Hearing Date and Time: November 24, 2004 at 10:30 a.m.
Objection Deadline: November 18, 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 ORDER PURSUANT TO 11 U.S.C. §§ 363(b) AND 105(a) AUTHORIZING AND APPROVING SUPPLEMENTAL RETENTION PLAN FOR CERTAIN EMPLOYEES OF THE DEBTORS' SATELLITE DIVISION AND RETENTION PLAN FOR CERTAIN EMPLOYEES OF THE DEBTORS' BROADCAST DIVISION

Pegasus Satellite Television, Inc. and certain of its subsidiaries and affiliates, each a debtor and debtor-in-possession herein (collectively, the "Debtors"),[1] hereby file this motion (the "Motion") requesting entry of an order authorizing and approving a supplemental retention plan for seventeen (17) employees regarding the Debtors' satellite division and authorizing and approving a retention plan for twenty-eight (28) employees regarding the Debtors' broadcast division. 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. 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., WTLH License Corp.

"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). Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicate for the relief sought herein is 11 U.S.C. §§ 363(b) and 105(a).

BACKGROUND OF 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 Bala Cynwyd, Pennsylvania. 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., together with its subsidiaries (collectively, the "Broadcast Debtors"),[2] operate a broadcast television business through six broadcast television stations owned by the Broadcast Debtors and the contractual right to act as the advertising sales agent for two cable television channels.

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.

BACKGROUND TO THE RELIEF REQUESTED

10. On August 26, 2004, the 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 ("Global Settlement") By and Among the Debtors and Debtors in Possession, Pegasus Communications Corporation and other non-Debtor Affiliates, DIRECTV, Inc. ("DIRECTV"), The DIRECTV Group, Inc., National Rural Telecommunications Cooperative (the "NRTC"), 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").

11. 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"),

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[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.

by and among PST, the other sellers therein and DIRECTV for the sale of substantially all of the assets of the Debtors' DBS business (the "Satellite Assets") and a certain Cooperation Agreement dated as of July 30, 2004 (the "Cooperation Agreement").[3] 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. In accordance with the terms of the Cooperation Agreement, the Debtors continued through October 31, 2004 to provide services to the DBS subscribers while they are being transitioned to DIRECTV. After that date, the Debtors will continue the process of winding down the DBS business.

12. Due to the sale of the Satellite Assets, the assets related to the Debtors' broadcast television business (the "Broadcast Assets") comprise substantially all of the Debtors' remaining assets. As part of the Global Settlement, the Committee and PCC have agreed in principle to a sale to PCC of the Broadcast Assets for a cash purchase price of $75 million, subject to better and higher offers, with no break up fee (but allowing for reimbursement of out-of-pocket expenses, not to exceed $1 million). The Debtors anticipate filing a motion in the near future for approval of, among other things, bidding procedures for the auction relating to the Broadcast Assets.

13. Currently there is no retention or severance plan in place for the management level employees of the Broadcast Debtors.[4] There is an approved retention plan for certain management employees of PST and PCMC (as defined below). However, for the reasons

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[3] The closing of the transaction contained in the Asset Purchase Agreement occurred on August 27, 2004.

[4] Pursuant to an Order dated June 4, 2004, this Court approved, among other things, the Debtors' severance program for all non-management employees of the Debtors (including the Broadcast Debtors).

described below, the Debtors believe that the approved retention plan needs to be augmented for seventeen (17) of the ninety-eight (98) employees of PST and PCMC covered thereunder and that a retention plan needs to be implemented for twenty-eight (28) management employees of the Broadcast Debtors.

THE DEBTORS' CURRENT EMPLOYEE RETENTION PLAN

14. The Debtors' first motion for an employee retention plan (the "Initial KERP Motion") requested implementation of an employee retention plan for one hundred (100) managers and more senior management employees of PST or of its non debtor affiliate, Pegasus Communications Management Company ("PCMC"), who have responsibilities relating to the Debtors' satellite division.

15. After much negotiation with the Committee the Debtor initially reached agreement with respect to certain junior management employees. The terms of that interim agreement were reflected in the Order Pursuant to 11 U.S.C. §§ 363(b) and 105(a) Authorizing and Approving Implementation of Management Retention Plan, as Modified, and Scheduling a Final Hearing and signed by this Court on July 9, 2004 (the "First KERP Order").

16. The Debtors continued negotiations with the Committee and in connection with the Global Settlement, such parties were able to reach agreement on an employee retention plan with respect to junior management employees and seven of the nine members of senior management (the "Satellite Retention Plan") which agreement is 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 and signed by this Court on August 3, 2004 (the "Second KERP Order").

17. On August 27, 2004, the Debtors filed a Supplemental Motion For Order Pursuant To 11 U.S.C. §§ 363(b) And 105(a) Authorizing And Approving Implementation Of Supplemental Management Retention Plan (the "Lodge KERP Motion"), seeking authority to

make payments under the Supplemental Retention Plan to Mr. Ted S. Lodge, President and Chief Operating Officer of PCC and each of its subsidiaries, including each of the Debtors.[5] The Lodge KERP Motion was granted on September 23, 2004.

RELIEF REQUESTED

18. By this Motion and pursuant to sections 363(b) and 105(a) of the Bankruptcy Code, the Debtors are seeking to amend the Satellite Retention Plan to provide for the further retention of seventeen (17) key employees (the "Satellite Key Employees") through the consummation of a Chapter 11 plan for the Debtors, and provide for the retention of twenty-eight (28) key employees of the Broadcast Debtors (the "Broadcast Key Employees") who were not previously included in any KERP proposal or motion. A list of the Satellite Key Employees and Broadcast Key Employees and the proposed amounts that may be paid under the Supplemental Satellite Retention Plan (as defined below) and the Broadcast Retention Plan (as defined below), respectively, is attached hereto as Exhibit A.

BASIS FOR RELIEF AND ARGUMENT

19. In light of the August 27th closing of the sale of the Satellite Assets, the Debtors are faced with additional staffing challenges and needs. Employees are engaged in reconciling amounts owed by DIRECTV on account of services provided by the Debtors after the August 27th closing; operating the television broadcast business, pending the auction and sale of the stock or assets of the Broadcast Debtors; liquidating the remaining Satellite Assets; reconciling claims against the Debtors; and maintaining the Debtors' estates pending confirmation and consummation of a Chapter 11 plan.

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5 Mr. Lodge and Mr. Marshall W. Pagon, Chairman and CEO of PCC and each of its subsidiaries, including each of the Debtors had been the only two Senior Management employees that had been specifically carved out of the Satellite Retention Plan in the Second KERP Order.

20. In order to preserve value for the estates and ensure recovery for the unsecured creditors, the Debtors believe that it is necessary to supplement the Satellite Retention Plan for a limited number of Satellite Key Employees at an increased cost to the estates of no more than $399,000 (the "Supplemental Satellite Retention Plan") and to implement for the first time a retention plan for a limited number of Broadcast Key Employees at a cost to the estates of no more than $951,517 (the "Broadcast Retention Plan").

A. Supplemental Satellite Retention Plan

21. As the Court is aware, the Second KERP Order provided for, among other things, the payment of a Retention Award (as defined therein) for Covered Junior Management (as defined therein) upon the earlier of (i) the closing of the sale of the Satellite Assets (the "Satellite Closing Date"); (ii) an involuntary employment termination (other than for cause); or (iii) December 31, 2004, and for Covered Senior Management (as defined therein) upon the earlier of clauses (i) or (ii) herein. The Retention Award was paid to Covered Junior Management and Covered Senior Management on the August 27th Satellite Closing Date. However, with no retention bonus in place post-closing, there is now little incentive for the Satellite Key Employees to remain in the Debtors' employ other than to receive the limited severance that was approved in the Second KERP Order.

22. Unfortunately, the payment of severance does not serve as an effective retention tool. The Debtors recognize that the Satellite Key Employees would rather obtain the security of new employment, especially when these employees would likely be offered equal or greater severance packages in such new employment. Moreover, as their colleagues are either voluntarily leaving or being severed as the transitioning of services to DIRECTV is completed, morale is quickly and severely declining and the Satellite Key Employees are being saddled with

additional tasks and responsibilities.[6] In order to effectively retain the limited group of Satellite Key Employees, the Debtors propose adopting the Supplemental Satellite Retention Plan. In putting together this plan, the Debtors have identified seventeen (17) employees who the Debtors believe may be most vulnerable to leaving and whose loss would be irreplaceable.

23. The Debtors propose to pay each Satellite Key Employee a supplemental retention bonus of thirteen (13) weeks additional salary (the "Plan Bonus"). The Plan Bonus will be paid out on the consummation of a Chapter 11 plan for the Debtors. If a Chapter 11 plan for the Debtors has not been consummated by February 28, 2005, payment of 50% of the amount of the Plan Bonus will be paid on that date, with the balance paid on the date of the consummation of a Chapter 11 plan for the Debtors. No payment would be made in the case of the voluntary termination of a Satellite Key Employee. In the case of an involuntary termination, the Plan Bonus (to the extent not already paid) would be paid on the date of the termination.

24. The seventeen (17) Satellite Key Employees include sixteen (15) who are covered by the Satellite Retention Plan and two (2) non-management employees who were not.[7] The Satellite Key Employees are members of the following four departments in the Debtors' operations: (a) finance and accounting, (b) information technology, (c) human resources, and (d) legal.

> a. Finance and Accounting. The six employees from this department are involved in tracking, controlling, billing and collecting cost reimbursements for the estates from DIRECTV during the transition period and will be needed for the winddown activities associated with completing financial statements for the Debtors and sale and collection of funds relating to the Debtors' assets.

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6 Indeed, on October 31, 2004, the Debtors terminated the employment of approximately 700 employees of the Debtors' satellite division. Thus, since the Petition Date, approximately ¾ of the Debtors' pre-petition workforce related to their DBS business has been terminated. Thus, in many respects, the work environment is sadly akin to a sinking ship.

7 Five (5) of the Satellite Key Employees are employees of PCMC. The allocation of the costs of the Supplemental Satellite Retention Plan with respect to the PCMC employees will be made in accordance with the Final Order Authorizing the Debtors to Continue Performing Under the Support Services Agreement with Pegasus Communications Management Company dated July 22, 2004.

b. Information Technology. The six employees from this department, among other things, manage databases required by finance and accounting, are responsible for network operation, including the Debtors' e-mail system and the broadcast television control systems. These employees are also responsible for document retention and retrieval.

c. Human Resources. The three employees are responsible for payroll, including the preparation of year end W-2 statements (which would be distributed in January 2005), benefit issues (including processing of benefit claims), evaluation of termination for cause claims, and processing of termination notices and releases.

d. Legal. The two employees from this department will be involved with the rejection of contracts, evaluating and providing information related to claims filed against the estate, preparation of the Chapter 11 plan and the offering memorandum in connection with the broadcast sale, the negotiation of agreements with third party purchasers of the broadcast assets and other matters that will arise while operating the broadcast television stations and providing transition services to DIRECTV.

25. The functions carried out by these Satellite Key Employees are crucial to the winding down of the Debtors' business operations. It would be difficult to replace these employees and it would cost significant amounts to replace the Satellite Key Employees for a limited period of time to fulfill their functions. Further, the Satellite Key Employees have developed considerable expertise and knowledge about the Debtors' operations and systems that are extremely difficult to replicate. The Debtors believe that to the extent the Satellite Key Employees leave, there may be significant loss of value to the Debtors' estates and the incurrence of greater expense and time to have non-employees fulfill the functions carried on by the Satellite Key Employees.

B. Broadcast Retention Plan

26. Due to the sale of the Satellite Assets, the Broadcast Assets comprise substantially all of the Debtors' remaining assets. The Broadcast Assets are used in and are necessary to the operation of the Debtors' broadcast business, and include, without limitation, certain Federal Communications Commission ("FCC") authorizations, real property, agreements to operate television stations, options to purchase television stations, time brokerage agreements, lease agreements with respect to studio facilities and other contract rights and normal working capital levels

27. As noted above, the Debtors anticipate that they will be filing a motion in the near future to approve bidding procedures in connection with the sale of the Broadcast Assets. The Debtors' non debtor parent, PCC, will act as the stalking horse bidder for the sale of the Broadcast Assets for a cash purchase price of $75 million, subject to higher and better offers, with no break up fee (but reimbursement of out-or-pocket expenses, not to exceed $1 million). The Debtors anticipate that multiple parties may express interest in acquiring some or all of the Broadcast Assets.

28. Accordingly, in addition to their regular duties, the Broadcast Key Employees will be required to assist in all aspects of the due diligence, auction and closing of the sale of the Broadcast Assets. Although PCC is the stalking horse bidder, because the Debtors and Committee want to encourage active bidding for the Broadcast Assets, the negotiations regarding the structure and documentation of the sale of the Broadcast Assets involves, among other things, complex corporate, regulatory and tax issues and have taken longer than the parties' initial expectations of the task at hand. Given that the sale of the Broadcast Assets will be conducted as an auction sale, there will be uncertainty as to who will succeed as the winning bidder and this uncertainty has been prolonged while the parties are working through the

complex issues. Depending on the identity of the winning bidder(s), the Broadcast Key Employees may be working themselves out of a job.

29. Accordingly, in order to retain the Broadcast Key Employees during this critical phase, the Broadcast Debtors are proposing a modest retention program consisting of three components: (i) a retention award component, (ii) a severance component, and (iii) payments of benefits under the healthcare continuation coverage in accordance with the requirements of Part 6 of Title I of ERISA and Section 4980B of the Internal Revenue Code ("COBRA Benefits"). The Broadcast Retention Plan was structured by taking the Broadcast Debtors' existing pre-petition severance program and dividing it into two equal payments and providing for COBRA Benefits. It is designed to incentivize the Broadcast Key Employees to work diligently during the sale process for the Broadcast Assets while simultaneously providing them with a safety net in the event that PCC is not the winning bidder at the auction of the Broadcast Assets. To allay the Committee's concerns that the Debtors' estates not bear the costs of the Broadcast Retention Plan if PCC is the winning bidder for the Broadcast Assets, any amounts that are paid out under the Broadcast Retention Plan prior to closing will be repaid by PCC to the Debtors' estates if PCC is the winning bidder at the initial $75 million offer. However, if PCC has to increase its bid for the Broadcast Assets beyond the initial $75 million and is the winning bidder at such increased amount, PCC will not be required to reimburse the Debtors' estates for any such amounts that may have been paid out under the Broadcast Retention Plan.

30. The retention award component (the "Retention Award") would constitute one half (1/2) of what a Broadcast Key Employee would otherwise have been entitled to under the Broadcast Debtors' pre-petition severance program and is calculated as follows:

Employee Level	**Minimum**
Manager	6.5 weeks
Director	13 weeks
Vice President	26 weeks

The aggregate cost of the Retention Award for all Broadcast Key Employees would be $419,058. The Retention Award would only be paid to a Broadcast Key Employee if PCC is not the winning bidder at the earlier of (i) a closing of a transaction involving a sale, acquisition or change in control of the Debtors' Broadcast division or substantially all of Broadcast Assets (the "Broadcast Closing Date"), or (ii) an involuntary employment termination (other than for cause).

31. Pursuant to the severance component (the "Severance Payment"), Broadcast Key Employees are guaranteed a certain payout upon involuntary termination for reasons other than unsatisfactory performance. The Severance Payments under this component are calculated as follows:

Employee Level	**Minimum**
Manager	6.5 weeks
Director	13 weeks
Vice President	26 weeks

In general, the severance amounts represent approximately one-half of the severance amounts that each employee ordinarily would have received under the Debtors' prepetition severance policy which was at a competitive market level. The Debtors estimate that the maximum cost for this component of the Broadcast Retention Plan -- if all of the Broadcast Key Employees were terminated -- is approximately $419,058.

32. The Severance Payment would supercede any pre-petition severance plans for the Broadcast Key Employees and will be paid upon involuntary termination of a Broadcast

Key Employee for reasons other than (i) unsatisfactory performance, (ii) a transaction involving a sale, acquisition or change in control of the Debtors' Broadcast division or substantially all of the Broadcast Assets with a third party (the "Acquiror") in which the Acquiror hires such Broadcast Key Employee upon the closing of such transaction on such terms, compensation, responsibilities and geographic location consistent with the Broadcast Key Employee's current employment, or (iii) if PCC is the winning bidder for the Broadcast Assets.

33. The Debtors propose to pay the Severance Payment on an administrative expense basis. Payment under such component would be conditioned on each Broadcast Key Employee executing a valid release of all claims arising out of such employee's employment or termination, in a form satisfactory to the Debtors. Upon approval of the Broadcast Retention Plan, the severance component described herein will supercede any pre-petition severance plans for the Broadcast Key Employees.

34. The third component of the Broadcast Retention Program is family coverage COBRA benefits. The estimated costs for all Broadcast Key Employees would aggregate $113,400.

35. In structuring the Broadcast Retention Plan in the manner proposed, it is not anticipated that there would be any payments to Broadcast Key Employees under the Broadcast Retention Plan if PCC is the winning bidder for the Broadcast Assets. However, if PCC is not the winning bidder, the additional consideration paid by the Acquiror in topping the bid by PCC for the Broadcast Assets, will cover some, if not, all of the costs of the Broadcast Retention Plan.

AUTHORITY

36. Section 363(b)(1) of the Bankruptcy Code permits a debtor-in-possession to use property of the estate "other than in the ordinary course of business" after notice and a

hearing. 11 U.S.C § 363(b)(1). Additionally, section 105(a) of the Bankruptcy Code allows this Court to "issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of the [Bankruptcy Code]." 11 U.S.C § 105(a).

37. This Court should authorize the Supplemental Satellite Retention Plan with respect to the Satellite Key Employees and the Broadcast Retention Plan with respect to the Broadcast Key Employees. This relief can be granted outside the ordinary course of business if the Debtors demonstrate a sound business justification for obtaining it. See, e.g., In re Aerovox, Inc., 269 B.R. 74, 81 (Bankr. D. Mass. 2001); In re Lionel Corp., 722 F.2d 1063, 1070 (2d Cir. 1983); In re Delaware Hudson Ry. Co., 124 B.R. 169, 179 (Bankr. D. Del. 1991).

38. Once the Debtors articulate a valid business justification, "[t]he business judgment rule 'is a presumption that in making a business decision the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action was in the best interests of the company.'" In re Integrated Resources, Inc., 147 B.R. 650, 656 (S.D.N.Y. 1992) (quoting Smith v. Van Gorkom, 488 A.2d 858, 872 (Del. 1985)).

39. The business judgment rule has vitality in Chapter 11 cases and shields a debtor's management from judicial second-guessing. See In re Johns-Manville Corp., 60 B.R. 612, 615-16 (Bankr. S.D.N.Y. 1986) (noting that "the Code favors the continued operation of a business by a debtor and a presumption of reasonableness attaches to a debtor's management decisions").

40. Given the importance of the Satellite Key Employees and the Broadcast Key Employees to the Debtors' continued operation, this Court should approve the relief requested herein. Courts in this circuit (including this Court in approving the Initial KERP Motion and the Lodge KERP Motion) and other circuits have recognized the needs of Chapter 11 debtors to retain their employees in order to assure continued business functions in Chapter 11, and, therefore have approved incentive programs under Bankruptcy Code section 363(b)(1)

similar to those proposed herein (each program, of course, being tailored to the needs of particular debtors), as a proper exercise of a debtor's business judgment. See, e.g., In re Bookland of Maine, Case No. 00-20605 (JAG) (Bankr. D. Me. May 4, 2000) (authorizing retention program providing benefits to debtor's management team as being in the best interests of the estate); In re Arch Wireless, Inc., Case No. 01-47330 (HJB) (Bankr. D. Mass. Feb. 11, 2002) (authorizing implementation of employee retention plan and severance plan); In re Aerovox, 269 B.R. at 81 (finding the debtor's key employee retention program warranted under business judgment rule); In re Georgetown Steel Co., LLC, 2004 WL 438559, *8 (Bankr. D.S.C. 2004) (approving a retention program that provided benefits to each of the debtor's remaining fourteen employees); In re Teligent, Inc., Case No. 01-12974 (SMB) (Bankr. S.D.N.Y. May 21, 2001) (approving $9 million key employee retention and severance program); In re America West Airlines, Inc., 171 B.R. 674 (Bankr. D. Ariz. 1994) (finding bonus program to be proper exercise of debtor's business judgment); In re Interco Inc., 128 B.R. 229, 234 (Bankr. E.D. Mo.1991) (concluding that implementation of a critical employee retention plan was a proper exercise of debtor's business judgment); In re Union Acceptance Corp., No. 02-19231 (Bankr. S.D. Ind. Jan. 14, 2003) (approving a retention program that provided benefits to all of the debtor's 280 employees in varying degrees); In re AmeriServe Food Distribution, Inc., No. 00-00358 (PJW) (Bankr. D. Del. June 2, 2000) (authorizing key employee incentive program).

41. The Debtors believe that they have exercised sound business judgment in identifying the employees to be included in the Broadcast Retention Plan and Supplemental Satellite Retention Plan given the necessity of retaining each such individual and the vital services that each such employee performs for the Debtors. The Debtors have determined that the costs associated with the Supplemental Retention Plan for the Satellite Key Employees and the Broadcast Retention Plan for the Broadcast Key Employees are more than justified by the benefits that the Debtors have and will realize for the benefit of their estates and all parties in

interest. The Debtors believe that by implementing such plans for such key employees, these Chapter 11 cases will have the best possible chance to reach a successful resolution and preserve and maximize the value of the Debtors' estates.

42. Furthermore, the proposed relief will enable the Debtors to retain the knowledge, experience and loyalty of the Satellite Key Employees and the Broadcast Key Employees who are crucial to the task at hand. Accordingly, the Debtors submit that the Supplemental Satellite Retention Plan with respect to the Satellite Key Employees and the Broadcast Retention Plan with respect to the Broadcast Key Employees is a proper exercise of their business judgment and necessary to ensure the Debtors' successful reorganization.

NOTICE

43. Notice of this Motion has been given to all parties on the All Notices List as required by (and as defined in) the Order Establishing Case Management Procedures and Hearing Schedule dated July 9, 2004.

NO PREVIOUS RELIEF REQUESTED

44. Except as requested in the Initial KERP Motion and the Lodge KERP Motion, no previous application for the relief sought herein has been made by the Debtors to this or any other court.

WHEREFORE, the Debtor respectfully requests that the Court approve the Supplemental Satellite Retention Plan and the Broadcast Retention Plan and grant such other and further relief as is just and proper.

Dated: Portland, Maine
November 9, 2004

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PROPOSED SUPPLEMENTAL SATELLITE
RETENTION PLAN FOR SATELLITE KEY EMPLOYEES

Name	Proposed Plan Bonus
Hammond, Sean R.	$ 31,250
Martini, Sandra P.	$ 22,000
Fienberg, Andrew S.	$ 25,000
Cempe, Carl E.	$ 17,063
Dohadwala, Aunali	$ 22,538
Del Santo, Carolina V.	$ 19,413
Gibbs, Mark S.	$ 23,325
Smith, Monica S.	$ 17,500
Srivastava, Manish	$ 20,000
Sherman, Mikhail Y.	$ 20,750
Barrett, Tonya	$ 24,813
Brosnahan, Gary W.	$ 36,575
King, Patricia M.	$ 13,750
Clayton Martin, Sonya T.	$ 15,000
Carolina, Dorinda	$ 34,238
Eyer, Mark E.	$ 29,500
Nachman, Michael P.	$ 25,950
TOTAL PROJECTED COST	**$ 398,662**

PROPOSED BROADCAST RETENTION
PLAN FOR BROADCAST KEY EMPLOYEES

Name	Proposed Retention Award	Proposed Severance Payment	Proposed Cost of COBRA Benefits
Paige, Charles E.	$ 21,250.00	$ 21,250.00	$ 5,400.00
Levine, Jason K.	$ 23,750.00	$ 23,750.00	$ 5,400.00
Paris, Jackie D.	$ 70,000.00	$ 70,000.00	$ 10,800.00
Carpenter, Marion L.	$ 39,999.96	$ 39,999.96	$ 10,800.00
Yanuzzi, Michael	$ 70,000.06	$ 70,000.06	$ 10,800.00
McCarthy, Tracye D.	$ 14,812.50	$ 14,812.50	$ 2,700.00
Pink, Lawrence F.	$ 7,312.50	$ 7,312.50	$ 2,700.00
Dudley, Sherwood D.	$ 4,875.00	$ 4,875.00	$ 2,700.00
Dillard, Kellye D.	$ 6,225.00	$ 6,225.00	$ 2,700.00
Senter, Herbert T.	$ 23,750.00	$ 23,750.00	$ 5,400.00
Bell, Patricia A.	$ 4,375.00	$ 4,375.00	$ 2,700.00
Edwards, Susan	$ 5,200.00	$ 5,200.00	$ 2,700.00
Blakeney, Terrence M.	$ 7,125.00	$ 7,125.00	$ 2,700.00
Holland, Dennis J.	$ 8,750.00	$ 8,750.00	$ 2,700.00
Smith, Karen E.	$ 4,375.00	$ 4,375.00	$ 2,700.00
Ouellette, Roy	$ 6,664.61	$ 6,664.61	$ 2,700.00
Marshall, John G.	$ 5,000.00	$ 5,000.00	$ 2,700.00
Cadman, Jonathan	$ 18,000.00	$ 18,000.00	$ 5,400.00
Bisagni, James A.	$ 6,250.01	$ 6,250.01	$ 2,700.00
Greenwald, Linda	$ 4,000.00	$ 4,000.00	$ 2,700.00
Musto, Marianne	$ 5,674.99	$ 5,674.99	$ 2,700.00
Chofey, Richard	$ 6,250.01	$ 6,250.01	$ 2,700.00
Hinterschied, David M.	$ 24,225.00	$ 24,225.00	$ 5,400.00
Kenny, Tana M.	$ 9,375.00	$ 9,375.00	$ 2,700.00
Brown, Michael F.	$ 6,393.75	$ 6,393.75	$ 2,700.00
Jones, Doris L.	$ 4,625.00	$ 4,625.00	$ 2,700.00
Abel, Donald W.	$ 5,387.50	$ 5,387.50	$ 2,700.00
Conroy, Lorraine J.	$ 5,412.50	$ 5,412.50	$ 2,700.00
TOTAL PROJECTED COST	**$419,058.38**	**$419,058.38**	**$113,400.00**

NY1 5592570v7

Hearing Date and Time: November 24, 2004 at 10:30 a.m.
Objection Deadline: November 18, 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)

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 the Debtors' Motion for Order Pursuant to 11 U.S.C. §§ 363(b) and 105(a) Authorizing and Approving Supplemental Retention Plan for Certain Employees of the Debtors Satellite Division and Retention Plan for Certain Employees of the Debtors' Broadcast Division (the "Motion").

Your rights may be affected. You should read this notice and the Motion 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).

PLEASE TAKE FURTHER NOTICE that **any response or objection to the attached Motion must be filed on or before 4:00 p.m. (prevailing Eastern time) on November 18, 2004 (the "Objection Deadline")**. If you want the Court to consider your views on the Motion, then on or before the Objection Deadline you or your attorney must file with the Court a written response or objection 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 Objection Deadline.

[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., WTLH License Corp.

At the same time your response or objection must (a) be in writing, (b) conform to the requirements of the Bankruptcy Code, the Bankruptcy Rules and the Local Rules of the Bankruptcy Court, and (c) be served upon:(i) Larry J. Nyhan, Esq., James F. Conlan, Esq., Sidley Austin Brown & Wood LLP, Bank One Plaza, 10 South Dearborn Street, Chicago, IL 60603, and Guy S. Neal, Esq., Ellen R. Moring, Esq., Sidley Austin Brown & Wood LLP, 787 Seventh Avenue, New York, NY 10019; and (ii) Robert J. Keach, Esq., Bernstein, Shur, Sawyer & Nelson, 100 Middle Street, P.O. Box 9729, Portland, ME 04104-5029; so as to be **actually received** by no later than **4:00 p.m. (prevailing Eastern time) on November 18, 2004.**

PLEASE TAKE FURTHER NOTICE that if no objections or other responses are timely filed and served, the Court may enter the requested order without further notice or hearing.

PLEASE TAKE FURTHER NOTICE that if objections or responses are timely filed and served in accordance with this notice, a hearing on the Motion will be held on **November 24, 2004 at 10:30 a.m. (prevailing Eastern time)** before the Honorable James B. Haines, United States Bankruptcy Judge, in the United States Bankruptcy Court for the District of Maine, 537 Congress Street, 2nd Floor, Portland, Maine 04101.

Dated: Portland, Maine
November 9, 2004

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By: /s/ Robert J. Keach
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Attorneys for Debtors and Debtors in Possession