

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE**

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

**OBJECTION TO DEBTORS' MOTION FOR ORDER
PURSUANT TO 11 U.S.C. §§ 363(b) AND 105(a) AUTHORIZING AND
APPROVING IMPLEMENTATION OF MANAGEMENT RETENTION PLAN**

The Steering Committee (as defined below) of Pegasus Satellite Television, Inc. and certain of its subsidiaries and affiliates, each a debtor and debtor in possession herein (each a "Debtor", and collectively, the "Debtors"),¹ by and through its undersigned counsel, hereby submits this objection (the "Objection") to the Debtors' Motion for an Order Pursuant to 11 U.S.C. §§ 363(b) and 105(a) of the Bankruptcy Code Authorizing and Approving Implementation of Management Retention Plan (the "Motion"). In support of this Objection, the Steering Committee respectfully represents as follows:

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.

BACKGROUND

1. On June 2, 2004 (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 et seq. (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Maine (the "Bankruptcy Court"). Pursuant to sections 1107 and 1108 of the Bankruptcy Code, the Debtors have retained possession of their property and are authorized thereby, as debtors-in-possession, to continue the operation and management of their businesses.

2. The Bankruptcy Court has jurisdiction over this matter pursuant to 28 U.S.C. §§157 and 1334. This is a "core" proceeding within the meaning of 28 U.S.C. §157(b)(2). Venue of the Debtors' chapter 11 cases and the Motion in this District is proper pursuant to 28 U.S.C. §§1408 and 1409. No request has been made for appointment of a trustee or examiner.

3. On June 2, 2004, the Debtors filed an Emergency Motion for an Interim Order (A) Authorizing Use of Cash Collateral, (B) Granting Adequate Protection to Certain Prepetition Secured Parties Pursuant to Sections 105, 361, and 363 of the Bankruptcy Code Including Replacement Liens and Superpriority Claims and (C) Scheduling a Hearing for Final Approval of Use of Cash Collateral (the "Cash Collateral Motion"). The Bankruptcy Court entered a final order approving the Cash Collateral Motion on June 25, 2004 (the "Cash Collateral Order").

4. On June 10, 2004, the United States Trustee appointed an official committee of unsecured creditors (the "Creditors' Committee").

5. Pursuant to that certain Fourth Amended and Restated Credit Agreement, dated as of October 22, 2003, certain of the lenders party thereto (the "Senior Secured Lenders") formed a steering committee (the "Steering Committee").

6. Pursuant to the Cash Collateral Order, the Senior Secured Lenders have consented to the Debtors' use of cash collateral to fund their operations, provided that the Senior Secured Lenders are afforded the adequate protection prescribed for therein.

ARGUMENT

7. As the Steering Committee understands, the hearing currently scheduled before the Bankruptcy Court for July 8, 2004 at 10:30 a.m. is a preliminary hearing on the Debtors' Motion. If objections to the Motion are received prior thereto, a full hearing will be scheduled for July 22, 2004.

8. Pursuant to the Motion, the Debtors' seek authority to implement and make payments under a management retention plan (the "Employee Retention Plan"). The Employee Retention Plan covers one hundred management employees with responsibilities relating to the Debtors' satellite division. The Employee Retention Plan provides for a variety of incentives and benefits to these one hundred "key employees," including (i) a monthly incentive amount, which aggregates to a monthly cost of approximately \$261,000, (ii) a retention award if covered employees continue in the Debtors' employ through June 30, 2005, with an estimated aggregate payout on June 30, 2005 of \$1,843,000 and (iii) a severance component, by which covered employees are guaranteed a certain payout upon involuntary termination for reasons other than unsatisfactory performance, which has an approximate aggregate cost of \$3,686,000.

The amounts requested in the Motion – particularly with respect to senior management – are wildly excessive given the current position of these cases.

9. Pursuant to Paragraph 2 of the Cash Collateral Order, the Debtors may only use cash collateral to satisfy their ongoing business expenses in a manner consistent with the budget, as supplemented and extended by certain cash forecasts filed with the Cash Collateral Order. The amounts requested in the Motion to implement the Employee Retention Plan are not set forth in any budget submitted to the Steering Committee. Accordingly, the Steering Committee objects to the use of its cash collateral to fund the Employee Retention Plan.

10. The Steering Committee will supplement this Objection with a more complete objection prior to July 22, 2004.

WHEREFORE, for the reasons set forth herein, the Steering Committee respectfully requests that this Court (i) deny the Debtors' Motion, and (ii) grant the Steering Committee such other and further relief as is just.

Dated: New York, New York
July 7, 2004

DRUMMOND WOODSUM & MACMAHON

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-and -

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