

Hearing Date:
March 24, 2005 at 10:30 a.m.
Objection Deadline:
March 17, 2005 at 4:00 p.m.
PORTLAND

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE**

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

**OBJECTION OF PEGASUS COMMUNICATIONS CORPORATION TO
CONFIRMATION OF DEBTORS' FIRST AMENDED JOINT CHAPTER 11 PLAN**

Pegasus Communications Corporation ("PCC") hereby submits the following objection to the confirmation of the Debtors' First Amended Joint Chapter 11 Plan of Pegasus Satellite Television, Inc. and its subsidiaries and certain of its affiliates (the "Plan"), each a debtor and debtor-in-possession herein (collectively, the "Debtors")¹, and respectfully states as follows:²

¹ The Debtors are: Argos Support Services Company, Bride Communications, Inc., B.T. Satellite, Inc., Carr Rural TV, Inc., DBS Tele-Venture, Inc., Digital Television Services of Indiana, LLC, DTS Management, LLC, Golden Sky DBS, Inc., Golden Sky Holdings, Inc., Golden Sky Systems, Inc., Henry County MRTV, Inc., HMW, Inc., Pegasus Broadcast Associates, L.P., Pegasus Broadcast Television, Inc., Pegasus Broadcast Towers, Inc., Pegasus Media & Communications, Inc., Pegasus Satellite Communications, Inc., Pegasus Satellite Television of Illinois, Inc., Pegasus Satellite Television, Inc., Portland Broadcasting, Inc., Primewatch, Inc., PST Holdings, Inc., South Plains DBS, LP., Telecast of Florida, Inc., WDSI License Corp., WILF, Inc., WOLF License Corp., and WTLH License Corp.

² As used herein, defined terms shall have the same meanings as set forth in the Debtors' First Amended Joint Chapter 11 Plan, dated January 31, 2005.

BACKGROUND

1. On June 2, 2004, the Debtors filed petitions for relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Maine (the “Court”). On June 4, 2004, the Court entered an order directing joint administration of the Debtors’ cases for procedural purposes only.

2. The Debtors have continued in possession of their respective properties and have continued to operate their businesses as debtors in possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code.

3. No request has been made for the appointment of a trustee or examiner. On June 10, 2004, the United States Trustee for the District of Maine appointed a six member committee to represent the interests of unsecured creditors of the Debtors pursuant to Section 1102(a)(1) of the Bankruptcy Code (the “Creditors’ Committee”).

4. On January 31, 2005, the Debtors filed their First Amended Joint Chapter 11 Plan and the First Amended Disclosure Statement for the Plan (the “Disclosure Statement”) in connection with the solicitation of acceptances of the Plan. On February 9, 2004, the Court entered an order approving the Disclosure Statement, as modified on the record, and set a hearing on the confirmation of the Plan for March 24, 2005.

OBJECTION

5. Section 7.4 of the Plan states that, to the extent that an Allowed Claim consists of indebtedness and accrued but unpaid interest thereon, any Distributions made in respect of such Allowed Claim pursuant to the Plan shall be allocated first to the principal amount of such Allowed Claim (as determined for federal income tax purposes) and then, to the extent such Distributions in respect of such Allowed Claim exceed the principal amount of the Allowed Claim, to accrued but unpaid interest.

6. Treasury Regulations § 1.446-2(e) generally provides that for U.S. federal income tax purposes, each payment under a loan (other than payments of additional interest or similar charges provided with respect to amounts that are not paid when due) is treated as a payment of interest to the extent of the accrued and unpaid interest. See Disclosure Statement at pp. 53-54 (acknowledging that proposed allocations under the Plan may be in violation of this regulation).

7. In the event that PCC is the common parent of the U.S. federal income tax consolidated group that includes the Debtors (or any similar state consolidated or combined group) (the “Tax Parent”) at the time that Distributions for an Allowed Claim described in Section 7.4 of the Plan (“Section 7.4 Distributions”) are made, PCC will be responsible for reporting such Distributions in accordance with applicable tax rules, including reporting on its consolidated or combined tax returns and reporting to the Internal Revenue Service any such Distributions to third-parties that are treated as interest.

8. In the event that PCC is the Tax Parent at the time that any Section 7.4 Distributions are made, PCC reserves the right to report such distributions in the manner, and take all steps, it deems necessary to comply with the applicable tax rules.

Dated: Portland, Maine
March 17, 2005

Respectfully submitted,

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- and -

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT on this March 17, 2005, I served a copy of the foregoing **Objection** via facsimile upon the following:

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