(2) Current rule explicitly prohibits the transfer of broadcasting licenses: In paragraph 170 of the 1997 Report and Order Memorandum Opinion, the FCC explicitly prevents a single owner of both halves of the DARS spectrum, as the FCC was specific in its intention to grant two licenses to maintain a competitive market. Specifically, the clause states:

"Even after DARS licenses are granted, one licensee will not be permitted to acquire control of the other remaining satellite DARS licensee. This prohibition on transfer of control will help assure continuing competition in the provision of satellite DARS service."

Based on this rule, we believe that the FCC would have to either reject a XM/Sirius merger or change this rule. If the FCC were to change the current rule, it would likely need congressional approval or, at a minimum, support, to avoid a lengthy process through the courts. We remind investors of the backlash caused by the FCC unilaterally moving to relax media ownership rules in 2002.

(3) It may already be too late to attempt to obtain regulatory approval: We believe that timing and politics may be the most important considerations in why a merger may not obtain FCC approval. Because the Democratic Party is traditionally not a supporter of consolidation, but rather a champion of consumer rights, the two Democratic members of the FCC would seem likely to vote against a satellite radio merger. With the 2008 elections coming up and election processes having already begun, it may already be too late for a merger to gain approval from the FCC. Other factors likely to be involved in any FCC/DOJ approval or rejection are listed in Exhibit 15.

Exhibit 15: Factors that are likely to be involved in the FCC's decision-making process

FCC / DOJ Approval	FCC / DOJ Rejection
FCC Rule preventing a single owner of both DARS licenses could be changed	FCC Rule explicitly prevents any single owner of both halves of the DARS spectrums
Anti-monopoly: satellite radio competes with other forms of audio entertainment (iPods, CD players, mp3 players) - thus, it would not be a monopoly	FCC Public statements that a satellite radio merger would be analyzed using the EchoStar / DirecTV template
The competitive environment is likely to get worse for satellite radio	Republican FCC majority vs. Democratic Congress - the FCC may not want to attempt to push a high profile satellite radio merger through
	Turning, with 2008 an election year, and possible change in leadership, a Democratic commission may be less inclined to approve a merger
	Subscription aspect of the services embolders the argument that they operate in their own unique environment
	FTC & anti-monopoly concerns put more weight on pricing power than increased consumer choice

Source: Goldman Sachs Global Investment Research

XM-S-0001765

The investor conundrum: Merger synergies seem somewhat reflected in valuations

Sell now or wait and sell later? XM and Sirius shares have declined on average ~50% in each of the past two years as the prospects for subscriber growth have been reduced. More recently, widespread merger speculation in the press, in part fueled by management commentary, has driven the shares above (and below) levels justified by fundamentals. For this reason, we believe that both XM's and Sirius' equity valuations already factor in some of the likely synergies of a merger. In addition, current stock prices have most of the exchange-ratio chatter focused on something close to a 50/50 split. We find this value-transfer irrational and question whether XM's board or shareholders would find the transaction attractive, given XM's larger, more visible, and more scalable business.

In the following exhibits we address the following five key points:

1) **We believe a merger could ultimately generate $4-$5 billion in value.**
2) **Our fundamental valuation—outside of a merger—implies $14 per share of XMSR and $2.50 per share of SIRI.**
3) **Investors must assign probabilities to the likelihood of merger approvals and execution to realize synergies.**
4) **We believe a fair amount of the expected value of potential merger synergies may be priced into the shares.**
5) **XM has more growth potential and is likely to be more profitable per sub, so why settle for a near 50/50 split?**

Exhibit 16: Both stocks are down ~50% in each of the past two years

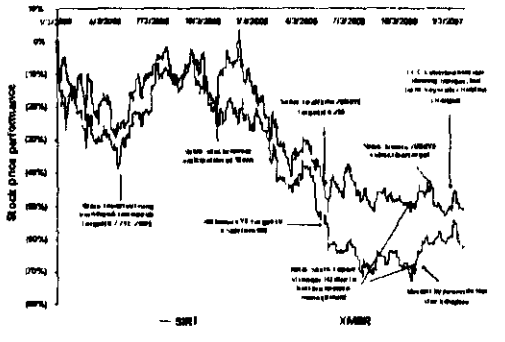
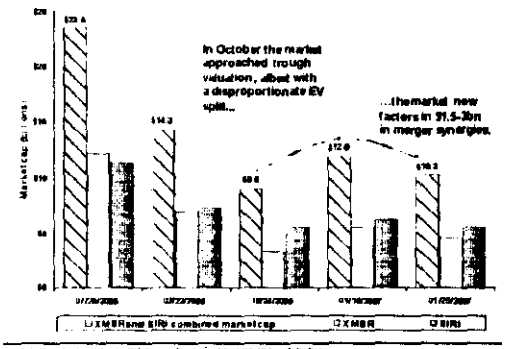


Exhibit 17: We estimate $1.5-$3 billion of synergies is already priced in

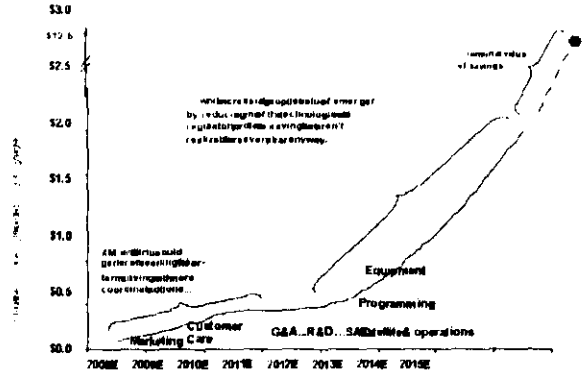


XM-S-0001766

We believe a merged company could generate ~$4-$5 billion of present value savings

We believe there are likely large and tangible synergies to be realized if XM and Sirius were to merge. That said, while some of the potential synergies are self-generating, most of the opportunities are at least a few years away and are dependent upon executing against significant technological barriers and exhibiting financial discipline.

Exhibit 18: A merged company could generate more than $12 billion (~$4 billion discounted) in savings, with much of the benefit in the forward years
$ billions



XM-S-0001767

A large share of the potential merger saving assumes that XM and Sirius could eventually operate via one satellite constellation. In order to account for the cost savings, we believe investors must take into account the considerable time and technological hurdles involved in order rio transition to a unified spectrum. Assuming a merger could be completed by 2008 and the companies would then produce interoperable devices, we believe legacy subscribers would need replacement radios by 2010-2011 so as to eliminate the cost of operating two unique satellite constellations. We estimate a merged company would incur a one-time cost of ~$1 billion to convert the legacy subscriber base to a unified spectrum. There is likely substantial variability to this estimate; our estimate assumes replacement of car factory-installed radios by dealer sto preserve a car's warranty. It is conceivable that legacy OEM radios could be replaced with plug-and-play solutions but likely with a consequent substantial reduction in subscriber counts (see Exhibit 19)

Fundamental valuation yields $14 for XMSR and $2.50 for SIRI

For our fundamental valuation framework, we employ a discounted cash flow analysis. Based on this methodology, our fundamental analysis yields a value of $14 per share for XM and $2.50 for Sirius equity. In our view, EV/subscriber metrics are viable in mature subscriber businesses with known ARPU, per sub profitability, churn, and associated metrics, but not in early-stage, rapid-growth businesses (see Exhibit 20)

Exhibit 19: We believe the cost to transition legacy subscribers ~$1bn
replacement cost in $ billions

Estimated replacement radio cost (maintaining subs)	
Estimated Sirius subscribers in 2008 (000's)	**10,000**
OEM subs	4,337
Retail subs	5,663
Churn rate (monthly)	
OEM subs	1.0%
Retail subs	1.0%
Estimated Sirius subscribers after churn	
OEM subs	2,716
Retail subs	3,008
Cost per replacement radio ($ per radio)	
OEM	**$290**
Hardware	$150
Installation (2 hours labor @ $70 per hour)	$140
Retail	**$75**
Estimated replacement cost in 2010	**$1,058**

Source: Goldman Sachs Investment Research

Exhibit 20: We use a DCF analysis as our primary valuation metric
$ millions, except per-share data

	SIRI	XMSR
Terminal yr multiple (X FCF)	10.9x	10.1x
Implied FCF Perpetual Growth	3.5%	3.5%
WACC	11.6%	12.4%
PV of '08-'17 equity cash flows	$1,352	$1,745
PV of terminal year value	$2,161	$2,463
PV of '08-'17 FCF + terminal yr value	$3,513	$4,208
Other assets (including NOL)	$535	$542
Less PV of Outstanding Options	($250)	($118)
Equity Value	$3,797	$4,633
Diluted shares outstanding	1,516	331
Implied price per share	**$2.50**	**$14.00**
% Implied Upside/Downside	-33%	-7%

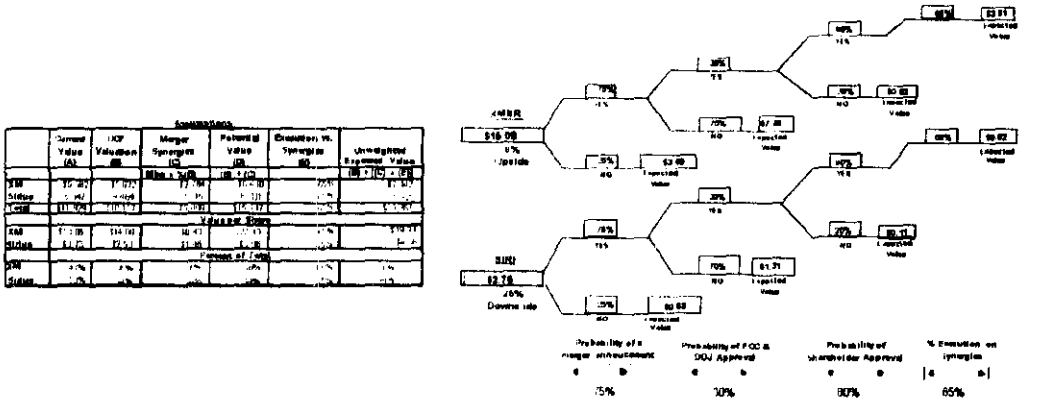
Source: Goldman Sachs Investment Research

XM-S-0001768

Our probability-weighted approach yields expected values of $15 for XMSR and $2.75 for SIRI

We have revised our 12-month price targets for shares of XM Satellite Radio and Sirius Satellite Radio using our probability-weighted approach of our fundamental DCF based valuation versus the expected value upon merger (see Exhibit 21). Our new price targets are $15 for XM, up from $11, and $2.75 for Sirius, down from $3.50. In arriving at our price targets, we handicap the announcement of a merger proposal, receipt of various approvals, and the estimated success in executing potential synergies. We estimate that current valuations already incorporate ~$1.5-$3 billion of our projected $5 billion in potential synergies. Risks include those associated with a possible merger, subscriber trends, operating leverage, and share price volatility.

Exhibit 21: Our probability-weighted approach yields a $15 price target for XM shares and $2.75 for Sirius shares



XM-S-0001769

50/50 exchange ratio seems to favor Sirius relative to our outlook

We still think XM deserves an EV premium to Sirius and that the current relative valuation is inverted. The three main reasons for our position are:

1) XM has a larger subscriber base today.
2) XM has greater potential for growth due to a higher share of exclusive OEM production agreements, which will be the most important driver of future sub growth, in our view.
3) XM has a lower-cost and more scalable business model, meaning XM's larger business should be worth more on a per sub and absolute basis.

In greater detail:

1) Subscriber base: XM has about 1.6 million more subscribers than Sirius, ending 2006 with 7.625 million, compared with Sirius at 6.024 million (see Exhibit 22). While Sirius has consistently added more net subscribers than XM lately, we believe much of the net add advantage can be explained by fewer churned subscribers off a smaller base. In our view, Sirius has likely churned off fewer subscribers due to its longer promotional periods and different subscriber accounting policies, not because of a significantly different product offering that induces lower churn. On a gross basis, which we feel is a better proxy for market penetration and traction, XM added more gross subscribers in 2006 and will likely continue to do so (see Exhibits 22 and 23).

Exhibit 22: XM currently has 56% of the overall industry subscribers

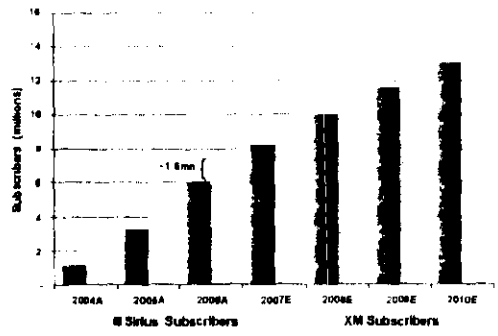
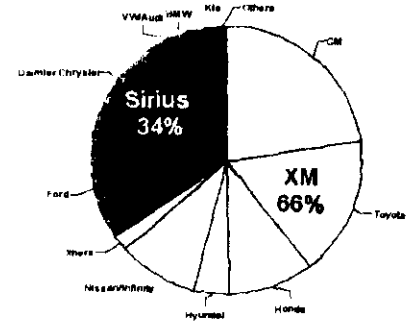


Exhibit 23: XM's exclusive deals represent ~66% of US auto sales



XM-S-0001770

2) XM is better-positioned with exclusive OEM agreements covering the majority of US auto sales. We believe that demand for satellite radio will shift from retail to OEM factory-installed, so controlling the OEM channel increases the probability of success. We estimate that XM's OEM partners generate approximately 66% of estimated annual auto production relative to just under 34% for Sirius (see Exhibit 23).

Exhibit 24: Industry churn should be bounded by pre- and post-paid wireless

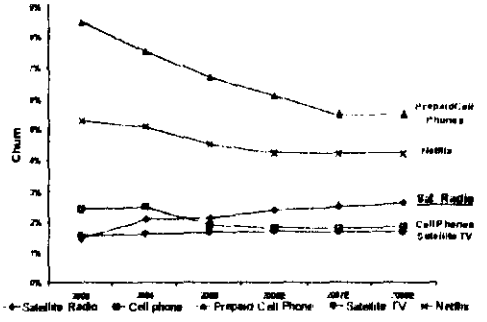
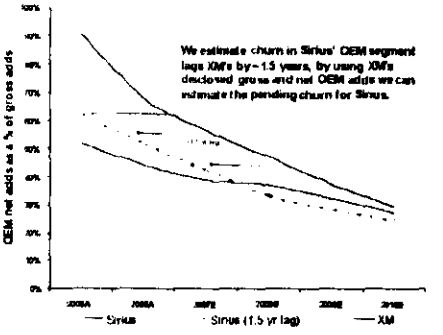


Exhibit 75. Sirius' net subscriber count will reflect churn as it is recognized



XM-S-0001771

With highly similar service offerings, churn should be substantially equal over time

- **We believe it is likely that Sirius' net add growth profile will taper to reflect the impact of churn within the model, specifically OEM churn and conversion.** We believe that Sirius net add growth will likely decline despite an impending OEM ramp as the effects of its OEM subscribers coming up for conversion as cars produced in 2005 and 2008 are yet to be churned. In other words, we believe Sirius has not seen the full effect of churn due to longer promotional periods and different subscriber accounting policies for its OEM subscribers (Exhibit 26).
- More specifically, Sirius counts OEM subscribers as a vehicle is shipped from the factory, while XM counts an OEM subscriber as a vehicle is sold—the refuse, vehicles in car lots with Sirius radios waiting to be sold are still considered subscribers. With an estimated two-to-three-month waiting period from shipment to sale, along with Sirius' longer average promotional period, it takes anywhere from one to almost two years before a Sirius OEM subscriber is measured for conversion (Exhibit 25).
- **We estimate a significant ramp in Sirius' churn in late 2007 and full-year 2008 due to its promotional period subscribers from cars produced in 2005 and 2008 coming up for conversion.** As shown in Exhibit 26, Sirius churned off ~545,000 fewer subscribers in 2006 than XM did in 2005 despite having similar subscriber counts.

Exhibit 26: Sirius has not yet seen the full affect of churn because it has longer average promotional periods and different subscriber accounting than XM
Subscribers in millions

		2004	2005	2006	2007E	2008E	2009E	2010E
XM	Gross sub adds	2,577	4,130	3,863	4,404	5,106	5,583	6,151
	Churned subs	708	1,427	2,168	2,732	3,406	4,083	4,651
	Net sub additions	1,869	2,704	1,695	1,672	1,700	1,500	1,500
	Ending XM Subscribers	**3,229**	**5,933**	**7,628**	**9,300**	**11,000**	**12,500**	**14,000**
	Churn Rate (monthly)	2.6%	2.7%	2.7%	2.7%	2.8%	2.9%	2.9%
Sirius	Gross sub adds	987	2,519	2,790	4,150	4,378	4,812	5,168
	Churned subs	104	346	1,082	1,974	2,578	3,212	3,768
	Net sub additions	882	2,173	2,708	2,176	1,800	1,600	1,400
	Ending Sirius Subscribers	**1,143**	**3,317**	**6,024**	**8,200**	**10,000**	**11,600**	**13,000**
	Churn Rate (monthly)	1.6%	1.5%	2.0%	2.3%	2.4%	2.5%	2.6%

Sirius has not yet seen the full effect of churn

Churn begins to ramp more meaningfully

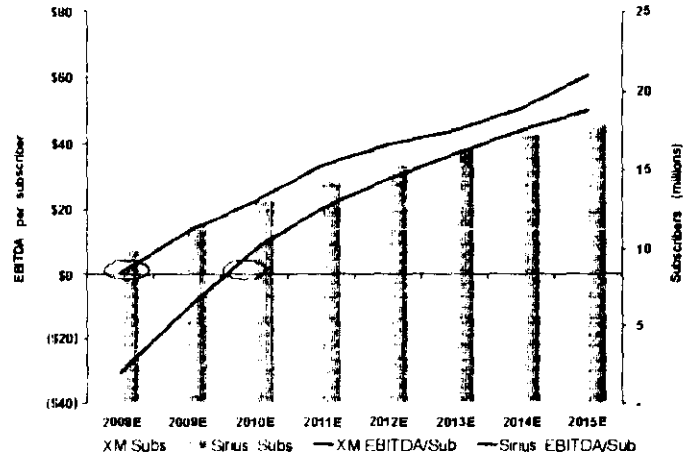
Sirius' accounting policy and longer average promotional periods results in a lag vs. XM's reported churn, in our view

[illegible]

XM-S-0001772

3) In our view, XM holds key financial advantages relative to Sirius. In addition to having factory installation agreements that should represent a larger percentage of car sales in the United States, XM's leaner expense profile will likely make it the more scalable operator within the space. Specifically, XM should reach operating breakeven sooner and with a lower subscriber count due to lower subscriber acquisition costs and higher per sub profitability (see Exhibit 27).

Exhibit 27: XM's profitability per subscriber is superior to Sirius regardless of sub count, by our estimates



XM-S-0001773

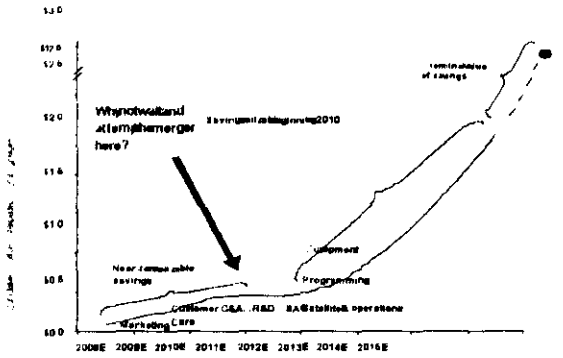
A possible solution: Wait to merge, work together, maximize equity valuations

By our estimates, co-opetition may have the highest expected value to shareholders

Co-opetition preserves the option value to realize most of the estimated merger savings. In other words, the companies can start to realize synergies now, and potentially improve upon the ability to realize significant cost savings while monetizing the savings available via joint marketing, distribution, sourcing, etc. **We believe XM and Sirius could avoid regulatory review and work together to mitigate some of their obvious overlapping expenses such as industry awareness marketing or call center outsourcing,** by doing so we could see ~20% upside to the fundamental valuation of each company with little marginal downside risk (Exhibit 28). Our estimates do not incorporate any savings to SAC that may be available via joint product sourcing and distribution.

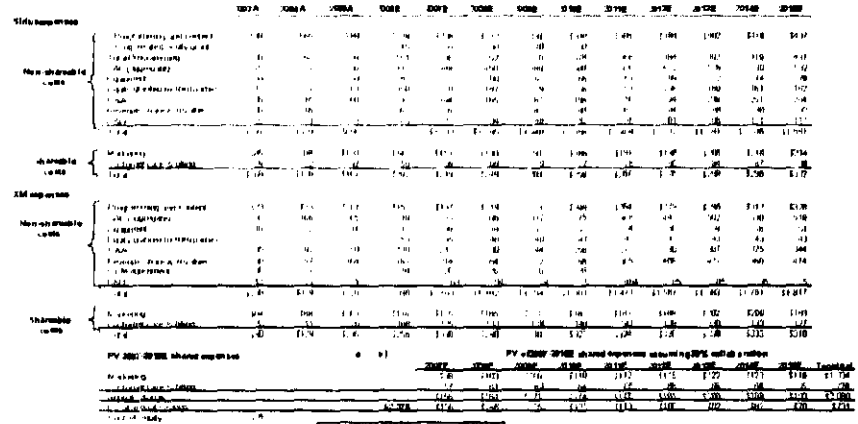
We believe that the majority of the potential synergies could begin to be realized in 3-4 years, and if the companies can work together in the short term, it will lay the groundwork for them to work together on larger issues such as technological integration or interoperable devices, **thereby maximizing the expected value of a merger to shareholders.** In other words, a merger can still be done by the time satellite, OEM revshare and programming cost savings would become realizable anyway.

Exhibit 28: XM and Sirius should wait to merge and work together to maximize their expected value
$ billions



XM-S-0001774

Exhibit 29: We believe a level of coordination could increase the value of each company while preserving competition
$ millions, except per share value



XM-S-0001775

Risks to our 12-month price target

Upside:
Ultimate satellite radio subscriber universe is larger than our expectations and it takes less time than expected to reach.

A merger is approved by all regulatory bodies and shareholders and expected synergies are fully realized

Programming and distribution costs remain at current levels or decrease, bringing cash flow breakeven sooner than our estimates indicate.

New competitive services fail to gain traction

Widespread consumer acceptance of both the service and new products

Downside:
A merger is rejected and the stocks trade down to levels consistent with fundamentals.

Satellite problems chipset delays or OEM partner production issues

Disruption to key exclusive content or onerous royalty rates for music.

Failure to attract and retain new subscribers with exclusive content

Further complications with regulators including the FCC or DOJ

XM-S-0001776

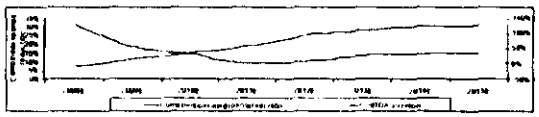
Appendix: A deeper dive into synergies and other merger considerations

XM/Sirius merger would likely create $4-$5 billion in synergies, but some seems priced in

Since approaching levels nearing fundamental valuation in late October, merger speculation sent shares of XM and Sirius higher despite continued negative fundamental trends and no change in the outlook for satellite radio.

Therefore we believe investors are already pricing in the expected value of synergies in these stocks, which we estimate is ~$1.5-$3 billion given the appreciation in the shares. Depending on the valuation framework investors are using, we believe either the probability assigned to a merger approval and execution against synergies is too high or the absolute value of synergies is too high. Either way consensus expectations for upward of $10-$15 billion in synergies yet to be priced into the shares may be overly aggressive.

Exhibit 30: We believe a merger would be ~40% accretive to EBITDA in the outyears given the potential scale in combined business models



XM-S-0001777

Synergies: We believe there are likely large and tangible synergies to be realized if XM and Sirius were to merge. That said, while some potential synergies are self-generating, most of the opportunities are dependent upon executing against significant technological barriers and exhibiting financial discipline.

We believe investors in the space need to consider the following dynamics when considering potential synergies:

Technology: We believe that a combined satellite radio company would either have to (1) operate both satellite networks until either the legacy XM or Sirius devices are churned off, or (2) fund the replacement of all existing and active radios for whichever system, either XM or Sirius, was selected to survive. Within neither scenario do we contemplate a combined company being able to utilize the entire satellite radio spectrum, as even under the recall scenario the surviving radios can only be programmed to receive half the spectrum. In our view, for the merged company to exploit the entire bandwidth, new premium product offerings would need to be developed and marketed to exploit the increased bandwidth potential, a proposition too uncertain and far off to be incorporated in investors' models.

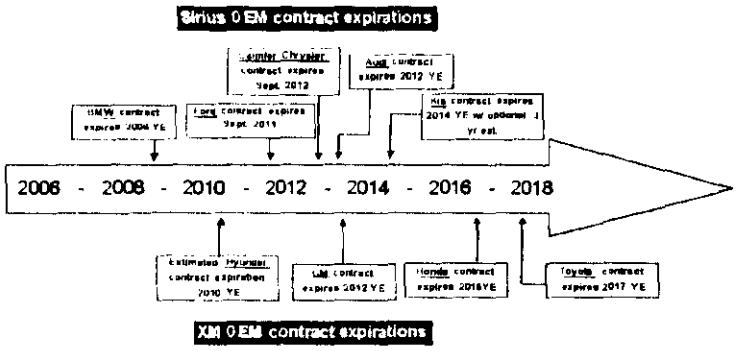
XM and Sirius currently operate exclusive constellations of geosynchronous and geostationary satellites each broadcasting one-half of an FCC spectrum allocation. Our conversations with industry design engineers have led us to believe that the radio receivers and ground repeaters are incompatible because: (1) The repeaters are designed specifically for the angle of the geo-synchronous (high) or geo-stationary (low) orbit patterns, and (2) the repeaters and chipsets are tuned and optimized for the specific band of spectrum, with physical filters in place to block out the other half of the spectrum as well as other nearby frequencies. Although we believe the equipment on the ground is incompatible due to hardware and software limitations, we have been unable to gain confidence that the satellites in the air are terminally structurally incompatible; therefore we assume they could be reprogrammed remotely.

Content: In short, content is king and the keys to the kingdom are not cheap. The competitive landscape for content within the satellite radio industry has historically been fierce and we expect it to remain so. We believe assuming a merged company alleviates the competition for content may be short-sighted. As technology evolves and consumers are able to consume mobile broadcast content via multiple delivery methods, we believe competition for content could shift from XM and Sirius to larger technology, entertainment or telecommunication companies with much deeper pockets. Although this shift seems likely to happen regardless of a merger, we believe the effects could be worse under a merged scenario, as a sports franchise (or other content provider) may no longer just bargain with XM and Sirius for exclusive satellite radio broadcast rights, but rather demand higher prices by playing satellite radio against a telecom operator for higher exclusive mobile broadcast rights. Similar to the OEM relationships, most of the material content deals will be expiring on an individual basis, therefore a merged company would be required to negotiate with each content provider independently.

XM-S-0001778

OEM: Our conversations with engineers at the large OEMs and their suppliers indicate that OEMs are moving toward providing universal inputs and adaptors for multimedia applications, compared to previous trends of proprietary closed systems. If the trend progresses, we believe that a merged satellite radio company would continue to have to pay for its presence in the dashboard, just as XM and Sirius currently do. It is our understanding, as part of their written agreements with the radio companies, that GM, Ford, Daimler Chrysler, and BMW have a received a combination of revenue shares and equity grants and Honda has received at least equity grants to incorporate satellite radios at the factory level. Missing from this list is Toyota which we believe will likely receive at least some level of compensation, probably in the form of dedicated telematics spectrum allocation in lieu of cash or stock. Although we recognize that a merged satellite radio company would likely have increased bargaining power with its distributors since the OEMs clearly ascribe some value to offering satellite radio as an option, we are skeptical that most OEMs would deviate meaningfully from their current agreements when they come up for renegotiation. As shown in Exhibit 31, the various agreements with the OEMs expire at staggered intervals therefore a merged company would still be required to negotiate with each OEM independently.

Exhibit 31: OEM contract expirations are staggered, so a merged XM and Sirius may not have more bargaining power



XM-S-0001779

Other merger considerations

Poison pill rules out the idea of a hostile takeover

In our view, an XM and Sirius merger must be supported by both managements due to a poison-pill clause in XM's shareholder agreement. Under the agreement, if a beneficial owner were to cross a 15% ownership threshold, the poison pill is activated, enabling other existing shareholders to purchase up to two times the value of each Right (currently valued at $50). This would dilute the acquirer's ownership stake, making it prohibitively expensive to complete a transaction without management's backing.

Subscriber accounting differences—What will the combined subscriber count be?

XM and Sirius have substantially different subscriber accounting policies that would affect the subscriber count of a merged company. More specifically, Sirius counts OEM subscribers as a vehicle is shipped from the factory, while XM counts an OEM subscriber as a vehicle is sold. Thus vehicles in car lots with Sirius radios waiting to be sold are still considered subscribers. Although business fundamentals would not change, the optics for investors would as either Sirius would have to reduce its subscriber count or XM would have to gross up its subscribers to conform to potential consolidated accounting methods.

OEM partners are both shareholders and participants in revenue-sharing agreements

The majority of domestic auto sales are provided by OEMs, with ownership of XM and Sirius as well as participants in an array of revenue-sharing agreements. We believe OEMs may be cautious to approve a transaction without (1) increased and or guaranteed future participation in revenue and equity shares, and (2) input on the terms of a merger and which technology will be used. For example, it seems reasonable to envision a scenario in which an OEM, whose technology would be retired, would oppose the transaction as functionless radios would then be installed in a large percentage of cars.

XM-S-0001780

Estimate revisions

Exhibits 32 and 33 show details of our estimate revisions for both companies. The changes reflect our lowered subscriber estimates flowing through the model. As the companies reported net additions below our fourth-quarter 2006 estimates and we expect fewer net additions in 2007 and beyond, our expense estimates are lowered, resulting in higher EPS.

Exhibit 32: XM Satellite Radio estimate revisions
$ millions, except per-share data

Exhibit 33. Sirius Satellite Radio estimate revisions
$ millions, except per share data

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I, Mark Wienkes, CFA, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly related to the specific recommendation or views expressed in this report.

Investment profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g.: EPS, EBITDA, Revenue. Return is a year one prospective aggregate of various returns on capital measures, e.g.: CROCI, ROA, ROE, and ROE. Multiple is a composite of one-year forward valuation ratios, e.g.: P/E, div. yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. Volatility is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

Coverage group(s) of stocks by primary analyst(s)

Mark Wienkes, CFA: America: Media, Radio and TV Broadcasting.

America: Media, Radio and TV Broadcasting: Citadel Broadcasting Corp., Clear Channel Communications, Clear Channel Outdoor Holdings, Cox Radio Inc., Cumulus Media, Inc., Emmis Communications, Entercom Communications Corp., Entravision Communications Corp., Lamar Advertising Co., Live Nation, Inc., Radio One Inc., Sirius Satellite Radio, Inc., Spanish Broadcasting System, Inc., Univision Communications Inc., Westwood One Inc., XM Satellite Radio.

Company-specific regulatory disclosures

The following disclosures relate to relationships between The Goldman Sachs Group, Inc. (with its affiliates, "Goldman Sachs") and companies covered by the Global Investment Research Division of Goldman Sachs and referred to in this research.

Goldman Sachs expects to receive or intends to seek compensation for investment banking services in the next 3 months: Sirius Satellite Radio, Inc. ($3.63) and XM Satellite Radio ($13.44).

Goldman Sachs had an investment banking services client relationship during the past 12 months with: XM Satellite Radio ($13.44).

Goldman Sachs makes a market in the securities: Sirius Satellite Radio, Inc. ($3.63) and XM Satellite Radio ($13.44).

Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research: global coverage universe

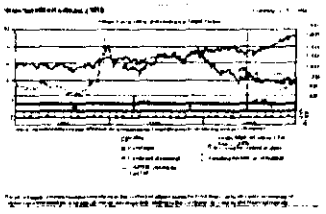
Rating Distribution	Investment Banking Relationships

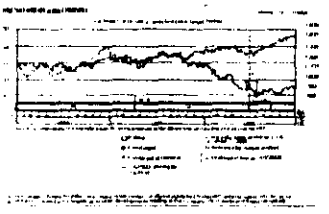
XM-S-0001783

	Buy	Hold	Sell	Buy	Hold	Sell
Global	28%	60%	14%	47%	38%	39%

As of Jan 1, 2007, Goldman Sachs Global Investment Research had investment ratings on 2,580 equity securities. Prior to June 26, 2006, Goldman Sachs utilized a relative rating system of Outperform, In-line and Underperform which, for the purposes of the above disclosure required by NASD/NYSE rules, equated to Buy, Hold and Sell. As of June 26, 2006, Goldman Sachs assigns stocks as Buys and Sells on various regional investment lists; stocks not so assigned are deemed Neutral. Such assignment equates to Buy, Hold and Sell for the purposes of the above disclosure. See "Ratings, Coverage group(s) and views and related definitions" below.

Price target and rating history chart(s)





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Ratings, coverage groups and views and related definitions

Buy (B), Neutral (N), Sell (S)-Analyst recommend stocks as Buy or Sell for inclusion on various regional Investment Lists. Being assigned a Buy or Sell on an Investment List is determined by a stock's return potential relative to its coverage group as described below. Any stock not assigned as a Buy or a Sell on an Investment List is deemed Neutral. Each regional Investment Review Committee manages various regional Investment Lists to a global guideline of 25%-35% of stocks as Buy and 10%-15% of stocks as Sell; however, the distribution of Buys and Sells in any particular coverage group may vary as determined by the regional Investment Review Committee. Regional Conviction Buy and Sell lists represent investment recommendation focused on either the size of the potential return or the likelihood of the realization of the return.

Return potential represents the price differential between the current share price and the price target expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target, and associated time horizon are stated in each report adding or reiterating an Investment List membership.

Coverage groups and views: A list of all stocks in each coverage group is available by primary analyst, stock and coverage group at http://www.gs.com/research/hedge.html. The analyst assigns one of the following coverage views which represents the analyst's investment outlook on the coverage group relative to the group's historical fundamentals and/or valuation: **Attractive (A).** The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N).** The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C).** The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

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Definitions

Outperform (OP). We expect this stock to outperform the median total return for the analyst's coverage universe over the next 12 months (in Line (IL). We expect this stock to perform in line with the median total return for the analyst's coverage universe over the next 12 months. **Underperform (U).** We expect this stock to underperform the median total return for the analyst's coverage universe over the next 12 months.

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Satellite Radio

Bear Scenario, While Unlikely, Highlights Sector Risks

Small-Mid Cap Media

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We've estimated downside risks for satellite radio in a "bear case scenario," which we define as a) a 2006 peak in gross additions of new, self-paying subscribers and b) meaningfully higher rights fees to record labels. Our conclusion? Due to high fixed costs and insufficient scale at current subscriber levels, satellite radio stocks could trade meaningfully lower, in the 45% to 75% range.

- In the bear scenario, we assume that gross additions of self-paying subs (those not on an OEM promotional period) peak in 2006 and continue at the same level through 2015. This results in a total of only 23.5m industry satellite radio subscriptions by 2010, 10% of cars on the road, vs. our baseline model assumptions for 36.6m subs and 15% penetration by then.

- While bulls may see our bear scenario as implausible, we disagree. Instead, we see it as a plausible view that consumer interest could peak after Howard Stern's high profile transition to Sirius, although ultimately we expect better growth.

- While our baseline models assume that increased OEM factory installs boost self-pay gross adds, the bear scenario offsets OEM factory installs by reducing self-pay conversion rates and retail sales. The bear scenario also assumes that satellite radio pays 11% of sales for music rights fees, vs. 7% currently, that other expenses grow at low inflationary rates and that XM's SAC gross add levels out from here while Sirius' declines to XM's level. The result is the industry does not generate meaningful, sustainable unlevered free cash flow until after 2010, vs. our published est of $1.3b+ by 2010.

While we see our baseline models as the more likely scenarios, fear of a bearish outcome we believe will constrain satellite radio shares in an environment where other factors, such as y/y growth in retail gross additions, or consumer spending, are lackluster. We see this as the current environment, with tough 4Q06 retail comps and widespread macro concerns about the consumer. This is why we continue to maintain Neutral ratings on both XM and Sirius, despite growth in new subscribers.

J.P. Morgan Securities Inc.

See page 18 for analyst certification and important disclosures, including investment banking relationships.
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The Bear Scenario

Our bear case scenario for the satellite radio industry attempts to gauge downside risks for the shares by estimating earnings leverage in an environment where growth falls well short of our published models and consensus expectations. To do this, we make a series of key assumptions, including a) gross additions of new self-paying subscribers (those not on an OEM promotional period) peak in 2006, b) fee payments for music rights grow from 7% of sales currently to 11% starting in 2007 c) that XM's SAC/gross add levels out from here, while Sirius' trends towards XM's level over the next several years and d) that other expenses growth at inflationary rates.

Satellite radio bulls would argue that this gross addition assumption is unrealistic, and that gross additions of new self-paying subscribers can only rise as satellite radio is factory-installed into more vehicles, making the service more desirable. We agree that automakers are likely to ramp up factory installations. And, in our baseline model, we assume that this results in substantial growth in self-paying subs, the key driver of value for the sector, we believe. However, in our bear scenario, we take what we see as a plausible, although less likely view, that factory installations don't meaningfully increase self-paying gross adds. Instead, they result in a shift of demand out of retail, and also a decline in conversion rates of OEM promotional subs into self-paying subs. Put differently, this scenario is comparable to assuming that consumer interest in satellite radio has peaked, and levels out from here. We see this as a plausible view of consumer demand -- essentially, that after a spurt of unprecedented media attention surrounding Howard Stern's migration to Sirius, that consumer interest levels out from here. This is a bearish scenario because satellite radio has large fixed costs, making earnings extremely sensitive to moderate variations in subscriber growth estimates.

Bear Scenarios vs. Baseline Models

In Figure 1, we outline the key difference in our bear scenario vs baseline model, which is that in the bear case gross adds of self-paying subscribers level out near the estimated total of 6.8m in 2006, while in our base case models self-pay gross adds keep growing to 11.5m in 2010 and 19.2m in 2015.

2

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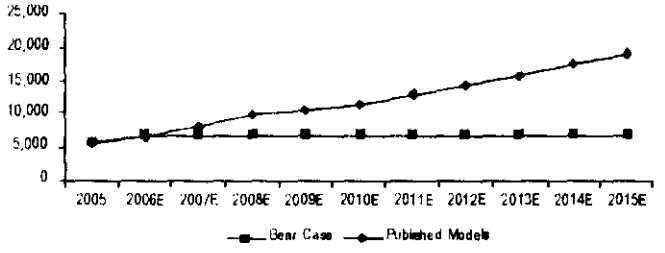
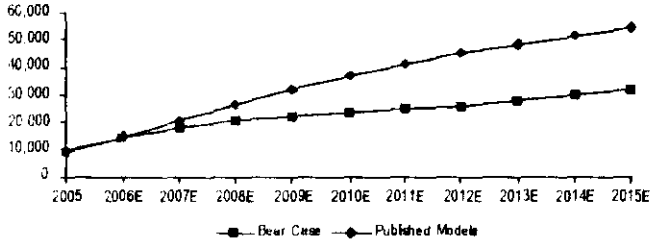
Figure 1: Self-Pay Gross Adds: Bear Case vs Baseline Model
Subscribers, in (000)



Source: JPMorgan estimates, Company data.

As shown in Figure 2, this results in only 23.5m industry subscribers in 2010, versus our published model estimates for 36.6m by then, which, we believe, is reasonably consistent with most published views.

Figure 2: EOP Subs, Bear Case vs Baseline Models
Subscribers, in (000)



Source: JPMorgan estimates, Company data.

As shown in Figure 3, the bear scenario view equates to satellite radio subscriptions by 2010 equalling only about 10% of cars on the road by 2010, versus our published models which presume 15% penetration.

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