

Hearing Date: September 23, 2004
Hearing Time: 10:30 a.m.
Objection Deadline: September 17, 2004 at 4:00 p.m.
PORTLAND

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE

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

**DEBTORS' MOTION FOR AN ORDER PURSUANT TO 11 U.S.C. § 1121(d)
EXTENDING DEBTORS' EXCLUSIVE PERIODS IN WHICH TO FILE
A CHAPTER 11 PLAN AND TO SOLICIT ACCEPTANCES THERETO
WITH INCORPORATED NARRATIVE REPORT UNDER D. ME. LBR 3016-2**

Pegasus Satellite Television, Inc., and certain of its subsidiaries and affiliates, each a debtor or debtor in possession in the above-captioned cases (collectively, the "Debtors"),¹ hereby file this motion (the "Motion") requesting entry of an order, pursuant to section 1121(d) of title 11 of the United States Code (the "Bankruptcy Code") and D. Me. LBR 3016-2, extending their exclusive periods in which to file a chapter 11 plan or plans of reorganization and to solicit acceptances of such plan or plans. In support of this Motion, the Debtors respectfully state as follows:

STATUS OF THE CASE AND JURISDICTION

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 (the

¹ The Debtors are: Argos Support Services Company, Bride Communications, Inc., B.T. Broadcast, 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 Broadcast Communications, Inc., Pegasus Broadcast Television of Illinois, Inc., Pegasus Broadcast Television, Inc., Portland Broadcasting, Inc., Primewatch, Inc., PST Holdings, Inc.,

“Bankruptcy Code”). On the Petition Date, the Debtors also jointly filed motions or applications seeking certain typical “first day” orders, including an order to have these cases jointly administered.

2. The Debtors are continuing in possession of their properties and are operating and maintaining their businesses as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

3. On June 10, 2004, the United States Trustee for the District of Maine appointed an official committee of unsecured creditors pursuant to section 1102(a) of the Bankruptcy Code (the “Committee”).

4. No request has been made for the appointment of a trustee or examiner in these cases.

5. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A). Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicates for the relief sought herein are sections 105(a) and 1121(d) of the Bankruptcy Code and D. Me. LBR 3016-2.

BACKGROUND TO THE DEBTORS

6. As of the Petition Date, Pegasus Satellite Television, Inc. (“PST”), together with its subsidiaries, was the nation’s largest independent provider of DIRECTV® programming. Organized in 1996 as a Delaware corporation, PST is headquartered in Marlborough, Massachusetts. PST is a wholly owned indirect subsidiary of Pegasus Satellite Communications, Inc.

7. As of the Petition Date, the Debtors' principal operating business was its direct broadcast satellite ("DBS") business. Specifically, the Debtors provided DIRECTV programming services to rural households across the United States and, as of December 31, 2003, had in excess of 1.1 million subscribers and the exclusive right to distribute DIRECTV services to approximately 8.4 million rural households in certain territories within 41 states.

8. In addition to the Debtors' DBS business, Pegasus Broadcast Television, Inc. ("PBT"), together with its subsidiaries (collectively, the "Broadcast Debtors"),² are either owners or programmers of eight television stations affiliated with either CBS Television, Fox Broadcasting Company, United Paramount Network, or the WB Television Network.

9. As of March 31, 2004, the Debtors had assets aggregating approximately \$1.6 billion related to their DBS business, which generated net revenues of approximately \$831.2 million during calendar year 2003 and the Debtors had consolidated assets of approximately \$57 million related to their television broadcast business. As of the Petition Date, the Debtors had 942 employees.

THE EXCLUSIVE PERIODS

10. Section 1121(b) of the Bankruptcy Code provides for an initial period of 120 days after the commencement of a chapter 11 case during which a debtor has the exclusive right to file a plan of reorganization. Section 1121(c)(3) of the Bankruptcy Code provides that if the debtor files a plan within the 120-day exclusive period, it has an initial period of 180 days after the commencement of the chapter 11 case to obtain acceptance of such plan. The Debtors' initial exclusive periods in which to file a plan and solicit acceptances thereto under section 1121

² The Broadcast Debtors are Bride Communications, Inc., BT Satellite Inc., HMW, Inc., Pegasus Broadcast Associates, L.P., Pegasus Broadcast Television, Inc., Pegasus Broadcast Towers, Inc., Portland Broadcasting, Inc., Telecast of Florida, Inc., WDSI License Corp., WILF, Inc., WOLF License Corp., and WTLH License Corp.

of the Bankruptcy Code (the “Exclusive Periods”) expire, respectively, on September 30, 2004 and November 29, 2004.

RELIEF REQUESTED

11. By this Motion, the Debtors request, pursuant to Section 1121(d) of the Bankruptcy Code that (i) the Exclusive Period during which they have the exclusive right to file a plan or plans of reorganization be extended to and including November 30, 2004, and (ii) the Exclusive Period during which they have the exclusive right to solicit acceptances of a plan or plans be extended to and including January 30, 2005.

**SUFFICIENT CAUSE EXISTS TO
EXTEND THE DEBTORS’ EXCLUSIVE PERIODS**

12. In circumstances where the initial 120- and 180-day Exclusive Periods provided for in the Bankruptcy Code prove to be an unrealistic time frame within which the debtor may otherwise be forced to file a plan of reorganization, section 1121(d) of the Bankruptcy Code allows the Bankruptcy Court to extend the debtors’ exclusive periods:

On request of a party in interest made within the respective periods specified in subsections (b) and (c) of this section and after notice and a hearing, the court may for cause reduce or increase the 120-days period or the 180-day period referred to in this section.

11 U.S.C. § 1121(d).

13. The exclusive periods under section 1121(d) afford a debtor a full and fair opportunity to propose a consensual plan of reorganization and solicit acceptances of such plan without the deterioration and disruption of a debtor’s business that might be caused by the filing of competing plans of reorganization by non-debtor parties. The objective of a chapter 11 reorganization case is the negotiation, formulation, development, confirmation, and consummation of a consensual plan of reorganization, and it is the intention of the Debtors to achieve that objective.

14. The Debtors have taken several key steps towards a successful and consensual resolution of these chapter 11 cases. In particular, the Debtors have (i) negotiated and executed a global settlement agreement (the “Global Settlement”) to settle all litigation among the Debtors, DIRECTV, Inc. (“DIRECTV”) and the National Rural Telecommunications Cooperative (the “NRTC”); (ii) negotiated and executed an asset purchase agreement (the “Satellite Asset Purchase Agreement”), as part and parcel of the Global Settlement, which provides for the sale of substantially all of their DBS business to DIRECTV; and (iii) are in negotiations regarding the sale of substantially all of the assets of the Broadcast Debtors to Pegasus Communications Corporation (“PCC”), subject to higher and better offers, and to be memorialized in an asset purchase agreement (the “Broadcast Asset Purchase Agreement”) subject to Bankruptcy Court approval.

A. The Global Settlement

15. As this Court is aware, there had been extensive pre and post petition litigation among the Debtors, DIRECTV, and the NRTC. Since late June of 2004, the Debtors, PCC and other non-Debtor affiliates of the Debtors, the Committee, NRTC and DIRECTV engaged in extensive, arduous negotiations which culminated in the Global Settlement.

16. On August 26, 2004, this Court granted the Debtors’ Motion for Entry of an Order Pursuant to 11 U.S.C. §§ 105(a), 363 and 1146(c) and Bankruptcy Rule 9019 (I) Approving Global Settlement By and Among the Debtors and Debtors in Possession, Pegasus Communications Corporation and other non-Debtor Affiliates, DIRECTV, Inc., The DIRECTV Group, Inc., National Rural Telecommunications Cooperative, and the Official Committee of Unsecured Creditors, and (II) Authorizing and Approving in Connection Therewith a Sale, Transfer and Conveyance of Certain Assets of the Debtors to DIRECTV, Inc. (the “Global Settlement Motion”).

B. The Satellite Asset Purchase Agreement

17. In granting the Global Settlement Motion, the Court also approved a certain Asset Purchase Agreement, dated as of July 30, 2004 (the “Asset Purchase Agreement”), by and among PST, the other sellers therein, (each, a “Seller” and, collectively, the “Sellers”), and DIRECTV. The Asset Purchase Agreement provides that, among other things, DIRECTV shall purchase, acquire and accept from Sellers, and Sellers shall sell, transfer, assign, convey and deliver to DIRECTV, free and clear of all Liens (as defined therein), other than the Permitted Exceptions (as defined therein), all of Sellers’ right, title and interest in, to and under certain assets, properties and rights owned or held by any Seller on the Closing Date all relating to the Debtors’ DBS business (collectively, the “Satellite Assets”). The Closing Date occurred on August 27, 2004.

18. Under the terms of the Global Settlement and the Satellite Asset Purchase Agreement, the Debtors and DIRECTV also entered into a certain Cooperation Agreement dated as of July 30, 2004 (the “Cooperation Agreement”). The Cooperation Agreement provides for, inter alia, (i) the manner in which the Debtors will cooperate and assist with the transition of subscribers to DIRECTV, (ii) the undertaking of DIRECTV to reimburse certain costs incurred by the Debtors in connection with the transition, and (iii) the terms under which DIRECTV will provide DBS services to the Debtors after August 31, 2004. As more fully set forth in the Cooperation Agreement, working teams have been established to, among other things, develop a plan to migrate subscribers from the Debtors’ systems to DIRECTV’s systems and to develop a process to contact the Debtors’ dealers and distributors regarding this transition.

19. The Global Settlement, as approved by the Court (a) resolves virtually all litigation among the parties, (b) secures for the Debtors a purchase price of approximately \$938 million, subject to adjustments as provided in the Satellite Asset Purchase Agreement, in

connection with the release of litigation claims and the sale, transfer and conveyance of the Debtors' Satellite Assets to DIRECTV, and (c) preserves the Debtors' contingent right to receive up to approximately \$89 million in future patronage from the NRTC under specified circumstances.

C. The Broadcast Asset Purchase Agreement

20. In connection with the Global Settlement, the Committee and PCC have agreed in principle on a sale to PCC of the Debtors' broadcast television assets (the "Broadcast Assets") for a cash purchase price of \$75 million, subject to better and higher offers, with no break up fee (but reimbursement of out-of-pocket expenses, not to exceed \$1 million). This agreement provides the Debtors a clear path to completion of a plan of reorganization reasonably promptly following the sale of the Broadcast Assets. Because PCC is intimately familiar with these assets and has little timing risk on receiving required FCC approvals, PCC is well situated to provide the negotiated floor bid, subject to higher and better offers, which it has agreed to do without a break-up fee, as described above.

21. The Debtors anticipate in the next several weeks that the terms of the sale of the Broadcast Assets will be memorialized in the Broadcast Asset Purchase Agreement and that they will be filing a motion to (A) approve the form of Broadcast Asset Purchase Agreement with PCC, subject to higher and better offers; (B) approve certain bidding procedures; (C) schedule a hearing to consider approval of the sale of substantially all of the Debtors' Broadcast Television Assets; (D) approve the form and manner of notice of such auction and sale; (E) authorize the sale of substantially all of the Debtors' Broadcast Television Assets free and clear of all liens, claims, interests and encumbrances; and (F) related relief (the "Broadcast Sale Motion").

D. Employee Issues

22. One of the significant challenges that the Debtors have faced throughout the pendency of their chapter 11 cases has been dealing with employee unrest and declining employee morale in light of the tenuous circumstances in which the Debtors found themselves shortly after the Petition Date. Accordingly, senior management together with their attorneys and advisors have devoted significant time and energy into trying to incentivize employees to remain in the Debtors' employ. As this Court is aware, by Motion dated June 23, 2004 (the "Initial KERP Motion"), the Debtors requested implementation of an employee retention plan to provide a variety of incentives and benefits to certain of the Debtors' management employees who have responsibilities relating to the Debtors' DBS business.

23. The Initial KERP Motion was filed just two days after this Court denied the Debtors' request for a temporary restraining order against DIRECTV and the NRTC in the adversary proceeding that the Debtors had commenced against DIRECTV, the NRTC and other parties (the "Cornerstone Litigation"). Given the high stakes of the Cornerstone Litigation and the NRTC's purported notice of termination effective as of August 31, 2004, most employees believed that they would be out of work, at the latest, by the end of the summer.

24. Accordingly, the Debtors proposed an employee retention plan (the "Proposed KERP") which was designed to encourage the Debtors' management employees to continue their employment with the Debtors, maintain excellence in their work and preserve the value of the Debtors' estates. Almost immediately after the Debtors filed the Initial KERP Motion, the Debtors and the Committee began negotiations regarding the Proposed KERP and, by July 8th, were able to reach agreement on a scaled back version of the Proposed KERP that covered only certain junior management employees for a portion of the Proposed KERP.

25. In connection with the Global Settlement, the Debtors and Committee were able to reach agreement on the Proposed KERP with respect to the remaining facets of the program that had not been agreed to with respect to the junior management employees and with respect to all components of the Proposed KERP for certain senior management employees. That agreement was partially reflected in the Second Order Pursuant to 11 U.S.C. §§ 363(b) and 105(a) Authorizing and Approving Implementation of Management Retention Plan, as Further Modified signed by this Court on August 3, 2004.

26. The agreement reached with respect to a retention/incentive plan for Mr. Ted S. Lodge, President, Chief Operating Officer and Counsel for each of the Debtors is reflected in the Debtors' motion filed on August 27, 2004 seeking authorization and approval of a supplemental management retention plan.

E. Claims Process

27. Since the Petition Date, the Debtors together with their attorneys and advisors have worked diligently to analyze their books and records and address the numerous issues arising in connection with the preparation of the Debtors' Schedules of Assets and Liabilities and Statement of Financial Affairs (collectively, the "Schedules"). Such efforts have resulted in the timely filing of the Debtors' Schedules on August 16, 2004.³ Accordingly, the Debtors have accomplished the necessary first step in quantifying all potential liabilities.

28. In addition, on August 27, 2004, the Debtors filed a Motion for an Order pursuant to Bankruptcy Rule 3003(c)(3) establishing procedures for filing proofs of claim and approving the form and manner of notice to be sent to creditors and parties in interest advising them of the October 12, 2004 general bar date and the November 30, 2004 governmental bar date

³ Pursuant to an Order dated June 4, 2004, this Court had extended the Debtors time to file its Schedules for sixty days (for a total of seventy-five days) from the Petition Date.

(collectively, the “Bar Dates”) previously established in these cases (the “Bar Date Motion”). On September 1, 2004, the Court signed an order approving the Bar Date Motion (the “Bar Date Order”). The Debtors, with the help of their claims agent, The Trumbull Group, LLC, have sent notice of the Bar Dates and procedures for filing claims to creditors and parties in interest in accordance with the Bar Date Order. Additionally, the Debtors have arranged for a notice of the Bar Dates and procedures for filing claims to run in the national editions of The Wall Street Journal, The New York Times and USA Today on or about Thursday, September 9, 2004 in accordance with the Bar Date Order.

AUTHORITY AND NARRATIVE REQUIRED BY LOCAL RULE 3016-2

29. Governing law strongly supports the relief sought by the Debtors in this Motion. The legislative history of section 1121(d) reflects that Congress intended to provide for flexibility in the fixing of the exclusive periods:

In most cases, 120 days will give the debtor adequate time to negotiate a settlement, without unduly delaying creditors. The court is given the power, though, to increase . . . the 120 day period depending on the circumstances of the case. [T]he bill allows the flexibility for individual cases that is not available today.

H.R. Rep. No. 595, 95th Cong., 1st Sess. 232 (1977); see also In re Perkins, 71 B.R. 294, 297 (W.D. Tenn. 1987) (“the hallmark of [section 1121(d)] is flexibility”).

30. In this Circuit, the circumstances to be considered include: (i) the size and complexity of the case, (ii) the likelihood of an imminent consensual plan if the debtor retains exclusivity, (iii) the existence of alternative plans which would not be considered due to the existence of the debtor’s exclusivity, and (iv) a balancing of the rights of a debtor and its creditors. In re Public Service Co. of New Hampshire, 88 B.R. 521, 537 (Bankr. D.N.H. 1988). The large size of a debtor and the consequential difficulty in formulating a plan of reorganization for a sizeable debtor with a complex financial structure are important factors that play a

significant role in establishing cause for extending the exclusivity periods. In re Texaco Inc., 76 B.R. 322, 326 (Bankr. S.D.N.Y. 1987).

31. All such factors relevant to this case support the relief requested. Moreover, as required by Local Rule 3016-2, the Debtors' reasons for the requested extension of the Exclusive Periods are described above and summarized below.

32. The Debtors' cases are large and complex. There are twenty-eight (28) debtors in these procedurally consolidated chapter 11 cases. As noted above, as of March 31, 2004, the Debtors had assets in excess of \$1.6 billion and generated net revenues of approximately \$831.2 million during calendar year 2003.

33. The Debtors have not been dilatory in these cases. Rather, the Debtors have worked expeditiously to address the critical issues in these cases -- which issues have been complex and all-consuming to the Debtors. Indeed, as this Court is aware, since the Petition Date, the Debtors have been heavily engaged in litigation battling for their very survival. Nevertheless, the Debtors have simultaneously dealt with maintaining and retaining a stable work force as well as dealing with all of the business and operational issues that chapter 11 debtors typically face.

34. These efforts have culminated in the Global Settlement which resolves once and for all, all litigation between the Debtors, DIRECTV and the NRTC and realizes the highest possible value for the DBS business for the benefit of the Debtors and their estates. Without this critical element in place, it would not be possible for the Debtors to contemplate a confirmable chapter 11 plan.

35. Indeed, all of the Debtor's activities to date have been aimed at their ultimate goal, i.e., to propose a consensual plan of reorganization in these cases. While the

Debtors have made significant progress towards reaching that goal with the execution of the Global Settlement, Satellite Asset Purchase Agreement and Cooperation Agreement, additional time is still needed. Now that this Court has approved the Global Settlement Motion, the Debtors believe that they will be able to file a chapter 11 plan or plans and solicit acceptances thereto within the additional time frames requested by this Motion.

36. Accordingly, the chances of obtaining a consensual plan of reorganization will be decidedly increased if the Debtors are allowed the time to carry out their obligations under the Global Settlement, free from the distractions of a competing plan of reorganization. To deny such an extension of the Exclusive Periods before the Debtors have had a chance to do so would jeopardize the significant progress the Debtors have made to date, thereby defeating the very purpose of section 1121 of the Bankruptcy Code – to afford a debtor a meaningful and reasonable opportunity to negotiate with creditors and propose and confirm a consensual plan of reorganization.

37. The Debtors note that the relief requested has been granted to other debtors in this Circuit in significantly smaller and less complex cases. See, e.g. In re Bookland of Maine, Case No. 00-20605 (Bankr. D. Me., order entered August 25, 2000) (granting 120 day extension); In re ACT Manufacturing, Inc., Case No. 01-47641 (Bankr. D. Mass., order entered April 24, 2002) (granting 120 day extension); In re Malden Mills Industries, Inc., Case No. 01-47214 (Bankr. D. Mass. order entered March 20, 2002) (granting 180 day extension); In re Filene's Basement, Inc., Case No. 99-16984 (Bankr. D. Mass., order entered December 2, 1999) (granting 120 day extension).

38. The requested extension of the Exclusive Periods will not prejudice the legitimate interests of any creditor or equity security holder, and will afford the parties the

opportunity to pursue to fruition the beneficial objectives of a consensual plan of reorganization. Indeed, the Debtors have discussed this motion with the Committee, and are advised that they have no objection to the requested extensions. Accordingly, the requested extension of the Exclusive Periods is appropriate under the circumstances and the Debtors respectfully request that such relief be granted.

NOTICE

39. Notice of this Motion has been provided to each of the parties on the All Notices List (as defined therein) in accordance with the Order Establishing Case Management Procedures and Hearing Schedule dated July 9, 2004.

NO PRIOR REQUEST

40. No previous request for the relief sought herein has been made by the Debtors to this or any other court.

WHEREFORE, the Debtors respectfully request that the Court enter an order: granting an extension of the Exclusive Periods (i) to and including November 30, 2004, during which time they will have the exclusive right to file a plan or plans of reorganization; and (ii) to and including January 30, 2005, during which time they will have the exclusive right to solicit acceptances of a plan or plans.

Dated: Portland, Maine
September 8, 2004

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UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE

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

NOTICE OF HEARING

PLEASE TAKE NOTICE that Pegasus Satellite Television, Inc. and certain of its subsidiaries and affiliates, each a debtor and debtor-in-possession herein (collectively, the “Debtors”),¹ have filed Debtors’ Motion for an Order Pursuant to 11 U.S.C. § 1121(d) Extending Debtors’ Exclusive Periods in Which to File a Chapter 11 Plan and to Solicit Acceptances Thereto With Incorporated Narrative Report Under D. Me. LBR 3016-2 (the “Motion”).

Your rights may be affected. You should read these papers carefully and discuss them 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 want the court to consider your views on the Motion, then on or before **September 17, 2004 at 4:00 p.m.** you or your attorney must file with the court a written response, an answer, explaining your position at:

Celia Strickler
United States Bankruptcy Court
537 Congress Street
Portland, ME 04101

If you mail your objection to the court for filing, you must mail it early enough so that the court will receive it on or before the date stated above.

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.

You must also mail copies to:

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You may attend the hearing scheduled to be held on **September 23, 2004 at 10:30 a.m.** at the United States Bankruptcy Court, 537 Congress Street, Portland, ME 04101.

If you or your attorney do not take these steps, the court may decide that you do not oppose the relief sought in the Motion and may enter an order granting that relief.

Dated: September 8, 2004

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