

EXHIBIT A

Hansen, Kristopher

From: richard.krasnow@weil.com
Sent: Wednesday, July 07, 2004 5:19 PM
To: Hansen, Kristopher
Cc: arosenberg@paulweiss.com; Lawrence, Brett; Handelsman, Lawrence; mbaumann@kirkland.com; alexander.simon@weil.com
Subject: RE: Pegasus / Draft Motion to Compel

What is your understanding of the outstanding material issues?

Yes, the lenders were not included in the negotiations between DIRECTV and members of the committee. I'm sure that you would agree that, so long as the purchase price that DIRECTV was prepared to pay was sufficient to cover both the senior and junior bank debt, the inclusion of the banks in the negotiations was unnecessary. As to the documents, they represent DIRECTV's views regarding the business deal and how it would be implemented. While I agree that the banks should only comment on those portions of the agreements that are relevant to the banks, it help move the process along to know what comments, if any, they are sooner rather than later.

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New York, New York 10153
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Fax: 212-310-8934

"Hansen,
Kristopher" To: Richard Krasnow/NY/WGM/US@WGM
<KHANSEN@stroock.com> cc: arosenberg@paulweiss.com, "Lawrence, Brett"
<BLAWRENCE@stroock.com>,
com> mbaumann@kirkland.com, Alexander
Simon/NY/WGM/US@WGM, "Handelsman, Lawrence"
<LHANDELSMAN@stroock.com>, "Botter, David"
<dbotter@AkinGump.com>
07/07/2004 04:54 Subject: RE: Pegasus / Draft Motion to Compel
PM

We have no intention of "jamming" anyone with the motion, which seeks the relief that we discussed previously: (i) 9019 approval of the settlement; and (ii) 363 approval of the subscriber sale and auction procedures. In the alternative, the motion seeks (a) appointment of a limited purpose trustee to implement the settlement and subscriber sale, (b) modification of the automatic stay to permit the secured lenders to foreclose on the pledged equity to install a new board and consummate the settlement and subscriber sale, or (c) termination of the debtors' exclusivity in order to permit the creditors and DTV to submit a plan providing for the settlement and subscriber sale. The motion, from our perspective, is complete and needs only comments from the Committee and DTV when we circulate it to each of you.

Unfortunately, we understand that material open issues remain on the settlement and subscriber sale between DTV and the Committee and that discussions between the two of you are continuing on that front as well as with respect to the inclusion of the Debtors in the deal. As a result, we are not in a position at this time to circulate a document that could have an impact on those discussions.

With respect to your request for comments on the transaction documents, we are happy to provide them. We were excluded, however, from the negotiations between DTV and the Committee and do not know which terms contained in the documents have been agreed to between the parties and which represent DTV requests. As it doesn't make sense for us to comment on items that have been "resolved" between the parties unless they specifically affect our interests, we'll add our comments to those from the Committee when received.

- Kris

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-----Original Message-----

From: richard.krasnow@weil.com [mailto:richard.krasnow@weil.com]
Sent: Wednesday, July 07, 2004 2:49 PM
To: Hansen, Kristopher
Cc: arosenberg@paulweiss.com; Lawrence, Brett; mbaumann@kirkland.com;
alexander.simon@weil.com
Subject: Re: Pegasus / Draft Motion to Compel

That's doesn't work for us. I'm not sure what you are alluding to, but Pegasus is engaged in discussions with the committee, and there are aspects of it that could lead to a fully consensual deal. But it may not. I don't want to wait until the last minute when and if those efforts fail to first review a draft of the papers. As you accurately stated at the outset of the case, the ice cube is melting. Please circulate the draft as soon as possible so that we can at least determine whether or not we are in agreement on the specifics of the approach that we will take if Pegasus isn't on board. Thanks.

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"Hansen,

Kristopher" To: Richard
Krasnow/NY/WGM/US@WGM
<KHANSEN@stroock. cc: "Lawrence,
Brett" <BLAWRENCE@stroock.com>, arosenberg@paulweiss.com
com> Subject: Pegasus / Draft
Motion to Compel

07/07/2004 12:31

PM

Richard:

Sorry for the delay in sending the document. I was under the impression that the terms of the arrangement between DTV, NRTC and the Committee were final. I have been advised, however, that the parties are still discussing certain issues. Although the document is substantially complete, we prefer to withhold distribution of the draft motion to compel entry into the settlement and subscriber sale until the discussions between the parties are final.

- Kris

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< END >

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EXHIBIT B

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE**

In re:)	Chapter 11
PEGASUS SATELLITE TELEVISION, INC, et al.,)	Case No. 04-20878
Debtors.)	(Jointly Administered)
)	Re: Docket No. 538

AFFIDAVIT OF SKIP VICTOR IN SUPPORT OF REPLY OF WILMINGTON TRUST COMPANY TO THE OBJECTION OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS TO MOTION BY THE JUNIOR LENDERS FOR AN ORDER DIRECTING IMMEDIATE PAYMENT OF PREPAYMENT PREMIUM, ACCRUED DEFAULT INTEREST, AND INTEREST THEREON UNDER THE PEGASUS JUNIOR TERM LOAN CREDIT AGREEMENT

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

SKIP VICTOR, being first duly sworn, deposes and says:

1. I am a Senior Managing Director and co-founder of Chanin Capital Partners (“Chanin”), a full service financial advisory firm. I have primary oversight of Chanin’s advisory business. I submit this affidavit in support of the Reply of the Wilmington Trust Company (“Wilmington Trust”) to the Objection by the Official Committee of Unsecured Creditors to the Motion by the Junior Lenders for an Order Directing Immediate Payment of Prepayment Premium, Accrued Default Interest and Interest Thereon Under the Credit Agreement (the “Premium Motion”).¹

¹ Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Premium Motion.

2. Qualifications and Experience. I have extensive experience in all phases of corporate restructurings and recapitalizations including mergers and acquisitions, corporate financings, court testimony, and other advisory services. I received a Bachelor of Arts degree from Cornell University in 1978, and in 1983 I graduated from the UCLA Graduate School of Management, where I received an MBA degree.

3. Prior to joining Chanin, I was Vice President in the Corporate Finance Department of Drexel Burnham Lambert, Inc., specializing in bankruptcies and restructurings. While at Drexel, I worked on a number of transactions including LBO's, sales, new financings and exchange offers.

4. I have recently represented various constituencies in the reorganization and/or restructurings of a broad range of companies including Mirant Mid-Atlantic (pass-through debt certificate holders), Tricom SA (Ad Hoc Unsecured Creditors Committee), Regal Cinemas (Ad Hoc Bondholders Committee), Pacific Gas & Electric (California Public Utilities Commission), Global Crossing (Official Creditors Committee), The Washington Group (Official Creditors Committee), Home Interiors (Company), FiberMark (Official Creditors Committee), Silicon Graphics (SGI) (Company), Nextel International (Bondholders Committee), Redback Networks (Bondholders Committee), Reeves Industries (Company), Stone & Webster (Official Creditors Committee) and others.

5. I am also a member of the Board of Directors of the Price Center for Entrepreneurial Studies at the UCLA Graduate School of Management. I was

previously a member of the Board of Directors of SpectraVision, Inc., Bucyrus International, and BDK Holdings, Inc. I have been a guest lecturer on several reorganization panels including seminars on Bankruptcy Taxation at the UCLA Graduate School of Management.

6. Background. On or about June 2, 2004, Chanin was retained by the steering committee composed of certain of the Debtors' pre-petition senior secured lenders (the "Senior Lenders") to act as their financial advisors in these cases. Pursuant to a side letter dated July 15, 2004 between Paul, Weiss, Rifkind, Wharton & Garrison LLP, counsel to the Senior Lenders, and Stroock & Stroock & Lavan LLP, counsel to Wilmington Trust, as agent for the Junior Term Lenders, Wilmington Trust was granted access to Chanin's services in lieu of retaining its own financial advisor. I previously submitted an affidavit dated October 12, 2004 in support of and in connection with the motion of the Senior Lenders filed on October 15, 2004 seeking allowance and payment of default interest and the prepayment premiums due under the various Senior Lenders' loan agreements.

7. Pursuant to the Premium Motion, Wilmington Trust seeks payment of (i) a 2% prepayment amount under the Credit Agreement in the aggregate amount of \$2,157,137.98; (ii) a 2.5% incremental default interest rate accruing on amount due under the Credit Agreement from June 1, 2004 through the Prepayment Date in the aggregate amount of \$791,579.35; and (iii) interest thereon at the default rate through and including the date of payment thereof in the aggregate amount of approximately \$58,000.

8. Default Interest. I have reviewed the Premium Motion and I understand the various factors that are taken into consideration by the Court in deciding whether to award Default Interest. It is my opinion that the facts of this case support the award of Default Interest sought by Wilmington Trust. Specifically,

- Default Rate is Reasonable: In my experience, the 2.5% default interest rate above the non-default base rate of interest provided for in the Credit Agreement is reasonable. I have attached as Exhibit A a list of second lien term loan agreements executed since January 1, 2004; each of which provide for a 2.0% incremental default rate.
- Lenders Were at Risk During Chapter 11 Cases. These cases involved circumstances where repayment was not assured and Wilmington Trust was at risk of receiving a less than full recovery due to the termination of the DBS Agreement on June 1, 2004. The Debtors' business was entirely dependent on its ability to provide DIRECTV services to its customers under the DBS Agreement and services were to be discontinued on August 31, 2004 – at which point the Debtors' business would essentially have disappeared. This case in essence was a 90-day race to see if value would be salvaged before the Debtors' business was gone. Although the Debtors' business was eventually sold, a mere four days before the termination date, there was substantial risk until

closing that the Junior Lenders would not be paid. Commercial lenders bargain for an increased rate of interest (i.e., default interest) to compensate them for the heightened post-default risk, especially in second lien debt positions where the ordinary risk of recovery is increased by a subordinated security interest.

- Default Rate was Scarcely Compensation for Increased Risk. It is my opinion that the default rate was at or more likely below the interest rate that would have been charged by a new third party lender to make a post-DBS Agreement termination loan to the Debtors. This case involved a situation where the Debtors' revenues were declining, it had only days left to post a bond in order to appeal a \$60 million jury verdict, the Junior Lenders were subordinated to over \$400 million of structurally and contractually senior bank debt, and the Debtors' business was scheduled to disappear in 90-days' time. I believe that it is questionable whether any lender would have been willing to make a second lien loan to the Debtors under these circumstances.

9. Prepayment Amounts. I have reviewed the section of the Premium Motion relating to the prepayment amounts.

10. In my experience, the sliding scale prepayment amounts provided for in the Credit Agreement of 3% in the first year of the loan, 2% in the second year of the loan and 1% in the third year of the loan are customary and reasonable. I have

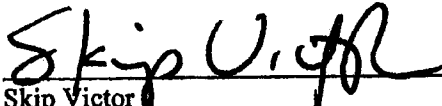
attached as Exhibit A a list of second lien loan agreements executed since January 1, 2004; each of which provides for prepayment amounts with a structure similar to that found in the Credit Agreement.

11. The Junior Lenders here have also been damaged by the prepayment made in this instance. The Junior Lenders will not be able to relend the prepaid funds today at a 12.5% rate to a company with a credit rating similar to the Debtors' credit rating at the time the Credit Agreement was originally executed in 2003. This is for two reasons. First, while LIBOR, which is the base rate against which most loans are priced, has risen slightly (approximately .8%)² since August 2003, the spreads above LIBOR (i.e., the interest percentage that companies are required to pay over LIBOR in most loans) have narrowed substantially for similarly rated companies since the Junior Term Loan was made. In addition, the Junior Term Loan was a higher risk secured loan to an intermediate holding company that was subordinated structurally and contractually to over \$400 million of loans made by the Senior Lenders. As a result, the Junior Term Loan interest rate did not fluctuate with LIBOR and was instead set at 12.5%. This loan today would likely be made in a LIBOR + 3.25% to LIBOR + 7.00% range, which amounts to a gross interest rate of 5.16% to 8.91%. This is documented by the attached Exhibit B, which shows interest rates for recent comparable bank credit agreements of companies with leverage and ratings profiles comparable to the Debtors. Exhibit B demonstrates that a loan rate of 12.5% is excessive for such companies. Based

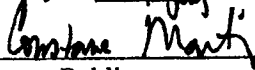
² The 3-month LIBOR rate on August 1, 2003 was 1.141%; it was 1.910% on the Payment Date.

on the foregoing chart; the Junior Lenders could lose as much as \$7.92 million in interest per year by relending the prepaid Junior Term Loan amounts at current market rates.

Dated: Los Angeles, California
November 4, 2004


Skip Victor

Sworn to and subscribed before me,
a Notary Public for the State of California,
County of Los Angeles this 4th day of November, 2004.



Notary Public



**Pegasus Communications
Default Rate Spreads and Prepayment Amounts**

Company	Date of Loan	Default Rate of Interest over Base Rate	Prepayment Amount
Amkor Technology Inc.	10/27/04	2%	No right to prepay in first and second years of loan. 3% if prepayment made in third year of loan, 2% if in fourth year, and 1% if in fifth year.
Carmike Cinemas, Inc.	02/04/04	2%	3% if prepayment made in first year of loan, 2% if prepayment made in second year of loan, 1% if prepayment made in third year of loan.
Denny's Inc.	08/31/04	Not Publicly Available.	Not Publicly Available.
Duane Reade Inc.	07/30/04	Not Publicly Available.	Not Publicly Available.
Graham Packaging Co LP	10/07/04	2%	2% if prepayment made in first year of loan, 1% if prepayment made in second year of loan.
Holmes Group Inc.	05/15/04	Not Publicly Available.	Not Publicly Available.
Invensys plc	03/05/04	Not Publicly Available.	Not Publicly Available.
Lake Las Vegas Resort	10/13/04	Not Publicly Available.	Not Publicly Available.
Microcell Telecommunications Inc.	03/17/04	Not Publicly Available.	Not Publicly Available.
Mitchell International	08/11/04	Not Publicly Available.	Not Publicly Available.

Exhibit A

Company	Date of Loan	Default Rate of Interest over Base Rate	Prepayment Amount
Mueller Group Inc. ¹	04/23/04	2%	35% prepayment allowed in first year at L+475, 2% if prepayment (no 35% restriction) made in second year, 1% if in third year.
Neff Rental Inc.	09/29/04	Not Publicly Available.	Not Publicly Available.
NES Rentals Holdings	08/13/04	Not Publicly Available.	Not Publicly Available.
Polymer Group Inc.	04/27/04	2%	2% if prepayment made in the first year, 1% if made in the second year.
Prestige Brands Inc.	04/06/04	2%	3% if prepayment made in first year of loan, 2% if prepayment made in second year of loan, 1% if prepayment made in third year of loan.
Skilled Healthcare Group	06/28/04	Not Publicly Available.	Not Publicly Available.
Transportation Technologies Industries Inc.	03/16/04	2%	4% if prepayment made in first year of loan, 2% if prepayment made in second year of loan.
Verifone Inc.	06/30/04	Not Publicly Available.	Not Publicly Available.
Weekly Reader Corp.	03/29/04	2%	2% if prepayment made in first year of loan, 1% if prepayment made in second year of loan.
Wellman Inc.	02/10/04	2%	No right to prepay in first and second years of loan, 5% if prepayment made in third year of loan, 3% if made in fourth year of loan.

¹ Second lien notes with LIBOR-based interest rate; default rate triggered by leverage covenant violation.

EXHIBIT B

**Pegasus Communications Corp
BANK SCREEN - SECOND LIEN**

Peer Group	Ticker	Tranche Ratings		Loan Type	Tranche		Facility Available	Effective Date	LIBOR Spread (2)	EBITDA	Senior Debt	Senior Leverage
		MDY	S&P		Outstanding	Available						
Amkor Technology Inc	AMKR	B1	B+	TERM LOAN	\$300.0	\$330.0	10/27/2004	L+ 450.0	\$382.1	\$306.8	0.8x	
Carmike Cinemas, Inc.	CKEC	B2	B	TERM LOAN	\$99.5	\$150.0	2/4/2004	L+ 325.0	\$104.5	\$150.3	1.4x	
Denny's Inc	DNYI	B3	NA	TERM LOAN C	\$120.0	\$420.0	8/31/2004	L+ 512.5	\$100.8	\$377.4	3.7x	
Duane Reade Inc	DRD	NA	B	TERM LOAN B	\$155.0	\$155.0	7/30/2004	L+ 400.0	\$71.0	\$233.6	3.3x	
Graham Packaging Co LP	GRAHAM	B3	NA	TERM LOAN C	\$350.0	\$2,050.0	10/17/2004	L+ 425.0	NA	NA	NA	
Holmes Group Inc	HOLMES	B3	CCC+	TERM LOAN	\$105.0	\$420.0	5/15/2004	L+ 700.0	\$85.4	\$335.0	3.9x	
Invensys PLC	ISYSLN	B1	NA	TERM LOAN	\$300.0	\$2,996.4	3/5/2004	L+ 475.0	\$88.3	\$453.0	5.1x	
Lake Las Vegas Resort	LAKLAS	B2	B-	TERM LOAN	\$125.0	\$560.0	10/13/2004	L+ 550.0	NA	NA	NA	
Microcell Telecommunications Inc	MTACN	NA	B-	TERM LOAN B	\$200.0	\$450.0	3/17/2004	L+ 600.0	\$165.8	\$372.6	2.2x	
Mitchell International	TOCCN	B2	B-	TERM LOAN	\$50.0	\$160.0	8/11/2004	L+ 625.0	NA	NA	NA	
Mueller Group, Inc. (1)	MUEGRO	B3	B-	SEC'D NOTES	\$100.0	\$725.0	4/23/2004	L+ 475.0	\$148.5	\$617.5	4.2x	
Neff Rental Inc	NFFCA	NA	B	TERM LOAN	\$135.0	\$310.0	9/29/2004	L+ 600.0	NA	NA	NA	
NES Rentals Holdings Inc	NLEQ	B3	B	TERM LOAN C	\$275.0	\$575.0	8/13/2004	L+ 475.0	\$125.9	\$458.7	3.6x	
Polymer Group Inc	POLGA	Caa1	NA	TERM LOAN C	\$125.0	\$475.0	4/27/2004	L+ 625.0	\$100.3	\$425.0	4.2x	
Prestige Brands Inc	PREBRA	B2	CCC+	TERM LOAN C	\$100.0	\$505.0	4/6/2004	L+ 475.0	\$77.7	\$454.1	5.8x	
Skilled Healthcare Group	SKILHC	B3	NA	TERM LOAN	\$100.0	\$275.0	6/28/2004	L+ 700.0	\$53.7	\$240.0	4.5x	
Transportation Technologies Ind, Inc. TTI	GORTEC	B3	CCC+	TERM LOAN	\$100.0	\$265.0	3/16/2004	L+ 700.0	\$54.2	\$225.8	4.2x	
Verifone Inc	GORTEC	B3	B-	TERM LOAN C	\$72.0	\$292.0	6/30/2004	L+ 600.0	NA	NA	NA	
Weekly Reader Corp	WRCMED	B3	CCC+	TERM LOAN	\$145.0	\$175.0	3/29/2004	L+ 500.0	NA	NA	NA	
Wellman Inc	WLM	B2	B-	TERM LOAN	\$265.0	\$625.0	2/10/2004	L+ 675.0	\$64.6	\$486.3	7.5x	

Mean	L+ 544.4
Median	L+ 531.3
High	L+ 700.0
Low	L+ 325.0

Note: Data per Bloomberg, Capital IQ, FactSet and Factiva. Includes companies with second-lien term loans effective after Jan. 1, 2004, a minimum of \$50 million of tranche debt outstanding and a maximum S&P and Moody's rating of B+ and B1, respectively. Facility availability includes 1st lien, 2nd lien and revolver amounts where executed on the same effective date.
 (1) Second lien notes with LIBOR-based interest rate; governed by indenture.
 (2) The 3-month LIBOR rate was 1.910% on the Payment Date.

EXHIBIT C

Hansen, Kristopher

From: richard.krasnow@weil.com
Sent: Monday, July 12, 2004 3:40 PM
To: Hansen, Kristopher; arosenberg@paulweiss.com
Cc: Handelsman, Lawrence
Subject: RE: Pegasus

Tomorrow's meeting has been moved to Sidley's offices. Pegasus will be meeting with the committee at 9:30 and the DIRECTV meeting will start at 11. We understand that, at the committee's request, the lenders will not be participating. While we believe that, if this is to be a broad ranging meeting, all constituencies should be present, this isn't our call.

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ANNEX

ANNEX

After the United States District Court for the Central District of California entered its order on May 24, 2004 awarding prejudgment interest and approved the jury verdict against the Debtors in the total amount of over \$62 million in the Seamless Marketing Litigation, counsel for the Debtors, Wilmington Trust and the senior lenders began negotiating the terms of the Cash Collateral Order and discussed the Debtors' general litigation strategy. At this time, counsel for Wilmington Trust also analyzed the California litigation and the DBS and Member Agreements as well as the NRTC Bylaws and the D.C. Cooperative Associations Code to better understand the Debtors' situation. While the Debtors' were preparing to file for bankruptcy protection, on June 1, 2004, DIRECTV and the NRTC terminated the DBS and Member Agreements and – as this Court later found and as Wilmington Trust recognized at the time – eviscerated the Debtors' litigation strategy and effectively sealed the Debtors' fate to either sell its assets in a negotiated transaction or liquidate after exhausting its cornerstone litigation, which as a result of the contract terminations had virtually no chance of success. At the June 4, 2004 hearings on the Debtors' initial bankruptcy motions, Wilmington Trust apparently coined the phrase of the case in describing the Debtors' assets as a melting ice cube. This statement was not intended as a threat, nor was Wilmington Trust's statement that it didn't plan on letting any chance of recovery on its claims pass without doing something affirmative. The statements were merely a recognition of the hard truth at an early stage of the case in an effort to get everyone to focus on creditor recoveries instead of a continuation of the litigation battle between DIRECTV and the Debtors. Despite the statement, as shown below, Wilmington Trust showed restraint throughout the proceedings and, due to the Committee's efforts to take over the process, actually had a very small role in the Asset Sale.

After the Court's denial of the Stay Motion on June 10, 2004, counsel for Wilmington Trust, the senior lenders, the Committee and the Debtors met in a conference room at the courthouse. At that impromptu meeting, counsel for Wilmington Trust, Kristopher M. Hansen, Esq., noted the dire situation facing the Debtors and inquired whether the Debtors were involved in any settlement discussions with DIRECTV and offered to help the parties in opening a dialogue on that basis. Counsel to the Debtors, James Conlan, Esq., however, stated that the Debtors believed in the merits of their litigation despite the Court's opinion, were intent on having their day in court, and were not currently engaged in any settlement discussions with DIRECTV. Counsel to Wilmington Trust stressed the importance of the Debtors' keeping an open mind and evaluating all realistic possibilities, but counsel to the Debtors repeated his statement that the Debtors would fight on.

Shortly after this meeting on June 16, 2004, counsel to Wilmington Trust, Lawrence Handelsman, Esq., Mr. Hansen, and Brett Lawrence, Esq., the senior lenders, Mr. Rosenberg, the Committee, Daniel Golden, Esq. and David Botter, Esq., and DIRECTV, Richard Krasnow, Esq. and Alexander Simon, Esq., met at the offices of Weil, Gotshal & Manges LLP (DIRECTV's counsel) to discuss the status of the case. At this meeting, the parties all discussed the realistic possibility of having to negotiate a sale of the Debtors' satellite assets without the Debtors and seeking Court approval thereof. Counsel to Wilmington Trust commented that it had done a fair amount of research on the issue, given the Debtors' recent commitment to continue to litigate, despite its losses before the Court, and noted that various legal options included a settlement motion pursuant to Bankruptcy Rule 9019, a sale motion pursuant to section 363 of the Bankruptcy Code, a motion for a trustee, or a foreclosure on the lenders' collateral. At this meeting, counsel for the Committee also attempted to obtain an increased offer from counsel to

DIRECTV, but no such offer was forthcoming at that time. After counsel for DIRECTV left the meeting, counsel to the Committee, Wilmington Trust and the senior lenders discussed the situation further and agreed that, given counsel to Wilmington Trust's research efforts, it, with the assistance of the senior lenders, would take the lead in the preparation a motion based on the research so that the parties' would have the document ready given the fast approaching August 31, 2004 deadline. The parties also agreed that counsel for the Committee was controlling the process and would attempt to contact DIRECTV's main competitor, EchoStar Communications Corporation, with whom counsel to the Committee had worked as counsel to the official committee in the recent bankruptcy proceedings of Loral Space & Communications, to determine if it was interested possibly bidding for the Debtors' satellite assets in an auction either consented to by the Debtors or over their objection pursuant to the aforementioned legal process. Counsel to the Committee also made it clear that any motion by the secured lenders alone that was filed before the Committee had an opportunity to attempt to negotiate a sale of the satellite assets at a price that delivered a significant return to unsecured creditors would be opposed by the Committee and would have little chance of being approved by the Court. Counsel for Wilmington Trust and the senior lenders informed the Committee that they had no intention of interfering with the Committee's efforts, but that they expected to be included in the process in order to ensure that the interests of their respective clients were also considered. After this meeting, on June 21, 2004, the Court denied the Debtors' motion for a TRO.

Shortly thereafter, the Committee and DIRECTV scheduled a meeting that included Wilmington Trust and the senior lenders at Weil Gotshal's offices, but the meeting was later moved to the offices of counsel to the senior lenders, Paul, Weiss, Rifkind, Wharton & Garrison LLP. At this meeting on June 23, 2004, business representatives of DIRECTV announced that

DIRECTV had an offer to make to the Debtors' creditors that was significantly higher than the public offer made in connection with the termination of the DBS and Member Agreements that the Debtors had rejected. Litigation counsel for DIRECTV, Michael Baumann, Esq., then attempted to explain the history of the California litigation as a point of reference for creditors in the case. Chaim Fortgang, Esq., a representative of Silver Point Capital L.L.C. and a member of the Committee, however, cut off the discussion and announced that as a lawyer he had no interest in hearing a one-sided version of the California litigation, which he could analyze on his own. In his words, DIRECTV could say anything it wanted to say, just as he could tell everyone in the room that he was the "King of France" and announced that the Committee would rather take its chances with the cornerstone litigation than entertain inadequate increases in the DIRECTV offer. Mr. Gary Singer, also a Committee member, joined Mr. Fortgang's remarks. DIRECTV then provided a term sheet to the parties at the meeting and discussed the terms of its new offer. To this, Mr. Fortgang noted that he was offended by the terms of the offer and that there was no need for further discussion. DIRECTV noted that it did not have to make any offers to the creditors and believed, consistent with the Court's rulings to date, that it could simply solicit the Debtors' subscribers and take them over on August 31, 2004, but preferred to do it in an orderly fashion. Again the Committee representatives informed DIRECTV that they weren't interested in the current offer and preferred to caucus alone for a short while. Shortly thereafter, DIRECTV left the meeting intending to return to California and continue the litigation. Counsel for the lenders, however, persuaded DIRECTV to remain in an alternate conference room at Paul Weiss' offices while the lenders and the Committee engaged in a discussion. The follow up discussion was brief, with the Committee explaining that it believed that DIRECTV would make a better offer and that it was not interested in discussing the current offer further. The Committee also

requested that it be left alone to engage in an internal discussion. Accordingly, the lenders moved to Mr. Rosenberg's (counsel to the senior lenders) office to await a call from the Committee. After a fair amount of time, lead counsel to the Committee, Mr. Golden, entered Mr. Rosenberg's office and announced that the Committee had met with DIRECTV and that they were going to keep lines of communication open, but that DIRECTV had left to return to California. The lenders expressed their frustration at being left out of the meeting and Mr. Golden analogized the lenders' situation to being like bystanders at a bus stop in the sense that if a deal was negotiated by the Committee, the lenders would get paid. In light of the theatrics carried out earlier in the day, counsel to Wilmington Trust remarked that the analogy worked so long as the bus made it to the next stop without crashing.

Approximately one week to ten days after this meeting, counsel to the lenders were apprised by Mr. Krasnow (counsel to DIRECTV) that a global settlement meeting was being convened at the offices of Sidley & Austin in New York where the Debtors, DIRECTV and the Committee were going to discuss the possibilities of a negotiated sale of the Debtors' satellite assets and that the Committee and the Debtors had engaged in a number of prior discussions. Counsel to DIRECTV informed counsel to the lenders, however, that they were not invited to the meeting at the express direction of the Committee. Counsel to the lenders called counsel to the Committee and were told the same information and that the justification was, again, that the lenders were unimportant to the meeting. Counsel to the lenders called lead counsel to the Debtors, Lawrence Nyhan, Esq., and Mr. Nyhan apologetically confirmed the same information and pledged to attempt to change the Committee's view. Mr. Nyhan ultimately invited the lenders to participate in the meeting. However, upon arriving for the meeting on July 13, 2004, the lenders and their counsel were shown to an alternate conference room with DIRECTV while

the Committee and the Debtors engaged in lengthy negotiations. Thereafter, DIRECTV was first placed in a separate conference room from the lenders while Mr. Nyhan and Marc Puntus, Esq., a managing director with the Debtors' financial advisor, Miller Buckfire Lewis & Ying, provided periodic updates to the lenders, but there was little progress to report. Thereafter, DIRECTV was invited by the Committee and Debtors to join their discussions, but the lenders were not. Ultimately, after hours of waiting with little information provided to them, the lenders left the meetings.

The lenders were never again invited to or apprised of the dates and times of any subsequent meetings between DIRECTV, the Debtors and the Committee. Periodic updates of the progress of such meetings, which lasted a number of weeks, was given to counsel to the lenders by counsel to the Committee and counsel to DIRECTV only after repeated requests to counsel to the Committee, DIRECTV and the Debtors. During this time, counsel to DIRECTV made requests to counsel for Wilmington Trust and the senior lenders for a copy of any pleadings that the lenders had drafted with respect to the earlier discussions about seeking a sale of the Debtors' assets without the consent of the Debtors, but counsel to Wilmington Trust refused to provide such draft pleadings while productive settlement discussions were ongoing. Counsel to Wilmington Trust did, however, provide a copy of the draft pleading to counsel to the Committee, the same copy that the Committee annexed to the Objection. At some point thereafter, after consultation with and consent from the Committee, counsel to Wilmington Trust also provided a copy of the draft pleading to counsel to DIRECTV. Thereafter, counsel to the lenders were presented with a fully negotiated set of documents providing for the Asset Sale and were asked to provide comments within a short period of time. Counsel to the lenders attempted to provide comments to the documents, but few, if any of them, were taken. Thereafter, the Sale

Motion was presented, the Sale Hearing was held and the Asset Sale, after three days of contested hearings, was approved.