

UNITED STATES BANKRUPTCY COURT

DISTRICT OF MAINE

IN RE: PEGASUS SATELLITE) Case No. 04-20878
TELEVISION, INC.,) Chapter 11
ET AL.,) March 24, 2005
Debtor.) Portland, Maine

TRANSCRIPT OF HEARING ON FEE APPLICATIONS, AND
STATUS CONFERENCE FOR PLAN CONFIRMATION

BEFORE

THE HONORABLE JAMES B. HAINES, JR.

APPEARANCES:

For the Debtors : Leonard Gulino, Esq.
Paul Caruso, Esq.
Guy Neal, Esq.
Ellen Moring, Esq.
M. McGlintock, Esq.
T. Lodge, Esq.

For the Creditors Committee : Jacob Manheimer, Esq.
David Botter, Esq.

For Felton Street Associates : Bruce Hochman, Esq.
Kenneth Aaron, Esq.

For Professional Satellite : Stephen Morrell, Esq.

For TWC of Kentucky : Joshua Dow, Esq.

For Committee of Bondholders : John McVeigh, Esq.
Kenneth Rosen, Esq.

For HSBC Bank : Debra Suddock, Esq.

For the Internal Revenue Serv.: Frederick Emery, Esq.

For U.S. Trustee : Robert Checkoway, Esq.
For Pegasus Communications : George Maguire, Esq.
For Park Capital Management : Daniel Glosband, Esq.
Edward Shapiro, Esq.

Recording Equipment Monitor : Julie Winberg

HEARING COMMENCED (MARCH 24, 2005, 10:32 AM)

BAILIFF: United States Bankruptcy Court for the District of Maine is now in session, the Honorable Jim Haines presiding. Please be seated and come to order.

THE COURT: Good morning. We're here in Pegasus Satellite Television, et al., for matters on the calendar today at 10:30. We have parties or their representatives on the telephone. Perhaps--let me start by getting appearances in court, starting with debtors' side.

GUY NEAL, ESQ.: Good morning, your Honor. Guy Neal, Sidley, Austin, Brown and Wood for the debtors.

PAUL CARUSO, ESQ.: Good morning, your Honor. Paul Caruso, also for the debtors.

LEONARD GULINO, ESQ.: Len Gulino, local counsel for the debtors.

JOHN MCVEIGH, ESQ.: John McVeigh for the ad hoc committee of noteholders.

JOSHUA DOW, ESQ.: Good morning, your Honor. Josh Dow for TWC of Kentucky.

BRUCE HOCHMAN, ESQ.: Bruce Hochman, local counsel for Felton Street Associates.

DAVID BOTTER, ESQ.: Good morning, Judge. David Botter, Akin, Gump, Strauss, Hauer and Feld, on behalf of the official committee of unsecured creditors.

JACOB MANHEIMER, ESQ.: Good morning, your Honor.
Jack Manheimer, local counsel for the committee.

ROBERT CHECKOWAY, ESQ.: And Robert Checkoway,
your Honor, for the U.S. Trustee.

THE COURT: All right. Thank you. I have--I
have the names of those who are on the phone, and what I'd
like to do is as I call your name, if you'll just indicate
for whom you're appearing, or if you're not appearing as
counsel, in what capacity you're appearing if you choose to
appear. And then if I'm missed anyone, I'll ask after I'm
done for them to pipe in and let me know they're on the
line. First, Mr. McGlintock?

M. MCGLINTOCK, ESQ.: Yes, for the debtor, your
Honor.

THE COURT: Thank you. Mr. Morrell?

STEPHEN MORRELL, ESQ.: Yes, your Honor, for
Professional Satellite.

THE COURT: Thank you. Ms. Suddock?

DEBRA SUDDOCK, ESQ.: Good morning, your Honor,
Debra Suddock, Kelly, Drye and Warren, counsel for HSBC
Bank as indentured trustee for the senior subordinated
discount notes.

THE COURT: Thank you. Mr. Lodge is on as
representative of the debtor, I take it, Mr. Lodge?

T. LODGE, ESQ.: Yes, that's correct, your Honor.

THE COURT: Thank you. Robert Russell?

ROBERT RUSSELL: Good morning, your Honor. I'm here for myself.

THE COURT: Thank you. David Miller?

DAVID MILLER: Good morning, your Honor. I'm here for myself.

THE COURT: Thank you. Ellen Morey [sic], is that right?

ELLEN MORING, ESQ.: Good morning, your Honor, Ellen Moring, Sidley, Austin, Brown and Wood, for the debtor.

THE COURT: Thank you, Ms. Moring. Mr. Emery?

FREDERICK EMERY, ESQ.: Frederick Emery, U.S. Attorney's office, on behalf of IRS. Good morning, your Honor.

THE COURT: Good morning. Mr. Maguire?

GEORGE MAGUIRE, ESQ.: George Maguire from Debevoise and Plimpton, LLP, for Pegasus Communications Corporation and its nondebtor subsidiaries.

THE COURT: Thank you very much. Is there anyone else on the telephone who we've missed?

KENNETH ROSEN, ESQ.: Yes, your Honor, my name is Kenneth Rosen, R-O-S-E-N, from the law firm of Lowenstein

Sandler, and I represent the ad hoc committee of bondholders.

THE COURT: Thank you. And anyone else on the phone?

DAN GLOBAND, ESQ.: Good morning, your Honor, Dan Glosband from Goodman Proctor representing Park Capital Management.

THE COURT: Thank you.

EDWARD SHAPIRO, ESQ.: Ed Shapiro from Park Capital Management.

THE COURT: Thank you.

KENNETH AARON, ESQ.: Kenneth Aaron, Weir and Partners on behalf of Felton Street Partnership.

THE COURT: Thank you. I guess that's it. All right, thank you very much. Let's--let's turn to the matters that are on for today, and I guess perhaps the first things we could touch on and, Counsel, I'll leave it to you if you'd like a different order, but I had gone through and reviewed the fee applications yesterday with two exceptions. One was the application of KPMG, and I didn't have a form of order on that one, and otherwise there's no objection and that's ready for entry, so if we have a form of order, that'll be approved.

MR. NEAL: Very good, your Honor. We will do

that.

THE COURT: Thank you. And the second was--was debtors' counsel, and again there's no objection there, and what I was holding that for was because debtors' counsel was going to be here today and I wanted to get a status report on confirmation and other progress in the case, which we will be getting. So I needn't hold it hostage. And will, again as an interim award, I will enter the order on the second interim application of Sidley Austin. So those two matters are taken care of. And I'll turn now to you with regard to both the continued hearings on claims objections, the status with regard to confirmation, which has been continued to the 30th at two o'clock, and any other matters that are properly before the Court today.

MR. NEAL: Thank you. Again, your Honor, Guy Neal, Sidley, Austin, Brown and Wood. I want to thank your Honor and your staff for accommodating two things. One, having this as a status conference for the plan confirmation status; also to--and having scheduled and having allowed us to notice a continuance of the confirmation hearing for March 30th at 2 p.m. Briefly, your Honor, let me lay out where things stand in this case and why we're here today not for confirmation, but we're here today for a status conference. The last time I was

before you, your Honor, was the February 9th disclosure statement hearing where we presented a disclosure statement and a plan, and a plan that had the full support of our official committee of unsecured creditors, with one significant exception, and that concerned the scope of the releases, depending upon the committee's investigation into causes of action or alleged causes of action against nondebtor entities and perhaps directors and officers. And that was prominently displayed in our disclosure statement. But we did have the full support of our official committee. And the plan process, your Honor, perhaps as is the case in every plan process, was a labor if not of love, but of two sets if not more, in fact, significantly more than two sets of professionals, who carefully crafted a plan to accomplish two significant goals. The first goal was to get the DirectTV excess sale proceeds out the door to our unsecured creditors as quickly as possible. The second goal was to allow the estates maximum flexibility in their efforts to maximize the value of their remaining assets, significantly, their broadcast television assets. If you recall, your Honor, going back to what isn't ancient history but takes us back to last summer, there was the letter agreement executed in connection with the global settlement agreement with DirectTV, that was a letter

agreement between our official committee and the nondebtor parent, PCC, for the sale and for the purchase of the broadcast assets. And as we've been continuously reporting to your Honor, we've been in a process of negotiation, and that process may still be going on today. But we find ourselves in a situation we did not want to find ourselves in, and that's not having a stalking horse bidder prior to plan confirmation. But we did, as I said, your Honor, craft the plan to allow for that flexibility. It would either be a sale to PCC as a stalking horse or an alternative Court-approved bid to another entity. Now, on that day of February 9th, the Court approved our disclosure statement, we promptly got our solicitation package out the door, and we are here--intended to be here to confirm four sets of debtors after substantive consolidation for plan purposes. That'd be PCS, PCMC, PBT, and PST. PBT being the broadcast side, PST being the satellite side. And, your Honor, until two weeks ago, in fact, less than--slightly less than that, 13 days ago, we thought we would be here today to confirm this plan. New developments, as your Honor is well aware. Thirteen days ago there is now what is called or denominated as an ad hoc committee of bondholders, and these are bondholders that are at the PSC level, the debtor entity that is not going to be paying out

100 cents on the dollar. In fact, projections in our disclosure statement would be for a payout of 58 to 60 or thereabouts. And we saw yesterday, your Honor, when it hit the docket, the Rule 2019 statement that lists those bondholders that comprise this ad hoc committee. They did two things. One, they filed an objection, and in many respects to their credit, they filed their objection well in advance of the objection deadline. So they filed their objection 13 days ago. And that was the first time we here as debtors' counsel knew of their existence or heard of their concerns. But they sent the invitation, when they sent us a courtesy copy of their objection, to talk to them about their concerns, and I'll touch upon those very briefly. What they also did, your Honor, is together in a consistent manner drafted a letter saying, "We" -- and their ballot and sent it to us by fax -- saying, "We reject the plan unless and until the issues raised by the ad hoc committee's objection are resolved to the bondholders' satisfaction." And in doing the tally, your Honor, we realized that we do not have, as a result of the objection and as a result of this concerted action, we don't have an impaired accepting class at PSC. That would not be a problem, your Honor, unless the Bankruptcy Code required one. So even, your Honor, if we were prepared as debtors'

counsel to go forward today, we would not have a confirmable plan. Now, the official committee has in large part been working with the ad hoc committee, and we have extended their objection deadline. So we're not here today in the absence of an official committee objection. Their time has been extended, and they still have their issues which we have been working with them very closely in an effort to resolve. But if I can distill the issues of the ad hoc committee down to three, I could do so in less than ten minutes, I believe. The first issue--I'll just run through all three. One I would characterize as tax attribute preservation. The other would be support services, the distributions made thereunder and transition services post effective date, that would be the second issue. The third issue, related to issues one and two, would be the scope of the releases in the plan. Now, two to three minutes on each point, your Honor. Tax attributes. Every professional for these estates, the official committee, the debtors, you know, and the ad hoc committee in their objection, all agree that the debtors need to take all appropriate steps to preserve the value of their NOLs. Such that the NOLs can be used to offset the gain of both the satellite sale and the prospective broadcast sale. There is no dispute I believe among the

professionals that that needs to be done. What we are doing now is trying to work through a mechanism to get that done, either through a standstill agreement with the nondebtor parent, PCC, and our consolidated tax group, or there's also been discussion, your Honor, of a possible injunction or injunction proceeding if it's not consensual against the nondebtor parent. We are working hard to resolve that issue, your Honor, in advance of confirmation. The second issue, your Honor, concerns--it's a two-part issue, support services and transition services. As your Honor may have reviewed in the ad hoc committee objection, as the U.S. Trustee has made inquiries to us on this, there has been a significant amount of cash disbursements out the door during this case. No doubt about that. In a case of this magnitude, your Honor, I'd submit that those disbursements are not out of the ordinary or unusual. In fact, the vast majority of disbursements came through Court-approved proceedings. Just to give an example, we had, your Honor, a contested matter brought by the committee against our secured lenders over the interest and the prepayment penalties. When your Honor issued his final ruling or when a 9019 motion was filed evidencing the agreement, a significant amount of money in excess of 11 million dollars went out to our secured lenders. We had

a proceeding that we finally called KB PriMedia, which was our sidecar arrangement where by KB owns certain satellite--excuse me, certain licenses and operates certain stations on behalf of the debtors. They were under significant pressure by their lender, Wakovia, and we through a motion with this Court on notice and hearing to all creditors took an assignment of that note for about 6.8 million dollars. There have also been a series of professional fee applications, no doubt, in which the professional fees have been paid on an ongoing interim basis subject to final order. There have been general operating costs, wind down of satellite. The ad hoc committee, if I understand their objection correctly, wanted closer scrutiny of those cash disbursements and wanted the liquidating trustee, the proposed liquidating trustee who would go in place on the effective date to have the opportunity to review disbursements that were made not only out the door to third parties, but specifically those disbursements made to related affiliated entities. The debtors' position, your Honor, is that they have been transparent from day one in terms of their cash disbursements. Your Honor heard on an interim and then on a final basis approval of the support services agreement. To give you a little bit of background to refresh your

memory on that, your Honor, that is the agreement whereby a nondebtor management company, PCMC, provides valuable services for the operation of these debtors. That was on notice not only to our official committee, but at the time our secured lenders, at the time DirectTV, at the time NRTC. We were significantly under the microscope during that period, and a final order was entered on July 22nd, 2004, that gave these parties, one of which really is the only one remaining, the official committee, the opportunity to challenge cash disbursements made thereunder and the opportunity to seek reconsideration of that order after the satellite sale and the cooperation agreement related to it finalized. October 31 is that date. We have been providing weekly cash disbursements to our official committee and their financial advisors. We have been working with the U.S. Trustee in filing monthly op--or submitting, I should say, monthly operating reports. And frankly, your Honor, until recently we've heard no issue with respect to support services. It has now apparently become a paramount issue for the ad hoc committee and in part the official committee as well. The ad hoc committee wanted a preservation of rights to allow the liquidating trustee to challenge those disbursements. We've agreed, your Honor. There is no dispute between the debtors and

our committees with respect to the right of the liquidating trustee to step into the shoes of the committee under that order post effective date. At the same time, your Honor, the ad hoc committee wants what is called a transition services agreement for post-effective date services. We stand here today having not sold our broadcast television assets. The concern of the ad hoc committee is that the liquidating trustee should not--needs to be -- let me put it in the affirmative -- needs to be in a position whereby he has appropriate support to wind down the satellite operations which are still winding down and to preserve and then maximize the value of the broadcast stations, and should not be under any time restriction or limitation to have that support. Now, that puts us, your Honor, in a very awkward position whereby on the one hand the committees want the opportunity to revisit disbursements made under support services, which have not been challenged to date, an agreement that's been in place for nine and a half months, and on the other hand want the cooperation of the very same party to continue to provide those services post effective date. That has led to a series of negotiations, the last one which concluded yesterday afternoon in our offices in New York where we're still trying to work through these issues. The third issue, the

last issue, your Honor, concerns the scope of releases. Again going back to recent history, we had the global settlement agreement in August which by and large with few exceptions released nondebtor--released the D's and O's and the nondebtor affiliates from causes of action prior to August 27th, 2004. In our plan--our plan did have broad releases, still does as drafted today, has broad releases, which the committee supported with its reservation of rights on getting a comfort level with the exercise in the fiduciary obligations of the D's and O's. I wouldn't characterize this as a release. It's more of an exculpation provision for Chapter 11 activities. Our plan sought that. It's being challenged by the official committee, it's being challenged by the ad hoc committee. It may be resolved. The debtors are willing to work with both committees to reach a resolution to allow a--for two things, two important things. One, the liquidating trustee's right to review the support services, and, two, the liquidating trustee's right to review causes of action post August 27th, 2004, a somewhat limited period of time until the releases vest. That is what we're working on, your Honor. We remain hopeful that we can get an agreement. We remain hopeful and committed to doing everything we can by next Wednesday's hearing to have an

agreement. Absent the votes being changed under a Rule 3018 motion, your Honor, we can't come before you to confirm a plan. So we're in that position where we need to cooperate and intend to cooperate fully with the committees to resolve these concerns.

THE COURT: Thank you. I appreciate that.

MR. BOTTER: Good morning, your Honor, David Botter, Akin Gump, on behalf of the committee. About two and a half weeks ago I was sitting down and I was thinking about the upcoming confirmation hearing and what I might say to your Honor. And what I thought about was that I would be saying, Judge, this is a happy day--both a happy day and a sad day. The happy day portion of it is that from June of this year when these cases started, I think the unsecured creditors really faced a potential bagel, zero recovery in these cases. And the reason it's happy is that we've been able to move that zero to approximately 60 cents in the span of just a few months, and so that's clearly a very good outcome in terms of the unsecured creditors' recovery. Sad day is because it wouldn't be an ultimate conclusion to these cases. I knew at that point that our sort of prophetic statement in the disclosure statement about reserving our rights with respect to releases would be something that we would be pressing

before the Court. And so therefore there wouldn't be a satisfactory ending, there would be an overhang relating to debtor representatives and also affiliates of the debtor in terms of potential ongoing causes of action. And so, obviously, while I would--my job has been to maximize recovery to unsecured creditors, we wouldn't have been able to sort of put a stamp on the end of this case and say, "Terrific job, well done," although I think the job has been well done thus far, because we wouldn't have a satisfactory conclusion. During the last few months I think I've appeared before the Court a few times, and I've said, especially at the disclosure statement hearing, that there have been ongoing negotiations with respect to the sale of the debtors' broadcast assets. I've been a little cagey in what I've said that has been going on because this was nonpublic information, we have public bonds here, and I felt that it was inappropriate to talk about what the status of the negotiations were or talk about the significant issues that were blocking the sale of the broadcast assets to PCC. We started that sale process, I would say, in probably early October. I think we all took a little bit of a break after August 27th, as I think a lot of us were, frankly, pretty exhausted after August 27th, but we started fairly early on in October talking about the

parameters of the sale. As your Honor remembers, the parameters of the sale were set in August. We had this letter agreement which said that we would negotiate a sale of the broadcast assets to PCC for a stalking horse price of 75 million dollars subject, of course, to higher and better offers. It also provided that we would support a plan of releases. Mostly significantly it provided that if the committee felt that pursuing down this road--going down this particular road of a sale and releases were going to be a breach of the committee's fiduciary duty, the committee could walk away from that letter agreement, prominently displayed in paragraph 9 of that agreement, and that, frankly, to the extent a committee makes any type of an agreement like that in a bankruptcy case, that's something that must be in that type of agreement because the committee always has to exercise its fiduciary duties. But we took seriously our commitment to try to sell the broadcast assets. Again, trying to reach a conclusion to these cases, successful cases, and trying to maximize value for the estates. We had a very lengthy negotiation with PCC. There were ups and down. Frankly, there were numerous discussions with them about purchase price. Not about the 75 million dollars, but adjustments to purchase price. And what happened during those negotiations were

issues kept coming up, and the issues were, okay, what about this particular asset; well, what about rejection of these types of contracts; and what about who is gonna be responsible for paying cure costs; who is gonna be responsible for paying rejection damages. Little by little, the 75 million dollars was shrinking. Grave concern, however, we continued the negotiations, and we said ultimately this will be subject to a market test. And if this--if the purchase price, whether it be 75, 73, 71, is inadequate, the market should bear that out, so we continued on. At one point in time we started to talk about the tax attributes. The debtors have tremendous amounts of tax attributes. How you use those tax attributes are significant issues. But we had the satellite sale, so we have tremendous proceeds and we had potential gain on the other assets of the satellite sale, and we had the prospective sale of broadcast assets. The use of the debtors' tax attributes is critical to maximizing value. Tax attributes are there to be used to offset gain from sales and income. And that's, you know, you would talk to any IRS agent, that's exactly what the purpose of the law is. If there are substantial losses, the debtors can use them to offset gains. So clearly in terms of maximizing recovery, in terms of distributions to

be made to unsecured creditors, we could have a situation where the debtors were unable to use those valuable tax attributes. One of the--during the sale negotiations, there were--there were many, many discussions about the tax attributes, and there's a provision in the letter agreement that says that we would try to structure the transaction in a way that would maximize the tax attributes, not only for the estate, but for the nondebtor affiliates. And while I'm not gonna bore the Court with details of tax attributes and how they work, suffice it to say that only members of an affiliated consolidated group of taxable entities can use tax attributes within that group. So, for example, if the debtors were able to use tax attributes to cover all their gains from the satellite sale, all their gains from the broadcast sale, and whatever income they were able to generate during the proceeding, if there were leftover tax attributes, the debtors wouldn't need them because they've covered everything they need to cover. However, it is possible that affiliates within that consolidated tax structure could use those tax attributes. So at the end of the day when we were negotiated these documents, if the debtors receive their full cover, we didn't really care what happened to the remainder, and we were perfectly willing to structure something so that if, in fact, they

could be used by nondebtor affiliates, more power to them. Again, didn't hurt the estates. During the sale process fairly early on there was a discussion with PCC about the use of these tax attributes. And the ability of the debtors to use them would be hinged in large measure upon actions or inactions taken by the parent of the corporations, consolidated corporations. Ultimately, the parent corporation is the chief of the consolidated tax structure. It files the consolidated tax returns and it has the ability to make certain elections or not make certain elections. That's a critical, critical fact. That ability or that--those actions or inactions would limit or make the debtors not able to use their tax attributes. So there was some power residing in the parent corporation because of its control of the various elections that need to be made in order for the debtors to get benefit of the tax attributes that their operations generated. During the negotiations at one point there was a discussion, and it was a fairly short-lived discussion, but it was incredibly troubling to us. The discussion was about the debtors' ability to use their tax attributes and whether they could be used by the debtors if PCC was the ultimate winning bidder the auction or not the ultimate winning bidder in the auction. And we said to PCC, well, you know, those are

our tax attributes, we've got to be able to use them no matter what happens. And if you propose something in the sale agreement that says we can only use them in the situation where you're the winning bidder, you have disadvantaged the estate and other ultimate potential purchasers by many millions of dollars. So you have slanted the playing field, and that is totally unacceptable. And, in fact, there was an entire breakdown of the negotiation process on that point. Ultimately there was further discussions, and I think that PCC said, well, I guess you're probably right. But again, we continued the discussions about the sale agreement, and to this day still do not have a resolution about the debtors' abilities, complete and total ability to use their tax attributes which are clearly property of this estate and PCC doing the right thing in terms of the debtors' use of those tax attributes. So that's why we've been--we've spent six months, five months, whatever the number is, talking about this sale. Again, diminishment of purchase price, inability of the debtors to use what is theirs. Big problems. During this whole process, and there were many, many points of frustration, certainly my frustration for sure. I remember -- and this is actually fairly recently, within the last four to six weeks, I remember turning to

Mr. Neal, and I said to him, "Are we paying the salaries of our main protagonists?" Because remember, the officers and directors of the parent corporation are also officers and directors of the debtor corporations. And Mr. Neal said, "I'll get back to you on that one." And a little period of time expired, and he got back to me with a list of--of sort of the main PCC, PCMC folks, those folks who were covered by the support services agreement, and sure enough, the debtors were paying 93 percent of the salaries of our main protagonists. That led to more frustration, obviously. Then enters onto the scene an ad hoc committee of bondholders. And I've known Mr. Rosen, who represents that group, for many, many years. And that group was also incredibly frustrated. They were frustrated by the lack of a conclusion of the broadcast sale process and, unfortunately, I couldn't tell them all of the things that were going on because they were entirely confidential, and that group is a group of public bondholders who specifically do not want nonpublic information because they want the ability to continue to trade the bonds. And they were frustrated again by the lack of information because they didn't see anything but the monthly operating reports that were filed with the U.S. Trustee by the debtor. They didn't see the cash disbursements. All they saw was a

diminishment in estate assets. Now, the committee-- Mr. Neal is correct, the committee has seen those cash disbursements. As your Honor is well aware, the committee has an investment banker. We have seen weekly cash disbursements. But investment bankers don't do forensic analysis, they look at what they're given. If there are any inaccuracies or questions that arise, they ask the questions, but they don't go in and look at every single little ticket or anything like that. That's just not what they were hired to do, and that's not what they, in fact, do. So we have seen the cash disbursements and we've asked them questions about it, but we've not gone underneath the surface to find out, for example, that we were paying 93 percent of the salaries of our main protagonists. So the ad hoc committee's suggestion that, in fact, this thing needs to be looked at a little bit harder is entirely appropriate, and we have no problem with that. The releases. As you know, we said those could be a problem, and they are a problem. Now, I can't tell your Honor today that the ad hoc committee or the liquidating trustee's gonna find anything underneath the surface. I don't just know. I think that what we--what they will find or whomever looks will find is what we sort of were a little bit prescient about when your Honor entered the final order

approving the support services. What they will find is that the debtors have been overpaying for those services, paying for the salaries of people who just have--really don't have any interest in the debtors at all and, in fact, have been causing problems for the debtor. So in terms of releases, those should remain open. There's just no question about it, and it's again unfortunate because I'd like to see an ultimate conclusion to these cases, but I think that they have to remain open. In terms of support services -- so again, this agreement that we've talked about -- because we don't have a broadcast sale, the trustee will--the liquidating trustee will need continuation of these support services. Now, that's in a prepetition agreement that was entered into the day before the bankruptcy, and I don't know if your Honor recollects, we--there was a little bit of concern that all of the sudden there was documentation of this agreement the day before bankruptcy. But again, it's a prepetition contract which has been approved subject to the issues that we left open for another day the that debtors can assume. The problem is that there's a 90-day termination out in that contract. So even if we were to assume it on the date of confirmation, we risk PCC, our parent corporation, the one who theoretically had fiduciary duties to protect the

debtor entities, withdrawing those termination--those support services. The liquidating trustee all of the sudden finding out all the things that I need to properly run these businesses are gone. That's a problem. These are problems that we're trying to work out. I think your Honor knows from your experience with us in this case that we would prefer above anything else to settle these issues and not litigate. However, these are important remaining issues, and until they're settled in some acceptable fashion to these estates, we can't of forward, and that really is unfortunate. Mr. Neal is correct. We had a meeting just yesterday. We've had meetings and meetings and discussions and discussions, and we will continue to have meetings and discussions, but I thought it was important that the Court knows what's been going on behind the scenes. It's not been all sun and roses, it just hasn't. And, you know, I think that it would be unrealistic to think that everything would be that way in any major Chapter 11 case. Ultimately, there are disputes, and the best way to work out a Chapter 11 case is to resolve those disputes in a fashion that reflects what every settlement is, some good, some bad. That's what we'll continue to try to do. But I think the Court does need to be aware that there are some

issues that are out there, that if not properly resolved, will require this Court's continuing attention into the future. Again, we hope they'll be worked out. Thank you, your Honor.

THE COURT: Thank you. Mr. McVeigh?

MR. MCVEIGH: John McVeigh for the ad hoc committee. Mr. Rosen will be addressing the Court for the ad hoc committee, and he's been admitted pro hac already.

THE COURT: Thank you. Mr. Rosen?

MR. ROSEN: Yes. Good morning, your Honor. Thank you. I'll be brief because I think that Mr. Botter covered most of the issues already, and Mr. Neal has identified many of the issues. Just a couple of highlights, if I may. It is my understanding that under the current plan of reorganization, the liquidating trustee would really only have a period of 90 days of available transition services. However, it is also my understanding that a liquidating trustee would have--would not be able to sell the remaining assets within that 90-day period, whether it's because of requisite approvals or marketing time, time to close, due diligence or whatever. So the liquidating trustee would find him or herself in a position where 90 days from confirmation he or she would lose all available transition services, and those services are

essential to the operations of the business that he or she would be attempting to sell. So that goes to--to the issue of plan feasibility and creditors not wanting to accept a plan that potentially puts the liquidating trustee in a position where he or she either has to sell the assets fire sale because he or she only has 90 days of transition services, or he or she has to recreate those transition services at great expense and burden, assuming they can even be recreated, in order to have a period of time greater than 90 days. With regard to the releases, in our objection one of the things we said was that there was no information in the documents that we were able to read, all public documents, that indicated, for example, that there was any basis upon which to grant those releases, whether it was no consideration being paid or a concern about overlapping officers and directors, an issue that Mr. Botter touched upon. So all I--I just wanted to highlight those two points. I think that Mr. Botter has done a good job of--of providing more meat on the bones of the tax issues and the other issues raised in our objection, and I appreciate the Court's opportunity to be heard.

THE COURT: Thank you. Let me just ask, I take it that this 90-day out on the transition services for the

broadcast assets is part of the contract right now. I mean, it could be--you could be given notice it's 90 days from today, could you not?

MR. NEAL: That is correct, your Honor. It has been PCC's position -- I know their counsel is on the phone -- that to the extent that is confirmed, the estates would take the contract as they've written it, and it has that 90-day notice provision for termination.

THE COURT: Okay. That's what I wanted--

MR. BOTTER: Your Honor, it would be the committee's position that they would have to make a motion to lift the stay to exercise that termination right because of the perpetuation nature of the contract, and we would obviously contest that, and your Honor would make the call on that.

THE COURT: All right. Well, let me say this. The discussion's been illuminating today in terms of understanding modestly what is going on with regard to the issues that are at play and why we are where we are today. And I would not pretend to meddle into negotiations that are underway, because you all know a lot more about it than I do, and it seems to me that with the issue of the services that are required and the uncertainty based on that 90-day provision and the necessity of protecting the

tax attributes, and then on the other hand, the releases and the scope and the dates on which they kick in, there's plenty of moving parts there where everybody can probably end up reasonably unhappy with a deal. But there's a lot for you all to talk about in that regard. Beyond that, let me say that my understanding from Mr. Neal is that if there hasn't been a change on the votes, that we won't be going forward with confirmation, and my understanding from Mr. Rosen and Mr. Botter as well is that if we don't go forward with confirmation, then we can expect that things will heat up in Court again, and I just want to let the parties know that whether it's to convene the confirmation hearing on the 30th or on some other date near in time because the parties have put things together, we'll do everything we can to make the Court available. Or if it's to--if it's to hear rounds two, three and four, then we'll be available to do that as well and to the best of our ability provide you with a timely forum and timely answers to disputes that are incapable of resolution among the parties. So I appreciate the status report, and we will convene as scheduled now on the 30th at two o'clock to take up the plan further. Thank you. We have some other matters. Go ahead.

MR. CARUSO: Good morning, your Honor.

THE COURT: Good morning, Mr. Caruso.

MR. CARUSO: Paul Caruso again on behalf of the debtors here on the debtors' third omnibus claims objection, and if I may, your Honor, I have a clean version of the order that was filed yesterday evening as well as a black-lined which compares it against that proposed order that was filed with the objection. And if I may, I'd like to hand a copy up to you.

THE COURT: If you would, please?

MR. CARUSO: All right.

THE COURT: Thank you.

MR. CARUSO: Thank you, your Honor. As the debtors have been working very diligently to resolve the claims filed against them in these cases, and as I stated before, we're here on the third objection. And how I'd like to proceed, your Honor, is we'll address the responses filed with respect to the third objection and then proceed on to discuss the various matters that have been continued from the first two hearings.

THE COURT: Okay. Go right ahead.

MR. CARUSO: Thank you. First there was an informal response that had been filed or I had been contacted by counsel to CollecTech [phonetic] which was a vendor against the debtors in these--in their DTV business,

and we had reached a resolution on their claims, Claims Number 126 through 128 will be expunged, and Claim 567 will be allowed as filed. There were formal responses filed by certain Indiana taxing authorities and Michigan taxing authorities, as well as Felton Street Partners which is the landlord for the debtors' former Marlborough, Massachusetts, facility. The status conference on those matters is going to be continued while the debtors continue to review their responses filed by those claimants and attempt to reach a consensual resolution to them. And those will be continued until the next omnibus date in April. Kendall County, which is a taxing jurisdiction in Texas, withdrew its response to our objection, and so the debtors' objection to that claim is going forward. TWC of Kentucky, which was the landlord for the debtors' Kentucky facility, had filed a response and that claim is being granted, an allowed claim based upon the debtors' books and records. And the only other formal response that was filed was by Professional Satellite, and I'll come back to that in a moment, your Honor, when we get to the remaining claims. With respect to claims in the first and second objection that was continued, we--the debtors have been able to resolve the claims like Fox Broadcasting, Installs, Inc., and WebClick. And all of these, your Honor, are

referenced in Exhibit K to the revised order which was filed yesterday evening. We will be continuing the status conference on the following claims. Citadel Broadcasting, Intercom LLCs, Pryor Sales, RR Communications and Shamrock, those last three claimants are actually all held by Riverside Claims. We'd also be continuing the status conference on the claims filed by Twentieth Century Television and Saturn Satellite, and the debtors are all-- are very hopeful that all of those claims will be able to be resolved prior to the next omnibus. Exhibit K indicates that the claim of Mr. William Dorn are going to be continued out into the May omnibus date.

THE COURT: Right.

MR. CARUSO: The three claims that we are going forward on the status conference today, your Honor, are those filed by Professional Satellite, Mr. Robert Russell, and Mr. David Miller. First, your Honor, Professional Satellite, this is very similar to the claims that were filed against the debtors by GateLinks. It actually happens, it's my understanding, that the principals of Pryor [sic] Satellite and GateLinks are brothers, and so we expect to work with Mr. Morrill who, I believe, is on the telephone, to enter a scheduling order which will be filed with the Court within a week or so to move this matter

forward.

MR. MORRILL: That's correct, your Honor.

THE COURT: Thank you.

MR. CARUSO: The next claim, your Honor, was filed by Mr. Robert Russell. This was related to his former employment with the debtors in Georgia. The debtors believe that no fact discovery is required on this claim. We believe that Mr. Russell's claim is barred by the statute of limitations. I spoke with him last week and we have agreed to a[n] expedited briefing schedule on this matter where the debtors will file a summary judgment motion within 20 days of this hearing. Mr. Russell will have 20 days to respond. The debtors will have an additional 10 days to file any reply, and then this matter will be set down for hearing on the May omnibus date.

THE COURT: All right. Mr. Russell, that's agreeable to you?

MR. RUSSELL: Yes, sir.

THE COURT: Thank you.

MR. CARUSO: And, your Honor, the last claim was filed by Mr. David Miller. This relates to a claim for-- regarding his employment by the debtors. The debtors have previously agreed with Mr. Miller to arbitrate this claim, and his claim will be arbitrated in accordance with the

rules and procedures of the American Arbitration Association. The firm of Bernstein Shur here will take the lead on that matter and will begin discussions with Mr. Miller on that process.

THE COURT: All right. And will we get a--I take it we'll get a form of procedural order with regard to the Russell briefing and a form of order with regard to the arbitration on the Miller?

MR. CARUSO: That's correct, your Honor.

THE COURT: Very good. Thank you.

MR. CARUSO: And I believe that is the only matters I have on the claims objection, your Honor, the rest of the matters there were no responses filed, and we'd ask the Court to grant the relief that we requested in the form of order.

THE COURT: All right. Thank you. We have the proposed order that was filed yesterday with regard to the third omnibus objection. Okay. And with regard to those matters that were carried over from the first and second, we've treated all those now. I just wondered was there--we're awaiting some forms of order which you've discussed?

MR. CARUSO: Yes, your Honor.

THE COURT: And is there a further--and that'll

take--there was a proposed form of order--there was no other proposed form of order filed immediately before with regard to those?

MR. CARUSO: Correct.

THE COURT: Very good. So we'll await the orders that you've described, and we will proceed to enter the order that was filed yesterday on the other--the other claims objection. Thank you.

MR. CARUSO: Thank you, your Honor.

THE COURT: Is there anything else to come before the Court on Pegasus this morning? If not, I want to thank you all for your attendance and wish you the best in what I'm sure will be plenty more meetings and discussions between now and the 30th. We'll be in recess. Thank you.

BAILIFF: All rise.

HEARING CONCLUDED (MARCH 24, 2005, 11:20 AM)

