Hearing Date and Time: March 24, 2005 at 10:30 a.m.
PORTLAND

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE

In re:	)	
	)	Case No. 04-20878
	)	
PEGASUS SATELLITE TELEVISION, INC., et al.,	)	Chapter 11
	)	
	)	(Jointly Administered)
Debtors.	)	
	)	

LIMITED OBJECTION TO CONFIRMATION OF THE DEBTORS' FIRST AMENDED JOINT CHAPTER 11 PLAN

Par Capital Management, Inc. and Par Investment Partners, L.P. (collectively, "Par Capital") hereby objects (the "Objection") to the confirmation of the Debtors' First Amended Joint Chapter 11 Plan of Pegasus Satellite Television, Inc. and certain of its subsidiaries and affiliates, dated January 31, 2005 (the "Plan"). To the extent that Pegasus Satellite Communications, Inc. ("PSC")'s parent, Pegasus Communications Corporation ("PCC"), is the purchaser of the Broadcast Assets (as defined in the Plan) relating to PSC, PCC will receive the New PSC Common Stock (as defined in the Plan) and, through which, will receive the benefit of the value of PSC's net operating loss ("NOL") carryforward of approximately $1 billion dollars. Consequently, PCC will receive property through the Plan on account of its common stock ownership interest in PSC. As a result, the Plan violates the "absolute priority rule" under section 1129(b)(2) of the Bankruptcy Code. Subsections 1129(b)(2)(B) and 1129(b)(2(C) require that either (i) Par Capital receives value equal to the allowed amount of its claim related to the Sub Debt (as defined below), and the redemption price in connection with the Preferred

Stock (as defined below), or (ii) no junior interest receives any property under the Plan on account of such junior interest. In support of this Objection, Par Capital states as follows:

Background

1. On June 2, 2004, Pegasus Satellite Television, Inc. and certain of its subsidiaries and affiliates, including PSC (collectively, the "Debtors") filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code.

2. Par Capital is the holder of $41,200,000 of PSC's 13.5% Senior Subordinated Notes due March 2007, pursuant to which approximately $193,100,000[1] aggregate principal amount were issued (the "Sub Debt"). Par Capital also holds 38,726 shares of PSC's 12.75% Series Preferred Stock (the "Preferred Stock").

3. On January 7, 2005, the Debtors filed an initial chapter 11 plan and related disclosure statement. The Debtors filed an amended Plan and amended disclosure statement on January 31, 2005 and later filed a corrected version of the Plan on February 10, 2005.

4. The Plan contemplates the sale of the Broadcast Business (as defined in the Plan) or the stock of one or more of the Debtors to PCC or an alternate buyer (the "Broadcast Asset Sale").

5. The Plan also provides for the creation of a Liquidation Trust on the effective date of the Plan, to be essentially funded by all right, title and interest of the Debtors in all assets and properties not sold in the Broadcast Asset Sale or the Satellite Sale (as defined in the Plan).

[1] According to the Debtors' Disclosure Statement and public filings, $128,790,000 is the aggregate outstanding principal amount.

Argument

6. Par Capital objects to confirmation of the Debtors' Plan pursuant to section 1129(b)(2) (B) and (C) of the Bankruptcy Code. It is inappropriate for PCC to receive any property on account of its common stock interest in PSC in connection with the Plan when two classes senior to PCC, the Sub Debt holders and the Preferred Stock holders, which are deemed to reject the Plan, are not receiving any distribution under the Plan. Therefore, to the extent PCC is the winning bidder in the Broadcast Asset Sale, confirmation of the Debtors' Plan should be subject to the Court's authority to later address the issue as to whether PCC can receive the additional benefit of PSC's NOL for no additional consideration.

7. If not all classes of impaired creditors or interest holders vote in favor of a plan, the Court must find that such plan complies with section 1129(b), in addition to section 1129(a), in order to confirm the plan. In re Waterville Valley Town Square Associates, 208 B.R. 90, 94 (Bankr. D.N.H. 1997). In fact, the Code imposes an independent duty upon the court to determine whether a plan satisfies each element of § 1129, even in the absence of objections to confirmation. In re Genesis Health Ventures, Inc., 266 B.R. 591, 599 (Bankr. D. Del. 2001); In re Shadow Bay Apartments, Ltd., 157 B.R. 363, 365 (Bankr. S.D. Ohio 1993).

8. Section 1129 (b)(1) provides that a plan may be confirmed, absent acceptance of all impaired non-insider classes as provided in § 1129(a)(8), only if it does not "discriminate unfairly," and is "fair and equitable." As to a dissenting class of impaired unsecured creditors, a plan may be found to be fair and equitable only if the allowed value of the claim is to be paid in full, § 1129(b)(2)(B)(i), or, in the alternative, if "the holder of any claim or interest that is junior to the claims of such [impaired unsecured] class will not receive or retain under the plan on

account of such junior claim or interest any property," § 1129(b)(2)(B)(ii). With respect to a dissenting class of interest, a plan may be found to be fair and equitable only if the greater of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest is to be paid, §1129(b)(2)(C)(i), or, in the alternative, if "the holder of any interest that is junior to the interests of such [impaired] class will not receive or retain under the plan on account of such junior interest any property," § 1129(b)(2)(C)(ii).

9. That latter condition in § 1129(b)(2)(B) and § 1129(b)(2)(C) is the core of what is known as the 'absolute priority rule.'" Bank of Am. Nat'l Trust & Sav. Ass'n v. 203 N. LaSalle St. P'ship, 526 U.S. 434, 441, 119 S. Ct. 1411, 1416 (1999). Such requirements of § 1129(b)(2)(B) and §1129(b)(2)(C) are threshold requirements, which are non-exhaustive. In re Dow Corning Corp., 244 B.R. 678, 690, 694 (Bankr. E.D. Mich. 1999) (the standards specified in the statute are non-exhaustive; thus, even if a matter cannot properly be categorized as an absolute priority, "it still fits within the more general 'fair and equitable' rubric.").

10. The Plan provides that Par Capital will receive no distribution for its subordinated unsecured Sub Debt claim and its Preferred Stock interest. However, by virtue of its current ownership of PSC, upon receipt of the New PSC Common Stock, PCC would receive (if it is the successful bidder for the Broadcast Assets), for no additional consideration, the NOL of PSC on account of PCC's common stock interest. The fact that PCC will receive the NOL, which is property of PSC's estate, through the Broadcast Asset Sale should not prevent the Court from finding that PCC will receive property under the Plan in violation of the absolute priority rule. In re Prudential Lines, Inc., 928 F.2d 565 (2nd Cir. 1991) (the right to carryforward a tax deduction due to the NOL attributable to a debtor's pre-bankruptcy operation is property of the debtor's

bankruptcy estate). See also, In re Phar-Mor, Inc., 152 B.R. 924 (N.D. Ohio Bankr. 1993) (NOL qualifies as property of estate).

11. If the Plan is confirmed over Par Capital's objection, PCC will be allowed to manipulate the reorganization process to realize value from PSC while paying nothing to the Sub Debt holders and the Preferred Stock holders. This result would be inconsistent with the most basic tenet of Chapter 11 of the Bankruptcy Code.

WHEREFORE, Par Capital respectfully requests that this Court (i) in confirming the Plan, reserve the issue as to whether PCC is receiving distribution under the Plan in violation of the absolute priority rule, and (ii) grant such other and further relief as may be just and appropriate under the circumstances.

Respectfully Submitted,

/s/ Daniel L. Cummings
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-and-

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COUNSEL FOR PAR CAPITAL MANAGEMENT, INC.
AND PAR INVESTMENT PARTNERS, L.P.

DATED: March 17, 2005

CERTIFICATE OF SERVICE FOR ELECTRONIC CASE FILING

I hereby certify that I served a true copy of the Limited Objection to Confirmation of the Debtors' First Amended Joint Chapter 11 Plan By Par Capital Management, Inc. and Par Investment Partners, L.P. dated March 17, 2005 on each of the parties on the service list below via U.S. mail, postage prepaid on March 17, 2005.

All other parties listed on the Notice of Electronic File have been served electronically.

Dated: March 17, 2005

/s/ Daniel L. Cummings
Daniel L. Cummings

SERVICE LIST

NONE.