

Hearing
Date: 07/28/04
Time: 11:00 a.m.
Place: Portland
Mode: Live

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE

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

**APPLICATION OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF
PEGASUS SATELLITE TELEVISION, INC., ET AL., FOR AN ORDER
AUTHORIZING THE RETENTION OF CAPITAL & TECHNOLOGY ADVISORS LLC,
AS FINANCIAL ADVISOR NUNC PRO TUNC TO JUNE 14, 2004**

The Official Committee of Unsecured Creditors (the “Committee”) of Pegasus Satellite Television, Inc., et al. (collectively, the “Debtors”) hereby submits this application (the “Application”) for an order, pursuant to sections 328(a) and 1103(a) of chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”), and Rule 2014 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) authorizing the Committee to retain and employ Capital & Technology Advisors LLC (“CTA”), pursuant to the terms of its engagement letter dated as of June 14, 2004 attached hereto as Exhibit A (the “Engagement Letter”)¹ as its financial advisor *nunc pro tunc* to June 14, 2004. In support of this Application, the Committee respectfully represents as follows:

Background

1. On June 2, 2004 (the “Petition Date”), each of the Debtors filed with this Court a voluntary petition for relief under chapter 11 of the Bankruptcy Code.

¹ All terms not otherwise defined herein shall have the meaning ascribe to them in the Engagement Letter.

2. Since the Petition Date, the Debtors have continued in possession of their property and have continued to operate and manage their businesses as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

3. On June 10, 2004, pursuant to section 1102 of the Bankruptcy Code, the United States Trustee appointed the Committee.² On June 14, 2004, the Committee selected CTA and Greenhill & Co., LLC (“Greenhill”) to serve as its financial advisors.³

Jurisdiction and Venue

4. This Court has jurisdiction over the Application pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). The statutory bases for the relief requested herein are sections 328(a) and 1103 of the Bankruptcy Code and Bankruptcy Rule 2014.

Retention of Capital & Technology Advisors LLC

a. Introduction

5. The Committee submits the Application because of its pressing and critical need to retain a financial advisor to advise the Committee with regard to the complex issues in these cases. The employment of a financial advisor in these cases is crucial to the Committee’s ability to, among other things, (i) evaluate and analyze the activities of the Debtors and (ii) work with the Debtors in maximizing the value of the Debtors’ businesses and assets. In cases such as these, in which the Debtors’ businesses are highly specialized and technical in nature, the employment of a financial advisor is appropriate and necessary to assist the Committee and its other professionals in performing its fiduciary duty to maximize the assets of the Debtors’ estates

² The Committee is comprised of the following entities: of the following entities: Wachovia Bank, NA, as Indenture Trustee; J.P. Morgan Trust Company, NA, as Indenture Trustee; HSBC Bank USA, as Indenture Trustee; D.E. Shaw Laminar Portfolios, LLC; Singer Children’s Management Trust and affiliates; LC Capital Master Fund, Ltd.; and Silver Point Capital and affiliates.

³ Contemporaneously herewith, the Committee is filing an application to retain Greenhill & Co., LLC.

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for the benefit of the unsecured creditors. As a result of the Committee's careful deliberations, the Committee believes that CTA's depth of industry experience with telecommunications and satellite services companies best serves the interests of the Committee and, by extension, the Debtors' unsecured creditors. The Committee has carefully tailored the scope and compensation of CTA's retention so that (i) the work performed by CTA will not be duplicative of the work performed by any other professionals retained by the Committee in these cases, and (ii) the Debtors' estates do not incur unnecessary costs as a result of the Committee's retention of both Greenhill and CTA.

6. The Committee has retained both CTA and Greenhill as its financial advisors because CTA has specific industry experience relating to the telecommunications and satellite services sectors, which are highly technical in nature at an operational level, and Greenhill has general financial expertise relating to the bankruptcy process and is uniquely able to provide restructuring financial advisory services to the Committee. The Committee submits that the employment of CTA, as an industry and technology advisor, and Greenhill, as an investment banking and restructuring financial advisor, is appropriate and necessary to assist the Committee and its professionals in these complex cases.

7. CTA, a Delaware limited liability company, is a restructuring advisory boutique specializing in the telecommunications sector. CTA and its affiliated entity Communication Technology Advisors LLC have provided and are providing financial, technical and operational advisory services to debtors and to creditor committees in Chapter 11 cases, including recent cases such as *RCN Corporation*, *Allegiance Telecom, Inc.*, *Leap Wireless International and Cricket Communications, Inc.*, *Focal Communications, Inc.*, *Motient Corporation*, *Globix Corporation* and *Neon Communications, Inc.* In addition to providing advisory services prior to and during a Chapter 11 case, CTA also provides post-restructuring consulting services,

including operational and merger and acquisition advice. CTA's senior staff is comprised of proven business leaders from several leading domestic and international telecommunications companies. These individuals have served in a variety of leadership capacities within these organizations, including Chief Executive Officer, Chief Operations Officer and Chief Financial Officer, as well as high level technical and operational capacities. This experience enables CTA to provide advice to creditor committees in all aspects of a debtor's business and operations. CTA's depth of experience makes it uniquely qualified to counsel creditors committee of telecommunications and satellite services companies in this difficult market.

8. Pursuant to the Engagement Letter, it is expected that CTA will provide the following services to the Committee:

- Analyze the Debtors' operations, service delivery and technological capabilities, each as it applies to the Debtors' current financial condition and its prospects for the Debtors' future performance;
- Conduct a detailed review of the Debtors' recent financial performance, business plan, marketing plan, revenue forecasts, capital program, management and competitive environment;
- Review and advise the Committee with respect to operating cash flow risks and opportunities. CTA will review current network architecture and broadcasting arrangements, market channel and product profitability, regulatory matters as they affect current and future operations. CTA will evaluate the potential free cash flow generators and associated timing;
- Assist and advise the Committee in connection with the Debtors' current contracts, both from a market level evaluation, and overall usefulness of such contracts in a restructured company;
- Provide input and overall evaluation of the Debtors' revised financial plan to be included in the Debtors' plan of reorganization;
- Assist and advise the Committee in the preparation and negotiation of any plan of reorganization proposed by the Debtors or developed by the Committee and other creditor constituencies of the Debtors; and
- Provide such other advice and assistance as may reasonably be requested by the Committee from time to time.

9. The Committee hereby requests that the Court approve CTA's retention *nunc pro tunc* to June 14, 2004. This is appropriate because, since that date, CTA has been providing critical services to the Committee, including reviewing extensive operating information, reviewing and analyzing various motions filed by the Debtors, meeting with the Debtors' management and their professionals, analyzing various issues confronting the Debtors and communicating with and advising the Committee regarding such matters. Based on the foregoing, the Committee believes that the retention of CTA *nunc pro tunc* to June 14, 2004 is appropriate.

b. The Terms of CTA's Engagement

10. As described more fully in the Engagement Letter, CTA will be entitled to receive, as compensation for its services, the following:

- A Monthly Fee of \$150,000;
- Upon the closing or consummation of a Restructuring, the Debtors shall pay CTA, in cash, a Transaction Fee equal to (A) the sum of (i) 75 basis points multiplied by the amount of the Aggregate Consideration between \$400 million and \$500 million plus (ii) 150 basis points multiplied by the amount of the Aggregate Consideration in excess of \$500 million less (B) an amount equal to 50% of the Monthly Advisory Fees in excess of \$1,350,000 received by CTA; and
- Reimbursement of all reasonable out-of-pocket expenses.

11. The Engagement Letter also provides that the Debtors shall indemnify and hold CTA harmless against any and all losses, claims, damages or liabilities in connection with the engagement, except to the extent they arise as a result of any gross negligence, willful misconduct, bad faith or self-dealing on the part of CTA in the performance of its services.

12. As described more fully in the Affidavit of Wayne Barr (the "Barr Affidavit") in Support of the Application, a copy of which is attached hereto as Exhibit B, the terms of the Engagement Letter are similar to the terms, both financial and otherwise, agreed to by CTA and

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other financial advisors and/or industry and technology advisors in similar engagements, both inside and outside of bankruptcy.

13. The terms of the Engagement Letter were heavily negotiated between the Committee and CTA, and reflect the extensive work to be performed by CTA and CTA's telecommunications and satellite services industries expertise.

*c. **The Application Should be Approved Pursuant to Section 328(a) of the Bankruptcy Code***

14. The Committee seeks to retain CTA pursuant to section 328(a) of the Bankruptcy Code. Section 328(a) provides, in part, that a committee, "with the court's approval, may employ or authorize the employment of a professional person under section. . . 1103. . . on any reasonable terms and conditions of employment, including a retainer. . . ." 11 U.S.C. §328(a). Section 328 reflects a significant departure from prior bankruptcy practice relating to the compensation of professionals, as it permits the compensation of professionals, including investment bankers and financial advisors, on more flexible terms that reflect the nature of their services and market conditions. As the Court of Appeals for the Fifth Circuit recognized in In re National Gypsum Co., 123 F.3d 861 (5th Cir. 1997) (citations omitted):

Prior to 1978, the most able professionals were often unwilling to work for bankruptcy estates where their compensation would be subject to the uncertainties of what a judge thought the work was worth after it had been done. That uncertainty continues under the present § 330 of the Bankruptcy Code, which provides that the court award to professional consultants reasonable compensation' based on relevant factors of time and comparable costs, etc. Under present § 328 the professional may avoid that uncertainty by obtaining court approval of compensation agreed to with the trustee (or debtor or committee).

15. Section 328(a) provides courts with flexibility to approve alternative fee structures to the customary hourly rate. The fee structure for this engagement is similar to fee agreements approved by bankruptcy courts throughout the United States under section 328(a).

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16. Pursuant to section 331 of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules for the United States Bankruptcy Court for the District of Maine (the “Local Rules”) and the Orders of this Court, CTA will apply to the Court for the interim and final allowance of compensation and reimbursement of expenses.

*d. **CTA is a Disinterested Party***

17. CTA’s compliance with the requirements of sections 326 and 504 of the Bankruptcy Code and Bankruptcy Rules 2014 and 2016 is set forth in greater detail in the Barr Affidavit.

18. As described in the Barr Affidavit, CTA does not represent any of the Debtors’ creditors or other parties to this proceeding, or their respective attorneys or accountants, in any matter which is adverse to the interests of any of the Debtors as debtors in possession, and CTA is a “disinterested person,” as defined in section 101(14) of the Bankruptcy Code. As further described in the Barr Affidavit, CTA does not hold any interest adverse to any of the Debtors or their estates in the matters upon which they are to be engaged herein.

Waiver of Memorandum of Law

19. This Application includes citations to the applicable authorities, and does not raise any novel issues of law. Accordingly, the Committee respectfully requests that this Court waive the requirement contained in Rule 9013-2 of the Local Rules that a separate memorandum of law be submitted, but the Committee reserves the right to file a brief in reply to any objection to this Application.

Prior Relief

20. No previous application for the relief requested herein has been made to this or any other court.

Notice

21. Notice of this Application has been provided to (i) the United States Trustee for the District of Maine, (ii) counsel to the Debtors, and (iii) those parties-in-interest who have filed a notice of appearance. The Committee submits that in light of this Court's Order Establishing Notice and Service Requirements in Debtors' Chapter 11 Cases dated June 7, 2004 and the nature of the relief requested, no further notice is required.

WHEREFORE, the Committee respectfully requests that this Court enter an Order substantially in the form submitted herewith approving the retention and employment of CTA as financial advisor to the Committee, *nunc pro tunc* to June 14, 2004, pursuant to sections 328(a) and 1103(a) of the Bankruptcy Code and granting such other relief as may be just and equitable.

Dated: New York, New York
July 12, 2004

**THE OFFICIAL COMMITTEE OF UNSECURED
CREDITORS OF PEGASUS SATELLITE
TELEVISION, INC., ET AL.**

By: Wachovia Bank, National Association, solely in
its capacity as Chair of the Committee and not in
its individual capacity,

By: /s/ Marion Stratakos
Name: Marion Stratakos

Capital & Technology Advisors LLC
11730 Plaza America Drive
Suite 330
Reston, Virginia 20190

As of June 10, 2004

The Official Committee of Unsecured Creditors
of Pegasus Satellite Television, Inc.
c/o Akin Gump Strauss Hauer & Feld LLP
590 Madison Avenue
New York, NY 10022

Re: Pegasus Satellite Television, Inc., et al.
Case No. 04-20878

Ladies and Gentlemen:

This letter confirms the terms under which the Official Committee of Unsecured Creditors of Pegasus Satellite Television, Inc. and certain of its subsidiaries and affiliates (the "Committee") has engaged Capital & Technology Advisors LLC ("C&TA") *nunc pro tunc* to June 10, 2004, to provide industry and technology advisory services to the Committee with respect to a possible Restructuring (as defined below) of Pegasus Satellite Television, Inc. and certain of its subsidiaries and affiliates (collectively, the "Company") and with respect to such other services as to which the Committee and C&TA may agree in writing during the term of this engagement. For purposes hereof, the term "Company" includes affiliates of the Company and any entity formed or invested in to consummate a Restructuring and/or Sale, and shall also include any successor to or assignee of all or substantially all of the assets and/or business of the Company, whether pursuant to a Plan (as defined below) or otherwise, unless otherwise agreed to by C&TA. If appropriate in connection with performing its services for the Committee hereunder, C&TA may utilize the services of one or more of its affiliates, in which case references herein to C&TA shall include such affiliates.

The Company has filed a petition under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code"). Upon approval by the bankruptcy court (the "Bankruptcy Court") having jurisdiction over the Company's chapter 11 case (the "Chapter 11 Case") of an application filed by the Committee in accordance with paragraph 13 hereof to retain C&TA in accordance with the terms of this Agreement, the Company, in its capacity as debtor in possession and representative of its chapter 11 estate (in such capacity, the "Estate") shall be responsible for the fees, costs and indemnification obligations contained in this Agreement. None of the Committee nor any of its members or representatives shall have any liability to or otherwise be responsible for making any payments to C&TA in connection with this Agreement.

1. Engagement. C&TA is being engaged to act as the industry and technology advisor to the Committee in connection with the Chapter 11 Case. As advisor to the Committee, C&TA will perform the following services and analyses as may be requested from time to time by the Committee:

- a) Analyze the Company's communications operations, service delivery and technological capabilities, each as it applies to the Company's current financial condition and its prospects for the Company's future performance;
- b) Conduct a detailed review of the Company's recent financial performance, business plan, marketing plan, revenue forecasts, capital program, management and competitive environment;
- c) Review and advise the Committee with respect to operating cash flow risks and opportunities. C&TA will review current network architecture and broadcasting arrangements, market channel and product profitability, regulatory matters as they affect current and future operations. C&TA will evaluate the potential free cash flow generators and associated timing;
- d) Assist and advise the Committee in connection with the Company's current contracts, both from a market level evaluation, and overall usefulness of such contracts in a restructured company;
- e) Provide input and overall evaluation of the Company's revised financial plan to be included in the Company's plan of reorganization;
- f) Assist and advise the Committee in the preparation and negotiation of any plan of reorganization proposed by the Company or developed by the Committee and other creditor constituencies of the Company; and
- g) Provide such other advice and assistance as may reasonably be requested by the Committee from time to time

C&TA will coordinate with Greenhill & Co., LLC ("Greenhill") and the Committee to take all steps necessary to prevent unnecessary duplication or overlap of efforts by C&TA and Greenhill.

2. Fees and Expenses. C&TA's compensation for services rendered under this Agreement will consist of the following cash fees:

a. Monthly Advisory Fee. A monthly advisory fee of \$150,000 (the "Monthly Advisory Fee"). which shall be due and paid by the Estate beginning 1 month after the date of execution of this Agreement, and thereafter on each monthly anniversary thereof during the term of this engagement in accordance with the procedures approved by the Bankruptcy Court for the interim and final compensation of professionals in the Chapter 11 Case, as such procedures apply to C&TA.

b. Transaction Fee. If a transaction involving a Restructuring or Sale is consummated, an additional fee (the "Transaction Fee"), payable by the Estate on the closing of the transaction in accordance with the procedures approved by the Bankruptcy Court for the interim and final compensation of professionals in the Chapter 11 Case, as such procedures apply to C&TA, equal to (A) the sum of (i) 75 basis points multiplied by the amount of the Unsecured Creditors' Recovery (as defined below) between \$400 million and \$500 million plus (ii) 150 basis points multiplied by the amount of the Unsecured Creditors' Recovery in excess of \$500 million less (B) an amount equal to 50% Monthly Advisory Fees in excess of \$1,350,000 received by C&TA. The Transaction Fee shall be payable to C&TA on the closing of the transaction in accordance with the provisions of this paragraph 2.b so long as the Transaction is closed during the term of C&TA's engagement by the Committee or within twelve months following the termination of such engagement.

"Unsecured Creditors' Recovery" shall be equal to the fair market value of all cash and/or other securities to be received as a result of a Restructuring or Sale by the unsecured creditors of the Company and its subsidiaries.

For purposes of this Agreement, the term "Restructuring" shall mean any recapitalization or restructuring (including, without limitation, through any exchange, conversion, cancellation, forgiveness, retirement, refinancing, repurchase and/or a material modification or amendment to the terms, conditions or covenants) of the Company's equity and/or debt securities and/or other indebtedness, obligations or liabilities (including, without limitation, preferred stock, partnership interests, lease obligations, trade credit facilities and other contract or tort obligations), including pursuant to a Plan or a solicitation of consents, waivers, acceptances or authorizations.

For purposes of this Agreement, the term "Sale" shall mean the disposition to one or more third parties (including affiliates of the Company) in one transaction or a series of related transactions of (x) substantially all or a significant portion of the equity securities of the Company, or (y) substantially all or a significant portion of the assets (including the assignment of any executory contracts) or operations of the Company or its subsidiaries, in either case, including through a sale or exchange of capital stock, options or assets, a lease of assets with or without a purchase option, a merger, consolidation or other business combination, an exchange or tender offer, a recapitalization, the formation of a joint venture, partnership or similar entity, or any similar transaction.

3. Out-of-Pocket Expenses. In addition to any fees payable by the Estate to C&TA hereunder, the Estate shall, whether or not any transaction contemplated by this Agreement shall be proposed or consummated, reimburse C&TA on a monthly basis in accordance with the procedures approved by the Bankruptcy Court for the reimbursement of expenses of professionals in the Chapter 11 Case, as such procedures apply to C&TA, for its travel and other reasonable out-of-pocket expenses (including all fees, disbursements and other charges of counsel to be retained by C&TA, and of other consultants and advisors retained by C&TA with the Committee's consent) incurred in connection with, or arising out of C&TA's activities under or contemplated by this

engagement. The Estate shall also reimburse C&TA, at such times as C&TA shall request, for any sales, use or similar taxes (including additions to such taxes, if any) arising in connection with any matter referred to or contemplated by this engagement. All such reimbursement shall be made promptly upon submission by C&TA of statements for such expenses in accordance with the appropriate fee application procedure.

4 Recognition of Fee Structure. C&TA and the Committee acknowledge and agree that the hours worked, the results achieved and the ultimate benefit to the parties represented by the Committee of the work performed, in each case, in connection with this engagement, may be variable, and that the Committee and C&TA have taken this into account in setting the fees hereunder. No fee payable to any other Person by the Committee, the Estate or any other party, shall affect any fee payable to C&TA hereunder.

5 Information. The Committee understands that C&TA will not be responsible for independently verifying the accuracy of the information provided to it by the Company and its advisors (the "Evaluation Material") and shall not be liable for inaccuracies in any Evaluation Material provided to C&TA.

6 Confidentiality. In connection with this engagement, C&TA shall keep confidential and use solely in its capacity as an advisor to the Committee all information provided to it by the Company and the Committee and each of their agents (other than information that (i) is or becomes generally available to the public other than as a result of a disclosure by C&TA or any of its partners, directors, officers, employees or agents, or (ii) becomes available to C&TA on a non-confidential basis from a source other than the Company or the Committee, or any of their directors, officers, members, employees, agents or advisors, provided that such source is not actually known by C&TA to be bound by a confidentiality agreement with, or fiduciary or other obligations of secrecy to, the Company or the Committee), and shall not disclose such information to parties other than the Committee and its agents except with the approval of the Company or the Committee (as the case may be), except to the extent required by law or administrative or regulatory process (in which case C&TA will promptly advise the Company or the Committee (as the case may be) prior to such disclosure, so the Company or the Committee may with C&TA's cooperation, but at no cost to C&TA, pursue such course of action as it deems fit).

7. Independent Contractor. C&TA has been retained under this Agreement as an independent contractor with no fiduciary or agency relationship to the Company, the Estate or to any other party other than the Committee. The advice (oral or written) rendered by C&TA pursuant to this Agreement is intended solely for the benefit and use of the Committee in considering the matters to which this Agreement relates, and the Committee agrees that such advice may not be relied upon by any other person or entity, used for any other purpose or reproduced, disseminated, quoted or referred to at any time, in any manner for any purpose, nor shall any public references to C&TA be made by the Committee, without the prior written consent of C&TA and the Committee.

8. Indemnification. The Estate shall indemnify C&TA and certain related persons in accordance with the indemnification provisions ("Indemnification Provisions") attached to this Agreement. Such Indemnification Provisions are an integral part of this Agreement, and the terms thereof are incorporated by reference herein. Such Indemnification Provisions shall survive any termination or completion of C&TA 's engagement hereunder.

9. Limitation of Liability. The Committee agrees and any order entered by the Bankruptcy Court authorizing the Committee's retention of C&TA shall provide that none of C&TA, its affiliates or their respective directors, officers, agents, employees and controlling persons, or any of their respective successors or assigns ("Covered Persons") shall have any liability to the Committee, the Company or the Estate for or in connection with this engagement or any transactions or conduct in connection therewith except for losses, claims, damages, liabilities or expenses incurred by the Committee, the Company or the Estate which are finally judicially determined to have resulted primarily from the gross negligence or willful misconduct of such Covered Person. The obligations of C&TA are solely obligations of a limited liability company, and no officer, director, employee, agent, member, manager or controlling person of C&TA shall be subjected to any personal liability whatsoever to any person, nor will any such claim be asserted by or on behalf of any other party to this Agreement or any person relying on the services provided hereunder.

10. Entire Agreement. This Agreement represents the entire agreement between the parties with respect to the subject matter hereof and may not be modified, except in writing signed by both parties. This Agreement may be executed in counterparts, each of which shall constitute an original. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision.

11. Termination. This Agreement and C&TA's engagement hereunder may be terminated by either the Committee or C&TA at any time, upon 30 days prior written notice thereof to the other party, provided, however, that (a) termination of C&TA 's engagement hereunder shall not affect the Company's continuing obligation to indemnify C&TA and certain related persons as provided for in this Agreement, and the Committee's and the Estate's continuing obligations and, as applicable, agreements under paragraphs 6, 7, 9, 12, 14 and 15 hereof, (b) notwithstanding any such termination, C&TA shall be entitled to the full fees in the amounts and at the times provided for in paragraph 2 hereof, and (c) any termination of C&TA's engagement hereunder shall not affect the Estate's obligation to reimburse expenses incurred prior to such termination to the extent provided in paragraph 3 hereof.

12. Authority. Each party hereto represents and warrants that it has all requisite power and authority to enter into this Agreement and the transactions contemplated hereby. Each party hereto further represents and warrants that this Agreement has been duly and validly authorized by all necessary action on the part of C&TA and the Committee and has been duly executed and delivered by C&TA and the

Committee and, upon Bankruptcy Court approval, shall constitute a legal, valid and binding Agreement of C&TA, the Committee and the Estate, enforceable in accordance with its terms..

13. pkrr vy CO=pprovs1. The provisions of this Agreement are subject to the entry of an order of the Bankruptcy Court approving the retention of C&TA pursuant to the terms hereof **The Committee shall use best efforts to obtain prompt authorization** of the retention of C&TA, *nunc pro tune* to June 10, 2004, on the terms and provision in this Agreement pursuant to sections 328(a) and 1103 of the Bankruptcy Code. The order approving this Agreement and authorizing retention shall be acceptable to C&TA in its reasonable discretion.

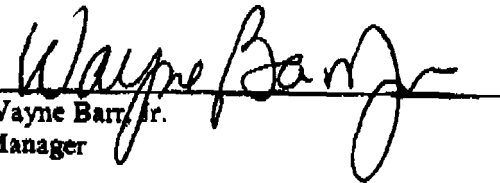
14. pac sort an | A g This Agreement shall be binding upon C&fA, the Committee, the Company and the Estate and their respective successors and assigns. This Agreement is not intended to confer any rights upon any person or entity not a party hereto other than the Indemnified persons referenced in the Indemnification Provisions contained herein, the Covered Persons referenced above, and the Company and the Estate, as applicable.

15. Choice of Law~Jurisdiction. This Agreement shall be deemed to be made in New York. This Agreement and all controversies arising from or relating to performance of this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of New York without giving effect to such state's rules concerning conflicts of laws that might provide for any other choice of law. Any disputes concerning this Agreement shall be finally resolved by the Bankruptcy Court. **ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY CLAIM OR ACTION ARISING OUT OF THIS AGREEMENT OR CONDUCT IN CONNECTION WITH THE FINANCIAL ADVISOR'S ENGAGEMENT IS HEREBY WAIVED.**

If this letter does agreeably set forth the terms and conditions of the subject matter hereof, please so indicate by signing a copy of this Agreement and returning it to C&TA.

Very truly yours,

Capital & Technology Advisors LLC

By: 
Wayne Barr, Jr.
Manager

Agreed to and accepted as of the 10th day of June, 2004.

**OFFICIAL COMMITTEE OF UNSECURED
CREDITORS**

By
Name:

Title: Chairman of the Official Committee
of Unsecured Creditors

INDEMNIFICATION PROVISIONS

In connection with the engagement of Capital & Technology Advisors LLC ("C&TA") as industry and technology advisor to the Committee, Pegasus Satellite Television, Inc. and its debtor affiliates (collectively, the "Debtors"), shall indemnify and hold harmless C&TA and its affiliates, their respective directors, officers, agents, attorneys, employees and controlling persons, and each of their respective successors and assigns (collectively, the "Indemnified Persons"), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them which (A) are related to or arise out of (i) actions or alleged actions taken or omitted to be taken (including any untrue statements made or any statements omitted to be made) by the Debtors, or (ii) actions or alleged actions taken or omitted to be taken by an Indemnified Person with any Debtor's consent or in conformity with any Debtor's actions or omissions, or (B) are otherwise related to or arise out of C&TA's activities under C&TA's engagement by the Committee. The Debtors shall not be responsible, however, for any losses, claims, damages, liabilities or expenses which are finally judicially determined to have resulted primarily from the gross negligence or willful misconduct of the person seeking indemnification hereunder.

After receipt by an Indemnified Person of notice of any complaint or the commencement of any action or proceeding with respect to which indemnification is being sought hereunder, such person will notify the Debtors and the Committee in writing of such complaint or of the commencement of such action or proceeding, but failure so to notify the Debtors or the Committee (a) shall not relieve the Debtors from any liability which the Debtors may have hereunder unless and only if to the extent that such failure results in the forfeiture by the Debtors of substantial rights and defenses, and (b) shall not in any event relieve the Debtors from any other obligation or liability that the Debtors may have to any Indemnified Person otherwise than under these indemnification provisions. If the Debtors so elect or are requested by such Indemnified Person, the Debtors shall assume the defense of such action or proceeding, including the employment of counsel reasonably satisfactory to C&TA and the payment of the fees and disbursements of such counsel. In the event, however, such Indemnified Person reasonably determines in its judgment that having common counsel would present such counsel with a conflict of interest or if the defendants in, or targets of, any such action or proceeding include both an Indemnified Person and the Debtors, and such Indemnified Person reasonably concludes that there may be legal defenses available to it or other Indemnified Persons that are different from or in addition to those available to the Debtors, or if the Debtors fail to assume the defense of the action or proceeding or to employ counsel reasonably satisfactory to such Indemnified Person, in either case in a timely manner, then such Indemnified Person may employ separate counsel to represent or defend it in any such action or proceeding and the Debtors shall pay the fees and disbursements of such counsel; provided, however, that the Debtors will not be required to pay the fees and disbursements of more than one separate counsel (in addition to local counsel) for all Indemnified Persons in any jurisdiction in any single action or proceeding. In any action or proceeding the defense of which the Debtors assume the Indemnified Person will have the right to participate in such litigation and to retain its own counsel at such Indemnified Person's own expense. The Debtors shall not, without the prior written consent of C&TA

and prior written notice to the Committee, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not C&TA or any other Indemnified Person is an actual or potential party to such claim, action, suit or proceeding) unless such settlement, compromise or consent includes an unconditional release of C&TA, and each other Indemnified Person hereunder from all liability arising out of such claim, action, suit or proceeding without payment by the Debtors.

If any indemnification sought by an Indemnified Person pursuant to these indemnification provisions is held by a court to be unavailable for any reason other than as specified in the second sentence of the first paragraph of these indemnification provisions, then (whether or not C&TA is the Indemnified Person), the Debtors and C&TA shall contribute to the losses, claims, damages, liabilities and expenses for which such indemnification is held unavailable (i) in such proportion as is appropriate to reflect the relative benefits to the Debtors and/or the Committee, on the one hand, and C&TA, on the other hand, in connection with C&TA's engagement referred to above, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i), but also the relative fault of the Debtors, on the one hand, and C&TA, on the other hand, as well as any other relevant equitable considerations; provided however, that in any event the aggregate contribution of all Indemnified Persons, including C&TA, to all losses, claims, damages, liabilities and expenses with respect to which contribution is available hereunder will not exceed the amount of fees actually received by C&TA pursuant to C&TA's engagement referred to above. For purposes of this paragraph, the relative benefits to the Debtors and/or the Committee, on the one hand, and C&TA, on the other hand, with respect to C&TA's engagement shall be deemed to be in the same proportion as (i) the total value paid or proposed to be paid or received by the Debtors or our members, stockholders, claims holders or contract parties, as the case may be, pursuant to the transaction, whether or not consummated, for which C&TA is engaged to render financial advisory services, bears to (ii) the fee paid or proposed to be paid to C&TA in connection with such engagement. Contribution pursuant to this paragraph shall not be determined by pro rata allocation or by any other method which does not take into account the considerations referred to in this paragraph.

The Debtors shall promptly reimburse C&TA and any other Indemnified Person hereunder for all expenses (including fees and disbursements of counsel) as they are incurred by C&TA or such other Indemnified Person in connection with investigating, preparing for or defending, or providing evidence in, any pending or threatened action, claim, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not C&TA or any other Indemnified Person is a party) and in enforcing these indemnification provisions.

The Debtors' indemnity, contribution, reimbursement and other obligations under these indemnification provisions shall be in addition to any liability that the Debtors may otherwise have, at common law or otherwise, and shall be binding on the Debtors' successors and assigns.

Solely for purposes of enforcing these indemnification provisions, the Debtors shall be deemed to have consented to personal jurisdiction, service and venue in any court in which any claim or proceeding which is subject to, or which may give rise to a claim for indemnification or contribution under, these indemnification provisions is brought against C&TA or any other Indemnified Person.

These indemnifications provisions shall apply to the above-mentioned engagement, activities relating to the engagement occurring prior to the date hereof, and any subsequent modification of or amendment to such engagement, and shall remain in full force and effect following the completion or termination of C&TA's engagement.

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE**

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

**AFFIDAVIT OF WAYNE BARB, JR IN SUPPORT OF
APPLICATION OF THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS FOR AN ORDER AUTHORIZING
THE EMPLOYMENT OF CAPITAL & TECHNOLOGY ADVISORS LLC,
AS FINANCIAL ADVISOR *nunc pro tunc* TO JUNE 14, 2004.**

STATE OF NEW YORK)

SS

COUNTY OF ALBANY

Pursuant to Rule 2014(a) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), and Rule 2014-1 of the Local Rules for the United States Bankruptcy Court for the District of Maine (the "Local Rules"), Wayne Barr, Jr., being duly sworn, deposes and says:

1. I am a Managing Director of Capital & Technology Advisors LLC ("CTA"), and am duly authorized to execute this Affidavit on behalf of CTA. I make this Affidavit in support of the Application of the Official Committee of Unsecured Creditors (the "Committee") for an Order Authorizing the Employment of CTA, as financial Advisor, *nunc pro tunc* to June 14, 2004 (the "Application"). I am familiar with the matters set forth herein and, if called as a witness, I could and would testify thereto. Unless otherwise defined herein, all capitalized terms used herein have the meanings ascribed to them in the Application.

2. CTA, a Delaware limited liability company, is a restructuring advisory boutique specializing in the telecommunications sector. CTA and its affiliated entity, Communication Technology Advisors LLC, have provided and are providing financial, technical and operational advisory services to debtors and to creditor committees in Chapter 11 cases, including recent cases such as *RCN Corporation*, *Allegiance Telecom, Inc.*, *Leap Wireless International and Cricket Communications, Inc.*, *Focal Communications, Inc.*, *Motient Corporation*, *Globix Corporation* and *Neon Communications, Inc.* In addition to providing advisory services prior to and during a Chapter 11 case, CTA also provides post-restructuring consulting services, including operational and merger and acquisition advice. CTA's senior staff is comprised of proven business leaders from several leading domestic and international telecommunications companies_ These individuals have served in a variety of leadership capacities within these organizations, including Chief Executive Officer, Chief Operations Officer and Chief Financial Officer, as well as high level technical and operational capacities. This experience enables CTA to provide advice to creditor committees in all aspects of a debtor's business and operations. CTA's depth of experience makes it uniquely qualified to counsel creditor committees of telecommunications and satellite services companies in this difficult market.

3. CTA has agreed to provide financial advisory services to the Committee in the above-captioned chapter 11 cases, pursuant to the terms and conditions of the Engagement Letter dated as of June 14, 2004, between the Committee and CTA (the "Engagement Letter"). A copy of the Engagement Letter is attached to the Application as Exhibit A. No agreement exists to share any compensation received by CTA for its services with any person or firm.

4. The terms and conditions of the Engagement Letter were heavily negotiated between the Committee and CTA, and reflect the parties' mutual agreement as to the substantial

efforts that will be required in this engagement. As is customary in similar engagements, both in and outside of bankruptcy, the Engagement Letter provides for CTA to receive a Monthly Fee and a Transaction Fee. Taking into account the highly complex nature of this engagement, the terms contained in the Engagement Letter are similar to the terms agreed to by CTA and other financial advisory firms in similar restructuring engagements, both in and outside of bankruptcy.

5. CTA is a "disinterested person" as that term is defined in section 101(14) of chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in that CTA:

- is not a creditor, equity security holder or insider of the Debtors;
- is not and was not an investment banker for any outstanding security of the Debtors;
- has not been, within three (3) years before the date of the filing of the Debtors' chapter 11 petition, (i) an investment banker for a security of the Debtors, or (ii) an attorney for such an investment banker in connection with the offer, sale, or issuance of a security of the Debtors; and
- is not and, was not, within two (2) years before the date of the filing of the Debtors' chapter 11 petition, a director, officer, or employee of the Debtors or of any investment banker as specified in subparagraph (b) or (c) of this paragraph.

6. Moreover, to the best of my knowledge, information and belief formed after reasonable inquiry, CTA and its affiliates, professionals and employees have no materially adverse interest to the Debtors' estates or the creditors in these cases.

7. To determine its relationship with the parties-in-interest in these cases, CTA researched its client databases as to the following individuals and entities (collectively, the "Interested Parties"), that were identified to CTA by the Debtors and counsel to the Committee:

- the Debtors and their non-Debtor affiliates;
- the former corporate names of the Debtors and their non-Debtor affiliates;
- current officers and directors of the Debtors and their non-Debtor affiliates;

- business affiliations of the current directors and officers of the Debtors and their non-Debtor affiliates;
- senior secured lenders/holders of secured debt;
- indenture or collateral trustees or former indenture trustees;
- material bondholders;
- the largest unsecured creditors of each of the Debtors;
- the attorneys and other professionals of the Debtors;
- the prepetition lenders and landlords of the Debtors;
- 5% shareholders of the Debtors; and
- other potentially adverse parties.

8. This research confirmed that CTA has no materially adverse interest to the Debtors' estates or the creditors in these cases. CTA's research of its relationships with the Interested Parties indicated that during the past three years CTA has provided or is providing services, or has a financial relationship to certain entities in matters unrelated to these cases, and CTA has so indicated on the attached Schedule 1. Of those parties listed on Schedule 1, no party accounted for more than 1% of CTA's revenues for 2003_

9. In addition, and by way of supplemental disclosure:

- From time to time, CTA has provided services, and likely will continue to provide services, to certain creditors of the Debtors and various other parties adverse to the Debtors in matters unrelated to these chapter 11 cases. As described above, however, CTA has undertaken a detailed search to determine, and to disclose, whether it has been employed by any significant creditors (including banks), equity security holders, insiders or other parties-in-interest in such unrelated matters;
- CTA provides services in connection with numerous cases, proceedings and transactions unrelated to these chapter 11 cases, including representing debtors and creditors' committees in chapter 11 proceedings and in out-of-court restructurings. As further described in paragraph 2 of this Affidavit, CTA is involved in a number of restructuring engagements in the telecommunication/media industry. All of these matters involve numerous attorneys, professionals and creditors, some of whom are, or may be, attorneys, professionals and creditors of 'the Debtors in these chapter 11 cases;
- CTA personnel may have business associations with certain creditors of the Debtors unrelated to these chapter 11 cases. In addition, in the ordinary course of its business, CTA will work with and engage counsel or

other professionals in unrelated matters who now represent, or in the future may represent, creditors or other interested parties in these chapter 11 cases;

- CTA has clients, past and present, who are located throughout the United States, Asia, Europe and South America, in a variety of industries. While CTA has not advised any of these parties in connection with these chapter 11 cases, it is possible that certain of these parties, their creditors and the related professionals may have some relationship to the Debtors or their creditors in these cases; and
- CTA and its affiliates have approximately 15 employees, some of whom may have personal investments in the Debtors. CTA has placed the Debtors on their "restricted list", which precludes any employee from trading in the securities of the Debtors.

10. To the extent I discover any facts bearing on the matters described herein during the period of CTA's retention, I will supplement the information contained in this Affidavit. The Debtors commenced their chapter 11 cases before the Engagement Letter was executed. CTA is not a prepetition creditor of the Debtors.

11. CTA will apply to the Court for payment of compensation and reimbursement of expenses in accordance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules and the Engagement Letter, and pursuant to any additional procedures that may be established by the Court in these cases.

Dated: July 13, 2004

/s/ Wayne Barry

Sworn to and subscribed to before me on this 13th day of July 2004.

Karen L. Armsby

KAREN L. ARMSBY
Notary Public, State of New York
Qualified in Rensselaer County
No. 01AR6001230
Commission Expires Jan. 5, 2006

SCHEDULE I**PEGASUS SATELLITE TELEVISION, INC., ET AL.****Parties To Whom CTA Has Provided Services**

While CTA has not provided services to any of the Interested Parties, CTA points out that its affiliated entity, Communication Technology Advisors LLC, has acted and continues to act as the financial advisor to the *ad hoc* Committee of Vendor Debtholders of Cricket Communications, Inc. in connection with the chapter 11 case captioned *In re Leap Wireless International, Inc. and Cricket Communications, Inc., et al.*, Case No.: 03-3470-All, - 03-3535-All, United States Bankruptcy Court, Southern District of California. An affiliate of Highland Legacy Limited, Highland Loan Funding V Ltd, and Highland Offshore Partners LP is a member of such *ad hoc* committee. Communication Technology Advisors LLC has received more than 1% of its 2003 revenue from such engagement.

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE**

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

**NOTICE OF HEARING ON APPLICATION OF THE OFFICIAL
COMMITTEE OF UNSECURED CREDITORS OF PEGASUS SATELLITE
TELEVISION, INC. ET AL., FOR AN ORDER AUTHORIZING THE RETENTION OF
CAPITAL & TECHNOLOGY ADVISORS LLC, AS FINANCIAL ADVISOR
NUNC PRO TUNC TO JUNE 14, 2004**

The Official Committee of Unsecured Creditors has filed with the Bankruptcy Court an Application to Employ Capital & Technology Advisors LLC as Financial Advisor *Nunc Pro Tunc* to June 14, 2004 (the "Application"). A hearing on the Application will be held on July 28, 2004 at 11:00 a.m.

Your rights may be affected. You should read the Application carefully and discuss it with your attorney, if you have one in this bankruptcy case. (If you do not have an attorney, you may wish to consult one.)

If you do not want the Bankruptcy Court to grant the relief requested in the Application, or if you want the Bankruptcy Court to consider your views on the Application, then:

On or before July 23, 2004, you or your attorney must file with the Bankruptcy Court a written objection or response explaining your position at:

United States Bankruptcy Court
Attn: Celia Strickler, Clerk
537 Congress Street
P.O. Box 17575
Portland, ME 04112-8575

You must also provide copies to the parties listed in **Exhibit A** hereto.

You must attend the hearing scheduled to be held on July 28, 2004 at 11:00 a.m. at the U.S. Bankruptcy Court, 537 Congress Street, 2nd Floor, Portland, ME 04101.

If you or your attorney does not take these steps, the Bankruptcy Court may decide that you do not oppose the relief requested in the Application and may enter an order granting that relief.

DATED: Portland, Maine
July 13, 2004

/s/ Jacob A. Manheimer

Jacob A. Manheimer

Co-Counsel to the Official Committee of
Unsecured Creditors

PIERCE ATWOOD

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EXHIBIT A

CORE GROUP SERVICE LIST

COMMITTEE OF UNSECURED CREDITORS

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<p>HSBC Bank USA c/o Ms. Sandra E. Horwitz, VP 452 Fifth Avenue New York, NY 10018-2706 dusdock@kelleydrye.com sandra.e.horwitz@us.hsbc.com</p>	<p>Silver Point Capital and Affiliates Claim J. Fortgang Fortgang Consulting LLC 600 Steamboat Road Greenwich, CT 06830 cfortgang@fortgagnllc.com</p>
<p>LC Capital Master Fund, Ltd. c/o Steve Lampe 680 Fifth Avenue, Suite 1202 New York, NY 10019-5429 lampe@lampeconway.com</p>	<p>D.E. Shaw Laminar Portfolios, LLC c/o Max Holmes 120 West 45th Street New York, NY 10036 khenderson@deshaw.com</p>
<p>Singer Childrens Management Trust and Affiliates c/o Gary Singer 113 Jackson Drive Cresskill, NJ 07626 gary@pure1.com</p>	<p>David Botter, Esq. Akin Gump Strauss Hauer Feld LLP 590 Madison Avenue New York, New York 10022 dbotter@akingump.com</p>
<p>Jacob A. Manheimer Pierce Atwood One Monument Square Portland, ME 04101 jmanheimer@pierceatwood.com</p>	

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