

May 2, 2006

**Key Metrics**

SIRI - NASDAQ	\$4.78
Pricing Date	05/02/2006
Price Target	\$8.00
52-Week Range	\$7.98-\$4.36
Shares Outstanding (mm)	1,387.0
Market Capitalization (\$mm)	\$6,629.9
3-Mo Average Daily Volume	48,981,536
Institutional Ownership	28%
Debt/Total Capital	89.7%
ROE	NM
Book Value/Share	\$0.10
Price/Book	47.8x
Dividend Yield	NM
LTM EBITDA Margin	NM

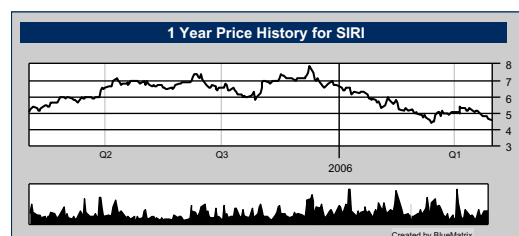
Price: Intraday

**EPS(\$)** FY: December

	2005A	Prior 2006E	Curr. 2006E	Prior 2007E	Curr. 2007E
1Q-Mar	(0.15)	(0.13)E	(0.33)A	--	--
2Q-Jun	(0.13)	(0.12)E	(0.13)E	--	--
3Q-Sep	(0.14)	--	(0.13)E	--	--
4Q-Dec	(0.23)	(0.18)E	(0.19)E	--	--
FY	(0.65)	(0.55)E	(0.78)E	(0.28)E	(0.26)E
P/E	NM		NM		NM

**Revenue(\$mm)**

	2005A	Prior 2006E	Curr. 2006E	Prior 2007E	Curr. 2007E
1Q-Mar	43.2	126.9E	126.7A	--	--
2Q-Jun	52.2	141.3E	147.2E	--	--
3Q-Sep	66.8	168.0E	165.8E	--	--
4Q-Dec	80.0	165.4E	176.8E	--	--
FY	242.2	601.5E	616.5E	955.7E	975.1E



**Company Description:** Sirius Satellite Radio ([www.sirius.com](http://www.sirius.com)) is one of two licensed providers of satellite-delivered radio programming content in the United States. Along with XM Satellite Radio, Sirius transmits over 125 channels of mostly commercial-free programming nationwide consisting of talk, news, sports, and interruption-free digital music. While satellite radio content is generally delivered to the automobile, Sirius does make radio receivers available that can be used outside the car.

**Sirius Satellite Radio**

**Rating: Buy**

**Solid 1Q06; Momentum Building for 2006; Reiterate Buy**

**Investment Highlights:**

- **Sirius reported 1Q06 results**, highlighting continued momentum. Revenues of \$126.7mm were in-line with our \$126.9mm estimate though EBITDA loss of \$136.6mm was greater than our \$92.7mm estimate; reported EPS of (\$0.33) was lower than our (\$0.29) estimate. Both churn of 1.8% and SAC per subscriber of \$113 were in-line.
- **Trends remain healthy.** Sirius maintained a healthy retail market share of 64% and plans to launch its live portable radio this summer and refresh its product line this year to integrate the next-generation chipset. Also, the company rounded out its programming and we believe there is little if any additional major programming to add.
- **We are pleased with Sirius' revised guidance.** Sirius now expects to end 2006 with over 6.2mm subscribers vs. 6.0mm previously. Management says the company will surpass revenues of \$600.0mm in 2006. Sirius expects 2006 churn of 1.8%, SAC per subscriber of \$110, and adjusted loss per operations of \$565.0mm vs. \$540.0mm previously. Also, the company announced it could reach positive free cash flow in 4Q06 and will report positive cash flow in 2007.
- **OEM is growth engine for 2006 and beyond.** Sirius added 225,343 new OEM subscribers. The company signed three new exclusive installation agreements that should help drive long-term subscriber growth: Audi (exclusive through 2012), Volkswagen (exclusive through 2012 [VOW.DE - €61.17 - XETRA]), and Kia (standard feature in all vehicles from 2009-2014). Beyond these agreements, Sirius continues to drive growth across its other partners. We believe the OEM channel will be a significant growth driver for Sirius going forward.
- **We believe two regulatory issues may create questions for Sirius.** First, Sirius may encounter some issues with the FCC related to radios, which may not be in compliance with US radio emission limits. Second, legislation introduced in the US Senate, called the PERFORM Act of 2006, could force additional royalty payments based on the recording capabilities of new radios.
- **Updating estimates.** 2Q06E revenues move to \$147.2mm from \$141.3mm, total subscriber additions remain unchanged at 526,000, EBITDA loss moves to \$100.5mm from \$79.9mm, and EPS moves to (\$0.13) from (\$0.12). 2006E revenues move to \$616.5mm from \$601.5mm, subscribers move to 6.25mm from 6.04mm, EBITDA loss moves to \$521.7mm from \$591.6mm, and EPS moves to (\$0.78) from (\$0.55). 2007E revenues and subscribers move to \$975.1mm and 9.0mm from \$955.7mm and 8.79mm. EBITDA loss and EPS move to \$70.4mm and (\$0.26) from \$250.7mm and (\$0.28).

EQUITY RESEARCH

**Sirius reports another solid quarter.** Sirius reported 1Q06 results that highlighted the continued momentum for the company's business. Revenues of \$126.7mm were in-line with our \$126.9mm estimate though EBITDA loss of \$136.6mm was greater than our \$92.7mm estimate; reported loss per share of \$0.33 was lower than our \$0.29 per share loss estimate. Both churn (1.8%) and SAC (subscriber acquisition costs) per subscriber of \$113 were in-line with our estimates. On the retail front, the company continued to maintain a healthy retail sales market share of 64% according to NPD Group. In our view, this indicates that Sirius continues to see some strength from its addition of Howard Stern in 1Q06 and also highlights parity in the retail channel among Sirius and XM (**XMSR - \$18.76 - NYSE - Buy; see our report published April 28, 2006**). In terms of programming, the company added new programming in the quarter, including Fox (**NWS - \$18.18 - NYSE**) News and Fox News Talk, Blue Collar Radio, Playboy (**PLA - \$12.84 - NYSE**) Radio, and Cosmo Radio. We believe there is little additional major programming that Sirius is seeking to add and we believe the company will instead focus on improving its content incrementally. Finally, Sirius reiterated that it is on-track to launch its first portable live radio this summer, which we believe will successfully close any remaining technology gap between Sirius and XM. We also expect Sirius to refresh its product line in 2006, rolling out its next-generation chipset and improving the form factor of its products across the board.

**Raised guidance leads us to believe Sirius is improving relative to its competition.** On its 1Q06 conference call, Sirius updated the guidance it provided on its 4Q05 earnings call, raising its year-end subscriber target and implying that 2006 revenues should be higher than previously thought. In terms of subscribers, Sirius now expects to end 2006 with over 6.2mm subscribers, significantly higher than its previous guidance of over 6.0mm subscribers. On the revenue line, Sirius now says it will surpass (rather than merely reach) revenues of \$600.0mm in 2006. The company continues to state that it will reach \$1.0bn in revenues in 2007 and \$3.0bn in 2010. The company expects 2006 all-in customer churn of 1.8%. Sirius also continues to say that SAC per subscriber will fall to approximately \$110 in 2006 before falling further in 2007. On the adjusted loss per operations line, Sirius guided to \$565.0mm in 2006 vs. its previous guidance of \$540.0mm. However, this reflects the increase in subscribers, which is ultimately a net positive. The company announced it could reach positive free cash flow after capital expenditures in 4Q06 and that it will also report positive cash flow for the full year 2007.

**OEM channel remains the growth engine for 2006 and beyond.** Sirius added 225,343 new OEM subscribers in the quarter with ramping demand seen across its OEM partners. The company also added three new exclusive installation agreements in the quarter that should help drive long-term subscriber growth through the OEM channel. First, on March 17, the company announced agreements with both Audi and Volkswagen to make Sirius the exclusive satellite radio through 2012. The Audi deal expands a current non-exclusive satellite radio relationship (currently, about 50% of all Audi vehicles have a satellite radio installed) and makes Sirius exclusive beginning with the 2007 model year. The Volkswagen deal also makes Sirius the exclusive satellite radio provider beginning with the 2007 model year and expanding to approximately 80% of all vehicles with Sirius. It will also make three months of complementary service available. Second, on April 13, the company announced a deal with Kia to make Sirius standard in all vehicles beginning with the 2009 model year and running through 2014. This deal will also include three months of free service.

Beyond these two new deals, Sirius continues to gain traction at both DaimlerChrysler (**DCX - \$54.35 - NYSE**) and Ford (**F - \$6.93 - NYSE**). At DaimlerChrysler, Sirius radios should be available on 750,000 total vehicles in 2006, representing approximately 30% penetration. Also, the company's Mercedes Benz line should have Sirius radios available as a factory option on approximately 50% of all vehicles in 2007. At Ford, the company plans to make Sirius radios available on 19 different models in 2006, including the best-selling

F-150 and the highly popular Explorer. Overall, we consider 2006 to be a very important OEM year for Sirius and we expect the year to represent the first wherein Sirius begins to make up ground on XM in this market. We believe that new arrangements announced this quarter and the renegotiation of standing agreements should make the OEM channel a significant growth driver for Sirius going forward.

**Government actions create some questions.** We believe there are a few overhanging regulatory issues that may create questions for Sirius going forward though we expect the impact of both to be limited in the near-term. First, much like XM, we believe Sirius may encounter some issues with the FCC related to radios that may not be in compliance with US radio emission limits. There are reports that the modulators in several of Sirius' radios are broadcasting on FM frequencies, which may be causing interference with some FM radio in some markets. In our view, we would not be surprised if Sirius receives a similar letter to the one received by XM last week and if it did, we believe the adverse effects would be minimal. Second, we believe legislation introduced in the US Senate by Dianne Feinstein, Lindsey Graham, and Bill Frist could be a long-term negative. Known as the PERFORM Act of 2006 (Platform Equality and Remedies for Rights Holders in Music Act of 2006), this bill seeks to force Sirius and XM to pay additional royalties for songs recorded by subscribers using the next-generation receivers being introduced this year. Ultimately, we believe a middle ground will be reached that will only minimally impact Sirius and we note that the terrestrial radio industry continues to pay no performance-related royalties.

## Sirius Satellite Radio Inc. - Quarterly and Annual Income Statements 2004-2007E (\$ in millions)

	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06E	3Q06E	4Q06E	2006E	2007E
Subscriber Revenues	62.9	41.9	49.6	64.3	67.8	223.6	115.2	135.2	152.3	158.7	561.4	924.3
Activation Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equipment Revenue	2.9	0.8	1.5	1.0	9.0	12.3	3.7	3.0	1.5	3.0	11.2	0.0
Net Ad Sales Revenue	0.9	0.5	1.1	1.5	3.0	6.1	7.3	9.0	12.0	15.0	43.3	50.0
Other	0.2	0.0	0.0	0.0	0.2	0.2	0.5	0.0	0.0	0.0	0.5	0.8
<b>Total Revenues</b>	<b>\$66.9</b>	<b>\$43.2</b>	<b>\$52.2</b>	<b>\$66.8</b>	<b>\$80.0</b>	<b>\$242.2</b>	<b>\$126.7</b>	<b>\$147.2</b>	<b>\$165.8</b>	<b>\$176.8</b>	<b>\$616.5</b>	<b>\$975.1</b>
<i>Y/Y Change in Revenue</i>	<i>419.4%</i>	<i>365.1%</i>	<i>294.5%</i>	<i>249.6%</i>	<i>217.3%</i>	<i>262.3%</i>	<i>182.1%</i>	<i>182.1%</i>	<i>148.1%</i>	<i>120.9%</i>	<i>154.5%</i>	<i>58.2%</i>
<i>Q/Q Change in Revenue</i>	<i>NA</i>	<i>71.4%</i>	<i>20.8%</i>	<i>28.0%</i>	<i>19.7%</i>	<i>NA</i>	<i>58.3%</i>	<i>16.2%</i>	<i>12.6%</i>	<i>6.6%</i>	<i>NA</i>	<i>NA</i>
<b>Cost of Revenue</b>												
Satellite & Transmission	31.8	6.8	6.7	7.2	7.1	27.9	7.3	7.7	7.8	7.9	30.7	31.6
<i>% of Total Revenue</i>	<i>47.5%</i>	<i>15.8%</i>	<i>12.8%</i>	<i>10.8%</i>	<i>8.9%</i>	<i>11.5%</i>	<i>5.8%</i>	<i>5.2%</i>	<i>4.7%</i>	<i>4.5%</i>	<i>5.0%</i>	<i>3.2%</i>
Programming and Content	65.2	24.5	16.1	23.5	35.0	99.2	56.4	55.0	62.0	74.0	247.4	259.8
Customer Service & Billing	22.3	9.5	7.7	9.4	20.0	46.7	15.8	15.0	15.0	20.0	65.8	42.0
<i>Customer Service/Gross Add</i>	<i>\$22.69</i>	<i>\$26.76</i>	<i>\$17.88</i>	<i>\$20.24</i>	<i>\$15.79</i>	<i>\$18.52</i>	<i>\$16.49</i>	<i>\$17.95</i>	<i>\$19.70</i>	<i>\$12.48</i>	<i>\$16.15</i>	<i>\$9.51</i>
Cost of Equipment	3.5	1.0	2.0	1.5	7.4	11.8	3.5	4.5	2.3	3.8	14.0	2.0
<b>Total Cost of Revenue</b>	<b>122.8</b>	<b>41.8</b>	<b>32.5</b>	<b>41.6</b>	<b>69.6</b>	<b>185.5</b>	<b>83.1</b>	<b>82.2</b>	<b>87.1</b>	<b>105.7</b>	<b>358.0</b>	<b>335.4</b>
<b>Gross Profit</b>	<b>(\$55.9)</b>	<b>\$1.4</b>	<b>\$19.7</b>	<b>\$25.2</b>	<b>\$10.4</b>	<b>\$56.7</b>	<b>\$43.6</b>	<b>\$65.0</b>	<b>\$78.8</b>	<b>\$71.1</b>	<b>\$258.5</b>	<b>\$639.6</b>
<b>Gross Margin</b>	<b>NA</b>	<b>3.35%</b>	<b>37.72%</b>	<b>37.69%</b>	<b>12.98%</b>	<b>23.41%</b>	<b>34.43%</b>	<b>44.17%</b>	<b>47.50%</b>	<b>40.23%</b>	<b>41.93%</b>	<b>65.60%</b>
Sales and Marketing	169.5	36.7	33.9	38.2	63.0	171.8	39.3	38.0	45.0	72.0	194.3	190.0
Subscription Acquisition Costs	173.7	67.1	68.7	68.7	145.2	349.6	109.1	95.0	100.0	150.0	454.1	400.0
SAC	\$176.4	\$189.2	\$158.8	\$147.6	\$114.6	\$138.8	\$113.6	\$126.3	\$131.3	\$93.6	\$111.4	\$90.6
General and Administrative	44.1	14.8	14.1	14.0	16.9	59.8	19.1	20.0	20.5	22.0	81.6	70.0
Research and Development	30.0	9.8	11.8	9.8	11.5	42.9	12.7	12.5	12.5	12.5	50.2	50.0
Equity granted to third parties and employees	96.8	38.7	41.2	36.9	46.2	163.1	284.6	42.5	42.5	42.5	412.1	170.0
<b>PreMarketing Cash Flow</b>	<b>(\$226.9)</b>	<b>(\$61.9)</b>	<b>(\$47.4)</b>	<b>(\$35.5)</b>	<b>(\$64.2)</b>	<b>(\$209.1)</b>	<b>(\$272.8)</b>	<b>(\$10.0)</b>	<b>\$3.3</b>	<b>(\$5.9)</b>	<b>(\$285.4)</b>	<b>\$349.6</b>
<b>PreMarketing Cash Flow Margin</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>35.9%</b>
<b>EBITDA (excludes Equity Grants)</b>	<b>(\$473.3)</b>	<b>(\$127.1)</b>	<b>(\$108.8)</b>	<b>(\$105.4)</b>	<b>(\$226.3)</b>	<b>(\$567.5)</b>	<b>(\$136.6)</b>	<b>(\$100.5)</b>	<b>(\$99.2)</b>	<b>(\$185.4)</b>	<b>(\$521.7)</b>	<b>(\$70.4)</b>
<b>% of Revenues</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>
<b>EBITDA</b>	<b>(\$570.1)</b>	<b>(\$165.8)</b>	<b>(\$150.0)</b>	<b>(\$142.4)</b>	<b>(\$272.5)</b>	<b>(\$730.6)</b>	<b>(\$421.2)</b>	<b>(\$143.0)</b>	<b>(\$141.7)</b>	<b>(\$227.9)</b>	<b>(\$933.8)</b>	<b>(\$240.4)</b>
<b>% of Revenues</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>
Depreciation and Amortization	95.4	24.5	24.6	24.6	24.9	98.6	24.9	26.0	27.0	28.0	105.9	109.0
Non-Cash Stock Compensation	12.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of Goodwill												
<b>Operating Income (expense)</b>	<b>(\$678.3)</b>	<b>(\$190.3)</b>	<b>(\$174.6)</b>	<b>(\$166.9)</b>	<b>(\$297.4)</b>	<b>(\$829.1)</b>	<b>(\$446.2)</b>	<b>(\$169.0)</b>	<b>(\$168.7)</b>	<b>(\$255.9)</b>	<b>(\$1,039.8)</b>	<b>(\$349.4)</b>
<b>Operating Margin</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>
Interest Expense	(41.4)	(7.3)	(7.2)	(13.7)	(17.1)	(45.4)	(17.1)	(17.0)	(17.0)	(17.0)	(68.1)	(68.1)
Interest Income	9.7	4.5	4.8	7.6	10.0	26.9	9.9	5.5	4.5	3.5	23.4	5.0
Other Income (expense)	2.0	0.0	0.0	(6.9)	(6.2)	(13.1)	(4.4)	1.0	1.0	1.0	(1.4)	4.0
<b>Pretax Income</b>	<b>(\$708.0)</b>	<b>(\$193.1)</b>	<b>(\$177.0)</b>	<b>(\$179.9)</b>	<b>(\$310.8)</b>	<b>(\$860.7)</b>	<b>(\$457.8)</b>	<b>(\$179.5)</b>	<b>(\$180.2)</b>	<b>(\$268.4)</b>	<b>(\$1,085.9)</b>	<b>(\$408.5)</b>
<b>Pretax Margin</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Income Tax	4.2	0.6	0.6	0.6	0.6	2.3	0.8	0.6	0.6	0.6	2.6	0.0
<b>Net Income</b>	<b>(\$712.2)</b>	<b>(\$193.6)</b>	<b>(\$177.5)</b>	<b>(\$180.5)</b>	<b>(\$311.4)</b>	<b>(\$863.0)</b>	<b>(\$458.5)</b>	<b>(\$180.1)</b>	<b>(\$180.8)</b>	<b>(\$269.0)</b>	<b>(\$1,088.4)</b>	<b>(\$408.5)</b>
Preferred Stock Div. Requirements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accretion of Div. & Special Charge												
<b>Net income (loss) applicable to</b>	<b>(\$712.2)</b>	<b>(\$193.6)</b>	<b>(\$177.5)</b>	<b>(\$180.5)</b>	<b>(\$311.4)</b>	<b>(\$863.0)</b>	<b>(\$458.5)</b>	<b>(\$180.1)</b>	<b>(\$180.8)</b>	<b>(\$269.0)</b>	<b>(\$1,088.4)</b>	<b>(\$408.5)</b>
<b>EPS</b>	<b>(\$0.57)</b>	<b>(\$0.15)</b>	<b>(\$0.13)</b>	<b>(\$0.14)</b>	<b>(\$0.23)</b>	<b>(\$0.65)</b>	<b>(\$0.33)</b>	<b>(\$0.13)</b>	<b>(\$0.13)</b>	<b>(\$0.19)</b>	<b>(\$0.78)</b>	<b>(\$0.26)</b>
<b>EPS Growth</b>												
<b>Shares (fully diluted)</b>	<b>1238.6</b>	<b>1310.6</b>	<b>1324.3</b>	<b>1328.5</b>	<b>1335.7</b>	<b>1324.7</b>	<b>1387.0</b>	<b>1392.0</b>	<b>1397.0</b>	<b>1402.0</b>	<b>1394.5</b>	<b>1544.5</b>

Source: Company reports and Morgan Joseph &amp; Co. Inc. estimates

## Sirius Satellite Radio Inc. - Quarterly and Annual Revenue Support 2004-2007E

	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06E	3Q06E	4Q06E	2006E	2007E
<b>Revenues</b>												
Total Ending Subscribers	1143.3	1448.7	1814.6	2173.9	3316.6	3316.6	4077.7	4603.7	5099.7	6250.7	6250.7	9000.7
Net Adds	882.2	305.4	365.9	359.3	1,142.6	2,173.3	761.2	526.0	496.0	1,151.0	2,934.2	2,750.0
Gross Adds	984.6	354.7	432.7	465.2	1,266.7	2,519.3	960.6	751.9	761.4	1,602.8	4,076.7	4,416.5
Overall Churn	9.0%	1.3%	1.4%	1.8%	1.5%	1.5%	1.8%	1.7%	1.8%	1.7%	1.5%	18.5%
Gross Adds	701.785	223.444	450.313	315.851	1,024.727	2,014.335	734.381	700.896	710.406	1,551.829	3,697.512	4,361.509
Annualized Churn	20.4%	5.1%	4.9%	6.8%	5.0%	21.6%	6.6%	6.5%	6.8%	9.0%	21.6%	21.6%
Churned Subscribers	102.396	49.242	66.756	105.931	124.082	346.011	199.423	225.896	265.406	451.829	1,142.554	1,666.509
Net Adds	599.389	174.202	383.557	209.920	900.645	1,668.324	534.958	475.000	445.000	1,100.000	2,554.958	2,695.000
Beginning Subs	191.703	797.039	971.241	1,354.798	1,564.718	797.039	2,465.363	3,000.321	3,475.321	3,920.321	2,465.363	5,020.321
Ending Subs	797.039	971.241	1,354.798	1,564.718	2,465.363	2,465.363	3,000.321	3,475.321	3,920.321	5,020.321	5,020.321	7,715.321
Average Subs	494.371	884.140	1,163.020	1,459.758	2,015.041	1,631.201	2,732.842	3,237.821	3,697.821	4,470.321	3,742.842	6,367.821
Months	12.0	3.0	3.0	3.0	3.0	12.0	3.0	3.0	3.0	3.0	12.0	12.0
ARPU/Month	\$8.38	\$12.55	\$11.45	\$12.15	\$9.02	\$9.25	\$11.62	\$11.60	\$11.60	\$10.00	\$10.48	\$10.75
<b>Total Retail Subscription Revenues</b>	<b>\$49.7</b>	<b>\$33.3</b>	<b>\$39.9</b>	<b>\$53.2</b>	<b>\$54.5</b>	<b>\$181.0</b>	<b>\$95.3</b>	<b>\$112.7</b>	<b>\$128.7</b>	<b>\$134.1</b>	<b>\$470.7</b>	<b>\$821.4</b>
Gross Adds	278.327	132.211	(16.908)	149.000	241.705	506.008	225.343	50.000	50.000	50.000	375.343	50.000
Annualized Churn	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Churned Subscribers	0.000	0.00000	0.00000	0.00000	0.00000	0.0	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Net Adds	278.327	132.211	(16.908)	149.000	241.705	506.0	225.343	50.000	50.000	50.000	375.343	50.0
Beginning Subs	39.358	317.685	449.896	432.988	581.988	317.685	823.693	1,049.036	1,099.036	1,149.036	823.7	1,199.0
Ending Subs	317.685	449.896	432.988	581.988	823.693	823.693	1,049.036	1,099.036	1,149.036	1,199.036	1,199.036	1,249.036
Average Subs	178.522	383.791	441.442	507.488	702.841	570.689	936.365	1,074.036	1,124.036	1,174.036	1,011.4	1,224.0
Months	8.8	3.0	3.0	3.0	3.0	12.0	3.0	3.0	3.0	3.0	12.0	12.0
ARPU/Month	\$6.73	\$6.80	\$6.75	\$6.75	\$5.93	\$6.75	\$6.80	\$6.75	\$6.75	\$6.75	\$6.75	\$6.75
<b>Total OEM Subscription Revenues</b>	<b>\$11.0</b>	<b>\$7.8</b>	<b>\$8.9</b>	<b>\$10.3</b>	<b>\$12.5</b>	<b>\$39.6</b>	<b>\$19.1</b>	<b>\$21.7</b>	<b>\$22.8</b>	<b>\$23.8</b>	<b>\$87.4</b>	<b>\$99.1</b>
Gross Adds	4.523	(0.976)	(0.718)	0.374	0.290	(1.030)	0.886	1.000	1.000	1.000	3.886	5.000
Annualized Churn	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Churned Subscribers	0.000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Net Adds	4.523	(0.976)	(0.718)	0.374	0.290	(1.030)	0.886	1.000	1.000	1.000	3.886	5.000
Beginning Subs	24.0	28.534	27.558	26.840	27.214	28.534	27.504	28.390	29.390	30.390	27.504	31.390
Ending Subs	28.534	27.558	26.840	27.214	27.504	27.504	28.390	29.390	30.390	31.390	31.390	36.390
Average Subs	26.273	28.046	27.199	27.027	27.359	28.019	27.947	28.890	29.890	30.890	29.447	33.890
Months	3.0	3.0	3.0	3.0	3.0	12.0	3.0	3.0	3.0	3.0	12.0	12.0
ARPU/Month	\$5.00	\$9.50	\$9.00	\$9.50	\$9.50	\$4.66	\$9.50	\$9.00	\$9.50	\$9.25	\$9.00	\$9.00
<b>Total Rental Company Sub Revenues</b>	<b>\$2.2</b>	<b>\$0.8</b>	<b>\$0.7</b>	<b>\$0.8</b>	<b>\$0.8</b>	<b>\$3.1</b>	<b>\$0.8</b>	<b>\$0.8</b>	<b>\$0.9</b>	<b>\$0.9</b>	<b>\$3.3</b>	<b>\$3.7</b>
<b>Total Subscription Revenue</b>	<b>\$62.88</b>	<b>\$41.904</b>	<b>\$49.622</b>	<b>\$64.273</b>	<b>\$67.816</b>	<b>\$223.614</b>	<b>\$115.181</b>	<b>\$135.205</b>	<b>\$152.298</b>	<b>\$158.741</b>	<b>\$561.425</b>	<b>\$924.256</b>
<b>Year/Year Change</b>	<b>NE</b>	<b>355.4%</b>	<b>283.2%</b>	<b>256.6%</b>	<b>198.7%</b>	<b>255.6%</b>	<b>174.9%</b>	<b>172.5%</b>	<b>137.0%</b>	<b>134.1%</b>	<b>151.1%</b>	<b>64.6%</b>
<b>Sirius Advertising Revenue</b>	<b>\$0.91</b>	<b>\$0.534</b>	<b>\$1.052</b>	<b>\$1.508</b>	<b>\$3.037</b>	<b>\$6.131</b>	<b>\$7.338</b>	<b>\$9.000</b>	<b>\$12.000</b>	<b>\$15.000</b>	<b>\$43.338</b>	<b>\$50.000</b>
<b>Percentage of Revenues</b>	<b>1.4%</b>	<b>1.2%</b>	<b>2.0%</b>	<b>2.3%</b>	<b>3.8%</b>	<b>2.5%</b>	<b>5.8%</b>	<b>6.1%</b>	<b>7.2%</b>	<b>8.5%</b>	<b>7.0%</b>	<b>5.1%</b>
<b>Total Activation Revenue</b>	<b>\$0.00</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Other Revenue</b>	<b>\$0.17</b>	<b>\$0.011</b>	<b>\$0.017</b>	<b>\$0.020</b>	<b>\$0.180</b>	<b>\$0.228</b>	<b>\$0.453</b>	<b>\$0.017</b>	<b>\$0.020</b>	<b>\$0.020</b>	<b>\$0.5</b>	<b>\$0.8</b>
<b>Equipment Revenue</b>	<b>\$2.90</b>	<b>\$0.77</b>	<b>\$1.50</b>	<b>\$1.03</b>	<b>\$8.97</b>	<b>\$12.27</b>	<b>\$3.69</b>	<b>\$3.00</b>	<b>\$1.50</b>	<b>\$3.00</b>	<b>\$11.19</b>	<b>\$0.00</b>
<b>Total Revenues</b>	<b>\$66.855</b>	<b>\$43.216</b>	<b>\$52.194</b>	<b>\$66.831</b>	<b>\$80.004</b>	<b>\$242.244</b>	<b>\$126.664</b>	<b>\$147.222</b>	<b>\$165.818</b>	<b>\$176.761</b>	<b>\$616.465</b>	<b>\$975.056</b>

Source: Company reports and Morgan Joseph &amp; Co. Inc. estimates

## Required Disclosures



### Price Target

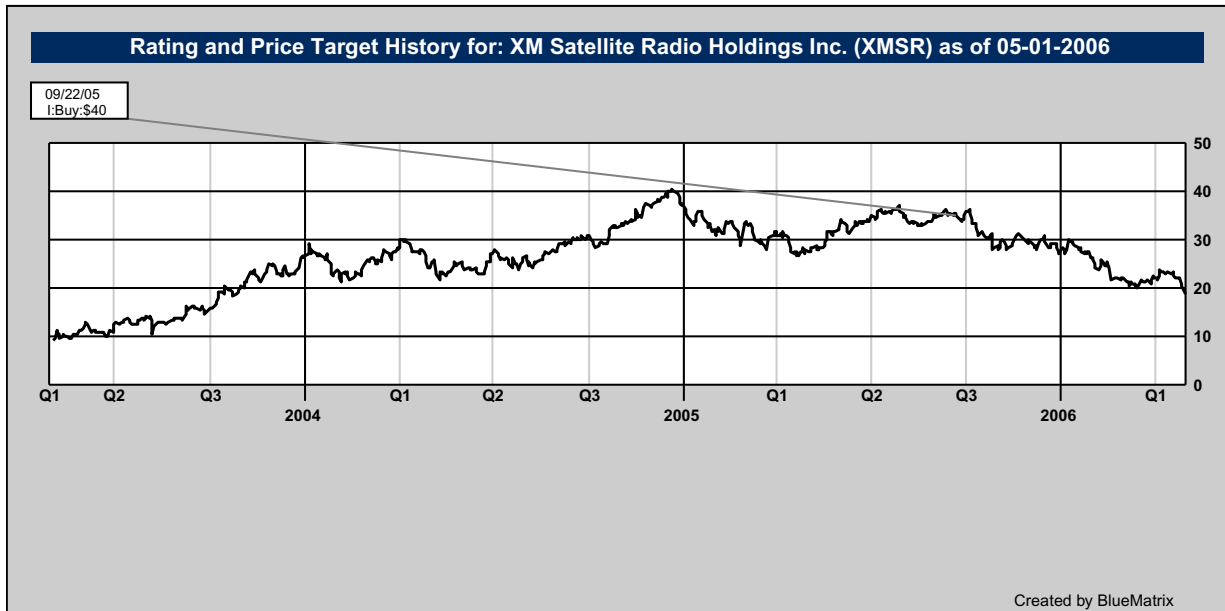
Our price target is \$8.00.

### Valuation Methodology

Our price target of \$8.00 is based on DCF analysis, assuming a 12.7% discount rate and a terminal growth rate of 6.5%. Using a beta of 1.5, we generate a WACC of 12.7%. Discounting the cash flows in our seven-year DCF model by the theoretical WACC, with the assumption of a 6.5% long-term growth rate after 2011, supports an \$8.00 price target.

### Risk Factors

- Sirius' valuation can be considered rich compared to the more established DBS (direct broadcast satellite) operator, EchoStar (**DISH - \$31.63 - NASDAQ**), given that EchoStar has over 12.0mm subscribers compared to over 4.0mm subscribers for Sirius.
- Further dilution is possible as Sirius continues to raise cash.
- Subscriber growth may slow, which may cause the stock to react negatively.
- Sirius will have to demonstrate that the widely-held view that satellite radio generates exceptionally high profit margins is true. When the DBS companies began rolling out service, many expected profitability at 3mm subscribers, while it took more than double that figure for EchoStar to turn a profit.
- Sirius is still number-two in a two-company industry, remaining well behind XM in subscribers, despite recent advances in programming and equipment.



I, David Kestenbaum, the author of this research report, certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers, and no part of my compensation was, is, or will be directly or indirectly tied to the specific recommendations or views contained in this research report.

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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	57.14	19.44
HOLD [H]	42.86	7.41
SELL [S]	0.00	0.00

#### Meaning of Ratings

- A) Buy means reasonable outperformance relative to the market over 12-18 months.
- B) Hold means market-type risk adjusted performance; potential source of funds.
- C) Sell means expected to underperform the market.

#### Other Disclosures

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