(217.1)	(122.4)	(127.9)	(133.6)
Cash Flow from Financing	616.0	421.4	367.8	-	-	-	-	(233.3)
Net Cash Flow	385.5	299.6	41.7	(53.8)	353.1	846.3	1,200.8	1,268.2
FCF calculation:								
Cash flow from operations	(245.1)	(85.6)	(233.9)	163.3	570.2	968.7	1,328.7	1,635.2
- Capital expenditures	(19.8)	(169.9)	(157.2)	(217.1)	(217.1)	(122.4)	(127.9)	(133.6)
+ Insurance proceeds		133.9	-					
Free Cash Flow	(264.9)	(121.6)	(391.2)	(53.8)	353.1	846.3	1,200.8	1,501.6
FCF/Share	($0.85)	($0.40)	($1.13)	($0.15)	$0.97	$2.26	$3.12	$3.89
FCF/Share multiple	**NM**	**NM**	**NM**	**NM**	**37x**	**16x**	**11x**	**9x**

ENTERPRISE VALUE CALCULATION & BALANCE SHEET

	2003A	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Y/E Market Cap. at $35.59 per share	11,068.8	10,745.2	12,329.8	12,628.3	12,958.2	13,317.0	13,707.7	13,748.4
Enterprise Value	10,932.6	10,594.1	11,974.4	12,346.6	12,346.1	11,884.6	11,104.2	9,343.6
EV/EBITDA - Pro Forma	**NM**	**NM**	**NM**	**1685x**	**29x**	**15x**	**10x**	**6x**
Enterprise value/subscriber	8,040	3,281	1,963	1,305	993	775	617	461

XM Satellite Radio – XMSR/NASDAQ

Quarterly Model

($ in millions except per share data)

Subscribers:	2003A	1Q04A	2Q04A	3Q04A	4Q04A	2004A	1Q05A	2Q05A	3Q05E	4Q05E	2005E
Beginning of period subscribers	0.347	1.361	1.681	2.100	2.516	1.361	3.229	3.770	4.417	5.045	3.229
New gross additions	1.109	0.475	0.561	0.616	0.921	2.573	0.835	0.922	0.923	1.350	4.030
Churn	(0.096)	(0.155)	(0.126)	(0.195)	(0.211)	(0.688)	(0.266)	(0.288)	(0.295)	(0.310)	(1.159)
Monthly churn (incl OEM Trial Churn)		3.8%	2.5%	2.8%	2.5%	2.8%	2.7%	2.5%	2.2%	2.1%	2.3%
Monthly churn (ex OEM Trial Churn)	1.3%	1.3%	1.1%	1.2%	1.2%	1.2%	1.4%	1.4%	1.5%	1.5%	1.5%
Net Additions	1.013	0.320	0.418	0.416	0.713	1.885	0.541	0.647	0.628	1.040	2.871
Ending net subscribers	**1.361**	**1.681**	**2.100**	**2.5160**	**3.229**	**3.229**	**3.770**	**4.417**	**5.045**	**6.085**	**6.085**
Avg. subscribers	0.854	1.521	1.891	2.308	2.873	2.295	3.500	4.094	4.731	5.565	4.657
Subsription Revenue/Subscriber	$8.93	$8.66	$8.63	$8.64	$8.65	$8.64	$8.84	$9.35	$9.71	$10.03	$9.56
	2003A	1Q04A	2Q04A	3Q04A	4Q04A	2004A	1Q05A	2Q05A	3Q05E	4Q05E	2005E
Total Subscriber revenue	86.8	41.3	50.8	62.5	78.6	233.1	98.1	119.5	133.8	155.6	507.1
Advertising rev, net of agency fees	4.1	1.0	1.4	2.1	4.0	8.5	3.1	4.4	5.0	7.0	19.5
Other revenue	0.9	0.7	0.8	0.8	0.5	2.8	1.3	1.6	1.5	1.5	5.9
Total Revenue	**91.8**	**43.0**	**53.0**	**65.4**	**83.1**	**244.4**	**102.6**	**125.5**	**140.3**	**164.1**	**532.5**
Total rev share, royalties, & cost of equip.	36.1	17.1	12.3	13.1	19.8	62.2	22.2	28.6	33.9	41.5	126.2
Ad Sales	3.3	1.3	1.4	1.5	2.0	6.2	2.1	1.8	2.3	3.0	9.1
Customer care & billing	25.7	7.1	9.0	10.0	14.8	40.9	15.4	18.5	21.3	25.0	80.2
Satellite & terrestrial	39.7	9.4	9.8	8.6	8.1	35.9	8.7	10.5	11.0	11.0	41.2
Broadcast & operations	19.7	5.6	5.5	6.2	6.8	24.0	8.4	10.3	10.8	11.1	40.6
Programing & content	23.1	7.2	7.1	8.6	9.7	32.7	17.5	24.5	32.0	24.7	98.8
Total cost of revenue	**147.6**	**47.7**	**45.0**	**48.0**	**61.2**	**201.9**	**74.3**	**94.2**	**111.3**	**116.4**	**396.2**
Research & developemnt	12.3	6.2	6.7	6.7	3.9	23.5	6.1	7.0	10.0	10.0	33.1
General & administrative	27.4	5.9	6.5	7.4	8.7	28.6	7.3	10.8	11.4	12.0	41.6
Other	(15.0)	-	-	-	-	-	2.0	-	-	-	2.0
Impairment of goodwill											
Pre-Marketing Cash Flow	**(110.5)**	**(16.8)**	**(5.3)**	**3.2**	**9.3**	**(9.6)**	**16.8**	**13.4**	**7.6**	**25.7**	**63.6**
Marketing, net of GM amortization	165.0	52.3	58.8	57.5	98.6	267.1	78.8	94.5	95.4	137.6	406.3
Amortization of GM liability	35.6	9.3	9.3	9.3	9.3	37.3	9.3	9.3	9.5	9.5	37.6
EBITDA	**(311.1)**	**(78.4)**	**(73.4)**	**(63.6)**	**(98.6)**	**(313.9)**	**(71.3)**	**(89.9)**	**(97.3)**	**(121.4)**	**(380.3)**
Depreciations & amortization	158.3	39.5	39.6	37.0	31.1	147.2	32.1	36.7	36.9	37.1	142.8
Total Operating expenses	561.2	160.8	165.9	165.9	212.8	705.5	205.9	252.549	274.5	322.7	1,055.6
Operating income	(469.4)	(117.9)	(112.9)	(100.6)	(129.7)	(461.0)	(103.3)	(127.1)	(134.2)	(158.6)	(523.2)
Interest income	3.1	1.1	1.1	1.5	2.6	6.2	4.0	5.1	1.5	1.2	11.8
Interest expense	(110.3)	(28.1)	(19.2)	(19.0)	(19.4)	(85.8)	(20.0)	(24.5)	(18.6)	(18.6)	(81.8)
Other	(7.8)		(34.5)	0.7	(41.1)	(74.9)		0.5			0.5
Pretax income	(584.5)	(144.9)	(165.5)	(117.4)	(187.6)	(615.4)	(119.3)	(146.0)	(151.3)	(175.9)	(592.6)
Income tax expense (benefit)	-	25.6	0.6	0.6	0.6	27.3	0.6	0.6	0.9	0.9	3.0
Effective corporate tax	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Net income (loss) from cont. ops	(584.5)	(170.5)	(166.1)	(118.0)	(188.20)	(642.8)	(119.9)	(146.6)	(152.2)	(176.8)	(595.6)
Series B & C p/s dividend requirement	(17.6)	(2.1)	(2.1)	(2.1)	(2.1)	(8.5)	(2.1)	(2.2)	(2.1)	(2.1)	(8.6)
Series B p/s conversion gain	9.5					-					-
Series C retirement loss	(11.5)					-					-
Other											
Net income for common	(604.2)	(172.6)	(168.2)	(120.1)	(190.4)	(651.3)	(122.1)	(148.8)	(154.4)	(179.0)	(604.2)
EPS ex one-time items	**$ (4.83)**	**$ (0.96)**	**$ (0.84)**	**$ (0.59)**	**$ (0.93)**	**$ (3.30)**	**$ (0.58)**	**$ (0.70)**	**$ (0.70)**	**$ (0.81)**	**$ (2.79)**

XM Satellite Radio – XMSR/NASDAQ

Statement of Cash Flows

($ in millions except per share data)

CASH FLOW AND VALUATION MODEL	**2003A**	**2004A**	**2005E**	**2006E**	**2007E**	**2008E**	**2009E**	**2010E**
Net Income	(584.5)	(616.0)	(597.5)	(237.0)	168.6	548.7	906.9	1,275.8
D&A	158.3	147.2	142.8	157.3	171.8	179.9	188.5	197.4
Defferred SAC payments to Onstar	35.6	37.0	37.6	37.0	37.0	37.0	37.0	37.0
Non-cash interest expense	45.2	53.4	60.0	37.8	42.5	47.8	53.8	
Change in deferred revenues from prepayments	41.6	98.5	246.0	168.2	148.4	145.2	132.5	115.0
Other	58.7	194.4	(122.8)	2.0	2.0	10.0	10.0	10.0
Cash Flow from Operations	(245.1)	(85.6)	(233.9)	165.3	570.2	968.7	1,328.7	1,635.2
Purchase of property & equipment	(15.7)	(25.0)	(107.2)	(112.1)	(117.1)	(122.4)	(127.9)	(133.6)
Systems under construction	(4.1)	(329.4)	(50.0)	(105.0)	(100.0)	-	-	-
Total capital expenditures	(19.8)	(169.9)	(157.2)	(217.1)	(217.1)	(122.4)	(127.9)	(133.6)
Insurance proceeds		133.9	-	-	-	-	-	-
Net maturity/purchase of restricted inv.	22.7	-	-	-	-	-	-	-
Other	11.7	(0.3)	65.1	-	-	-	-	-
Cash Flow from Investing	14.6	(36.3)	(92.1)	(217.1)	(217.1)	(122.4)	(127.9)	(133.6)
Proceeds (repay) of Credit facility & notes payable	-	-	-	-	-	-	-	-
Proceeds (repayments) of other long-term debt	395.0	(187.6)	-	-	-	-	-	(233.3)
Senior note offering	-	200.0	-	-	-	-	-	-
Equity/warrant Proceeds	253.1	217.3	-	-	-	-	-	-
Other	(32.1)	391.7	367.8	-	-	-	-	-
Cash Flow from Financing	616.0	421.4	367.8	-	-	-	-	(233.3)
Net Cash Flow	385.5	299.6	41.7	(51.8)	353.1	846.3	1,200.8	1,268.2
FCF calculation:								
Cash flow from operations	(245.1)	(85.6)	(233.9)	165.3	570.2	968.7	1,328.7	1,635.2
- Capital expenditures	(19.8)	(169.9)	(157.2)	(217.1)	(217.1)	(122.4)	(127.9)	(133.6)
+ Insurance proceeds	-	133.9	-	-	-	-	-	-
Free Cash Flow	(264.9)	(121.6)	(391.2)	(51.8)	353.1	846.3	1,200.8	1,501.6
FCF/Share	($0.85)	($0.40)	($1.13)	($0.15)	$0.97	$2.26	$3.12	$3.89
FCF/Share multiple	**NM**	**NM**	**NM**	**NM**	**37x**	**16x**	**11x**	**9x**

XM Satellite Radio – XMSR/NASDAQ

Enterprise Value Calculation

($ in millions except per share data)

	2003A	**2004A**	**2005E**	**2006E**	**2007E**	**2008E**	**2009E**	**2010E**
Cash & short-term investments	418.3	717.9	759.6	705.8	1,058.9	1,905.3	3,106.1	4,374.3
14% senior sec notes due 2010	19.1	19.5	19.7	19.9	20.1	20.3	20.5	20.7
14% sen disc notes due 2009	177.1	118.6	135.8	155.5	178.0	203.8	233.3	-
12% senior secured notes due 2010	185.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0
10% sen sec disc convert due 2009 ($3.18 strike)	143.5	160.1	176.5	194.6	214.5	236.5	260.7	converts
7.75% convert sub due 2006 ($12.23 strike)	45.7							
Sen. Sec. Floating Rate Notes (550 bps over LIBOR)		200.0	200.0	200.0	200.0	200.0	200.0	200.0
10% sen. sec convert due 2009 to Onstar ($10 strike)	141.9	-	-	-	-	-	-	-
1.75% Convertible Senior Notes due 2009 ($50 strike)		300.0	300.0	300.0	300.0	300.0	300.0	
Capital leases, mortgage, other	69.7	42.2	42.2	42.2	42.2	42.2	42.2	42.2
Bank Debt	-	-	-	-	-	-	-	-
Total Debt	781.9	955.3	989.1	1,027.1	1,069.8	1,117.8	1,171.7	377.9
Net Debt incl converts	363.6	237.4	229.5	321.3	10.8	(787.5)	(1,934.3)	(3,996.4)
Net Debt Assuming Conversion of in money converts	32.5	77.4	53.1	126.7	(203.7)	(1,024.0)	(2,195.1)	(3,996.4)
GM warrants (10MM @3.18)	(31.8)		-	-	-	-	-	-
Steve Hicks (0.9MM@3.18)	(2.9)	-	-	-	-	-	-	-
HY warrants (2.9MM@ $44.84)								
Other warrant proceeds			(180.0)	(180.0)	(180.0)	(180.0)	(180.0)	(180.0)
Option proceeds	(134.1)	(228.4)	(228.4)	(228.4)	(228.4)	(228.4)	(228.4)	(228.4)
Warrant & Option Proceeds	(168.8)	(228.4)	(408.4)	(408.4)	(408.4)	(408.4)	(408.4)	(408.4)
Y/E Market Cap. at $35.59 per share	11,068.8	10,745.2	12,329.8	12,628.3	12,958.2	13,317.0	13,707.7	13,748.4
Enterprise Value	10,932.6	10,594.1	11,974.4	12,346.6	12,346.1	11,884.6	11,104.2	9,343.6
EV/EBITDA - Pro Forma	**NM**	**NM**	**NM**	**1685x**	**29x**	**15x**	**10x**	**6x**
Enterprise value/subscriber	8,040	3,281	1,963	1,305	993	775	617	461

Satellite Radio

Enterprise Value Comparison

($ in millions except per share data)

		XMSR	SIRI	
		XM Satellite Radio	**Sirius Satellite Radio**	
Date:	9/6/2005	$35.59	$7.22	
Common		227	1,341	
Shares from in-the-money Pref & converts		93	160	
Warrants and options		27	273	
Ending FD shares out.		346	1,773	
Equity Market Capitalization		**12,328**	**12,801**	
Total debt incl out-of-the-money converts		989	849	
Less: in-the-money converts		(177)	(597)	
Less: cash & short-term investments		(760)	(332)	
Plus: Net Debt (Cash) Year-end 2005E		**53**	**(80)**	
Less: Warrant and Option Proceeds		**(408)**	**(728)**	**TOTAL**
= Enterprise Value		**11,973**	**11,993**	**23,966**
Respective percent of total EV		**50.0%**	**50.0%**	
SIRI discount (premium) to XMSR			0%	
	2005E Subscribers	6.1	3.0	
	2006E Subscribers	9.4	5.6	
	2010E Susbcribers	20.0	16.3	
	2004E EV/Subscriber	1,962.8	3,988.4	
	2005E EV/Subscriber	1,273.7	2,155.1	
	2010E EV/Susbcriber	597.8	735.2	

Simplified DCF

($ in millions except per share data)

Simplified DCF Model & Sensitivity Analysis

	2010				
Ending Subs	15.0	17.0	**20.0**	22.0	25.0
Subscription rev/sub/month	$10.0	$10.0	**$14.0**	$11.0	$11.0
Advertising	$50.0	$75.0	**$122.6**	$172.6	$222.6
Revenues	$1,850.0	$2,115.0	**$3,479.3**	$3,076.6	$3,522.6
EBITDA	$555.0	$740.3	**$1,513.4**	$1,384.5	$1,761.3
EBITDA Margin	30%	35%	**43%**	45%	50%
EBITDA Multiple	12.0x	14.0x	**16x**	18.0x	20.0x
Adj Unlevered FCF	**19x**	**19x**	**19x**	**21x**	**23x**
Enterprise Value	6,660	10,364	**24,669**	24,921	35,226
Enterpise Value/Sub	**444**	**610**	**1,233**	**1,133**	**1,409**

WACC	2006 Enterprise Value				
9.5%	4,427	6,889	16,398	16,565	23,416
10.0%	4,337	$6,749	$16,065	$16,229	22,940
10.5%	4,250	$6,613	**$15,741**	$15,901	22,477
11.0%	4,164	$6,480	$15,424	$15,581	22,025
11.5%	4,081	6,350	15,115	15,269	21,584

(Less 2006 Y/E debt) plus net cash:	125
Plus 2006 other assets/option proceeds:	(408)
Divided by shares outstanding	355

WACC	2006 Equity Value				
9.5%	$12	$19	$45	$46	$65
10.0%	$11	$18	$44	$45	$64
10.5%	$11	$18	**$44**	$44	$63
11.0%	$11	$17	$43	$43	$61
11.5%	$11	$17	$42	$42	$60

Satellite Radio

U.S. Subscriber Forecast

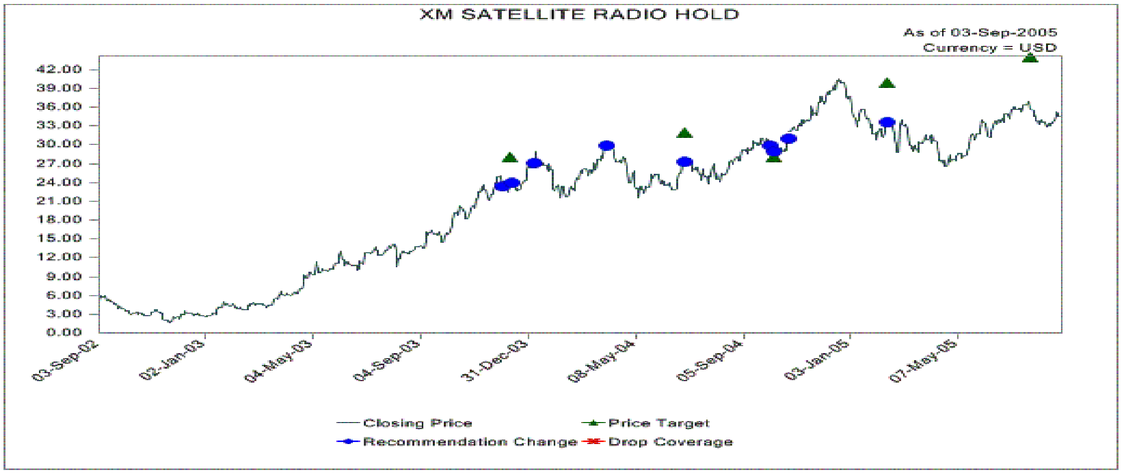
($ in millions except per share data)

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Ending Subs:							
XMSR - Retail	1.8	3.4	5.0	6.3	7.7	8.9	9.9
Share	69%	66%	63%	61%	61%	60%	59%
XMSR - OEM	1.4	2.7	4.5	6.1	7.6	9.1	10.3
Share	81%	70%	67%	62%	58%	56%	53%
XMSR Subs	**3.2**	**6.1**	**9.5**	**12.4**	**15.3**	**18.0**	**20.3**
Share	74%	68%	65%	61%	60%	58%	56%
SIRI - Retail	0.8	1.8	2.9	4.0	4.9	5.9	6.9
Share	31%	34%	37%	39%	39%	40%	41%
SIRI - OEM	0.3	1.1	2.3	3.8	5.5	7.2	9.2
Share	19%	30%	33%	38%	42%	44%	47%
SIRI Subs	**1.1**	**2.9**	**5.2**	**7.8**	**10.4**	**13.1**	**16.0**
Share	26%	32%	35%	39%	40%	42%	44%
Total	**4.4**	**9.0**	**14.6**	**20.3**	**25.7**	**31.1**	**36.3**

Total Registered Autos	220.0	222.0	224.1	226.1	228.2	230.3	232.4
Subscribers / Registered vehicles	**2%**	**4%**	**7%**	**9%**	**11%**	**13%**	**16%**
Total Automobile commuters	109.1	110.2	111.3	112.4	113.5	114.6	115.8
Subscribers / Total Auto commuters	**4%**	**8%**	**13%**	**18%**	**23%**	**27%**	**31%**
Automobile 25+ minutes commuters	55.1	56.2	57.3	58.5	59.6	60.8	62.0
Subscribers / 25+ minute commuters	**8%**	**16%**	**26%**	**35%**	**43%**	**51%**	**59%**

Required Disclosures

EFFECTIVE NOVEMBER 13, 2002, STIFEL NICOLAUS ELIMINATED PRICE TARGETS ON ALL MARKET PERFORM-RATED STOCKS. ALL MARKET OUTPERFORM AND MARKET UNDERPERFORM-RATED STOCKS CONTINUE TO HAVE PRICE TARGETS.



XM SATELLITE RADIO HOLD

Currency = USD

Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
11-Feb-2005	33.56	MARKET OUTPERFORM	29-Jul-2005	35.63	44.00
21-Oct-2004	30.94	MARKET PERFORM	11-Feb-2005	33.56	40.00
06-Oct-2004	29.00	UNDERPERFORM	06-Oct-2004	29.00	28.00
04-Oct-2004	29.88	MARKET PERFORM	30-Jun-2004	27.29	32.00
30-Jun-2004	27.29	MARKET OUTPERFORM	11-Dec-2003	23.93	28.00
05-Apr-2004	29.85	MARKET PERFORM			
05-Jan-2004	27.14	MARKET OUTPERFORM			
11-Dec-2003	23.93	BUY			
04-Dec-2003	23.36	MARKET PERFORM			

We, the research analysts responsible for this report, attest that the views expressed in this research report accurately reflect our personal views about any and all of the subject securities or issuers. We have not received, and will not receive, compensation in return for the specific recommendations or views expressed by us in this report.

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RESEARCH COVERAGE: As of June 30, 2005, Stifel Nicolaus had 214 companies under coverage. Stifel Nicolaus rated 98 companies, or 45.8%, as Market Outperform/"Buy," 115 companies, or 53.7%, as Market Perform/"Hold," and 1 company, or 0.5%, as Market Underperform/"Sell." During the previous 12 months, Stifel Nicolaus provided investment banking services for 17 of the companies rated Market Outperform/"Buy" (17%), 16 of the companies rated Market Perform/"Hold" (14%), and none of the companies rated Market Underperform/"Sell" (0%).

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This is not a solicitation of any order to buy or sell.

Risks to Price Target:

1) **Greater competition from Internet radio and iPods/MP3 players than anticipated.**
2) **The unanticipated loss of subscribers upon Howard Stern's arrival on Sirius.**
3) **More pressure to add expensive content than anticipated.**

Price Target Valuation:

Our $44 target equals 2010 subs of 20 million times $1,250 per sub (about a third of cable) discounted back to early 2006 at a WACC of 10.5%. We feel the 10.5% WACC accurately reflects what investors will demand in return for the risks inherent in XMSR's business model.