

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT UNDER SECTION 1125(b) OF THE BANKRUPTCY CODE FOR USE IN THE SOLICITATION OF ACCEPTANCES OF THE CHAPTER 11 PLAN DESCRIBED HEREIN. ACCORDINGLY, THE FILING AND DISTRIBUTION OF THIS DISCLOSURE STATEMENT IS NOT INTENDED, AND SHOULD NOT BE CONSTRUED, AS A SOLICITATION OF ACCEPTANCES OF SUCH CHAPTER 11 PLAN. THE INFORMATION CONTAINED HEREIN SHOULD NOT BE RELIED UPON FOR ANY PURPOSE BEFORE A DETERMINATION BY THE BANKRUPTCY COURT THAT THIS DISCLOSURE STATEMENT CONTAINS "ADEQUATE INFORMATION" WITHIN THE MEANING OF SECTION 1125(a) OF THE BANKRUPTCY CODE. THE DEBTORS ARE CONTINUING TO REVIEW THIS DISCLOSURE STATEMENT AND ANTICIPATE MAKING MODIFICATIONS AND ADDITIONAL DISCLOSURES PRIOR TO THE DISCLOSURE STATEMENT HEARING CURRENTLY SCHEDULED FOR FEBRUARY 9, 2005 at 11:00 A.M.

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE**

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

DISCLOSURE STATEMENT FOR DEBTORS' JOINT CHAPTER 11 PLAN

Dated: January 7, 2005

<p>Larry J. Nyhan James F. Conlan Paul S. Caruso SIDLEY AUSTIN BROWN & WOOD LLP Bank One Plaza 10 South Dearborn Street Chicago, IL 60603 Telephone: (312) 853-7000 Facsimile: (312) 853-7036</p> <p style="text-align: center;">- and -</p> <p>Guy S. Neal Ellen R. Moring Christopher F. van Elk SIDLEY AUSTIN BROWN & WOOD LLP 787 Seventh Avenue New York, NY 10019 Telephone: (212) 839-5300 Facsimile: (212) 839-5599</p>	<p>Robert J. Keach BERNSTEIN SHUR, SAWYER & NELSON, P.A. 100 Middle Street P.O. Box 9729 Portland, ME 04104 Telephone: (207) 774-1200 Facsimile: (207) 774-1127</p>
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Attorneys for Debtors and Debtors-in-Possession

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EXHIBITS TO DISCLOSURE STATEMENT

Exhibit A	Debtors' Joint Chapter 11 Plan
Exhibit B	Disclosure Statement Order
Exhibit C	Voting Procedures
Exhibit D	Debtors' Corporate Organization Chart
Exhibit E	Liquidation Analysis

THE DEBTORS RESERVE THE RIGHT TO AMEND OR SUPPLEMENT THIS PROPOSED DISCLOSURE STATEMENT AT OR BEFORE THE DISCLOSURE STATEMENT HEARING.

**I.
INTRODUCTION**

Pegasus Satellite Communications, Inc. and certain of its subsidiaries, each a debtor and debtor in possession in the above-captioned cases (collectively, the “Debtors”)¹ jointly submit this Disclosure Statement pursuant to section 1125 of title 11 of the United States Code (the “Bankruptcy Code”) to holders of Claims against and Interests in the Debtors. The Debtors have prepared this Disclosure Statement in connection with the solicitation of acceptances of the Debtors’ Joint Chapter 11 Plan dated January 7, 2005, (the “Plan”), filed by the Debtors with the United States Bankruptcy Court for the District of Maine (the “Bankruptcy Court”). Generally, the Plan provides for the deposit of the Debtors’ assets, including the cash proceeds of the sale of the Debtors’ satellite business and, potentially, proceeds of a sale of the Debtors’ broadcast television business, into a liquidating trust charged with resolving claims and making Distributions on account thereof. The consideration and/or proceeds derived from such assets will be used to make cash disbursements to holders of Allowed Claims in accordance with the priority scheme established by the Bankruptcy Code and/or as set forth in the Plan. The Debtors believe that acceptance of the Plan is in the best interests of their estates, their creditors and all parties in interest.

On [], 2005, after notice and a hearing, the Bankruptcy Court issued an order approving this Disclosure Statement as containing adequate information of a kind and in sufficient detail to enable a hypothetical, reasonable investor typical of the Debtors’ creditors to make an informed judgment whether to accept or reject the Plan. APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

The purpose of this Disclosure Statement is to provide the holders of Claims entitled to vote on the Plan with sufficient information to make an informed decision as to whether to accept or reject the Plan. This Disclosure Statement may not be relied upon for any other purpose, and nothing contained herein shall constitute an admission of any fact or liability by any party, or be admissible in any proceeding involving any of the Debtors or any other party, or be deemed conclusive advice on the tax or other legal effects of the Plan.

The statements contained in this Disclosure Statement are generally made as of the date hereof, unless another time is specified, and delivery of this Disclosure Statement shall not create

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, Inc., Pegasus Satellite Television of Illinois, 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.

an implication that there has been no change in the information set forth herein since the date of this Disclosure Statement or the date of the materials relied upon in preparation of this Disclosure Statement. The Debtors have prepared the information contained herein in good faith, based upon the information available to them. No audit, however, of the financial information herein has been conducted. Certain of the statements contained in this Disclosure Statement, by nature, are forward-looking and contain estimates and assumptions. There can be no assurance that such statements will be reflective of actual outcomes.

The description of the Plan contained in this Disclosure Statement is intended as a summary only and is qualified in its entirety by reference to the Plan itself. If any inconsistency exists between the Plan and this Disclosure Statement, the terms of the Plan are controlling. The Plan is a legally binding arrangement and should be read in its entirety. No summary of the Plan should be relied upon in determining whether to accept or reject the Plan. Each holder of a Claim or Interest should read, consider and carefully analyze the terms and provisions of the Plan as well as the information contained in this Disclosure Statement and the other documents provided herewith.

UNLESS OTHERWISE DEFINED HEREIN, ALL CAPITALIZED TERMS CONTAINED IN THIS DISCLOSURE STATEMENT SHALL HAVE THE RESPECTIVE MEANINGS ASCRIBED TO THEM IN THE PLAN.

Attached as Exhibits A through E to this Disclosure Statement² are copies of the following documents:

1. The Plan (Exhibit A);
2. Order of the Bankruptcy Court, dated [], 2005, approving this Disclosure Statement (the “Disclosure Statement Order”) (Exhibit B);
3. Ballot Tabulation and Solicitation Procedures, as approved by the order of the Bankruptcy Court, dated [], 2005 (the “Voting Procedures”) (Exhibit C);
4. Debtors’ Corporate Organization Chart (Exhibit D); and
5. Liquidation Analysis (Exhibit E);

In addition, a Ballot for the acceptance or rejection of the Plan is enclosed with the Disclosure Statement submitted to the holders of Claims that are entitled to vote to accept or reject the Plan.

Holders of Claims and Interests also may obtain a copy of the compilation of documents and forms of documents specified in the Plan that will be filed with the Bankruptcy Court on or before the date that is five (5) days prior to the Voting Deadline (the “Plan Supplement”), once filed, from the Debtors by written request sent to the Debtors’ claims agent:

² Exhibits to be filed no later than ten (10) days prior to the Disclosure Statement Hearing.

By US Mail

Pegasus Satellite Television, Inc.
c/o The Trumbull Group, LLC
P.O. Box 721
Windsor, Connecticut 06095-0721

OR By Overnight Courier

Pegasus Satellite Television, Inc.
c/o The Trumbull Group, LLC
Griffin Center
4 Griffin Road North
Windsor, Connecticut 06095

THIS DISCLOSURE STATEMENT HAS BEEN APPROVED BY ORDER OF THE BANKRUPTCY COURT AS CONTAINING INFORMATION OF A KIND, AND IN SUFFICIENT DETAIL, TO ENABLE HOLDERS OF CLAIMS AND INTERESTS TO MAKE AN INFORMED JUDGMENT IN VOTING TO ACCEPT OR REJECT THE PLAN. APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION OR RECOMMENDATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR THE MERITS OF THE PLAN.

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN DOCUMENTS RELATED TO THE PLAN, CERTAIN EVENTS IN THE CHAPTER 11 CASES, AND CERTAIN FINANCIAL INFORMATION. ALTHOUGH THE DEBTORS BELIEVE THAT SUCH SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTORS EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTORS DO NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AND EXHIBITS HERETO RELATES TO THE DEBTORS' CHAPTER 11 PLAN AND IS INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN. NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT AND ANY OTHER DISCLOSURE STATEMENTS AS MAY BE APPROVED BY THE BANKRUPTCY COURT, REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OF THE PLAN.

ALL CREDITORS ENTITLED TO VOTE ON THE PLAN ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, OTHER EXHIBITS ANNEXED OR REFERRED TO IN THE PLAN AND THIS DISCLOSURE

STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016(c) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER LAWS GOVERNING DISCLOSURE OUTSIDE THE CONTEXT OF CHAPTER 11. THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE “SEC”), NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS, AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT AND EXHIBITS HERETO WILL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION, OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS. THIS DISCLOSURE STATEMENT WILL NOT BE ADMISSIBLE IN ANY NONBANKRUPTCY PROCEEDING NOR WILL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES, OR OTHER LEGAL EFFECTS OF THE REORGANIZATION AS TO HOLDERS OF CLAIMS AGAINST, OR EQUITY INTERESTS IN THE DEBTORS OR ITS AFFILIATES.

A. Overview of the Plan

THE FOLLOWING IS A BRIEF SUMMARY OF THE TREATMENT OF CLAIMS AND INTERESTS UNDER THE PLAN. THE DESCRIPTION OF THE PLAN SET FORTH BELOW CONSTITUTES A SUMMARY ONLY AND IS QUALIFIED, IN ITS ENTIRETY, BY THE PLAN, THE PLAN SUPPLEMENT, THE LIQUIDATING TRUST AGREEMENT AND THE OTHER PLAN DOCUMENTS. CREDITORS AND OTHER PARTIES IN INTEREST ARE URGED TO REVIEW THE MORE DETAILED DESCRIPTION OF THE PLAN CONTAINED IN SECTION III OF THIS DISCLOSURE STATEMENT AND THE PLAN ITSELF. THE PLAN IS ATTACHED AS EXHIBIT A TO THIS DISCLOSURE STATEMENT. IN THE EVENT OF AN INCONSISTENCY BETWEEN THIS DISCLOSURE STATEMENT AND THE PLAN, THE PLAN CONTROLS.

In brief, the Plan provides for Distributions to be made by a Liquidating Trust to holders of Allowed Claims from proceeds received from, among other things, the sale of the Debtors’ satellite business and, potentially, proceeds from the sale of the Debtors’ broadcast television business described below and the sale of the other assets of the Debtors contributed to the Liquidating Trust. As a condition to the effectiveness of the Plan, for Plan purposes only, the assets and liabilities of the PST Debtors will be substantively consolidated into the estate of PST and the assets and liabilities of the PBT Debtors will be substantively consolidated into PBT.

The following table briefly summarizes the classification and treatment of Claims and Interests under the Plan.

THE RECOVERY PERCENTAGES SET FORTH IN THE FOLLOWING TABLE ARE MERELY ESTIMATES. THE ACTUAL AMOUNTS DISTRIBUTED TO HOLDERS OF CLAIMS UNDER THE PLAN MAY BE HIGHER OR LOWER THAN ESTIMATED.

<u>Class</u>	<u>Description</u>	<u>Treatment Under The Plan</u>	<u>Estimated Recovery</u>	<u>Status</u>
--	Administrative Expense Claims	Paid in full, in Cash, or in accordance with the terms and conditions of transactions or agreements, except to the extent already paid or the holder agrees to different treatment.	100%	Unimpaired
--	Fee Claims	Paid in full, in Cash, except to the extent already paid or the holder agrees to different treatment.	100%	Unimpaired
--	Priority Tax Claims	Paid in full, in Cash, provided that each Debtor may elect to pay any Priority Tax Claim, plus interest, over a period not exceeding six years after the date of assessment of such Claim.	100%	Unimpaired
1A, 1B, 1C and 1D	Secured Claims	At the option of the Debtors, with the consent of the Creditors' Committee, which consent shall not be unreasonably withheld, or upon order of the Bankruptcy Court (i) reinstated after the cure of any default, (ii) paid in full, in Cash, or (iii) discharged in exchange for the property securing such Claim and an unsecured deficiency claim in Class 3A, 3B, 3C or 3D, if and as applicable.	100%	Unimpaired/ Deemed to Accept

<u>Class</u>	<u>Description</u>	<u>Treatment Under The Plan</u>	<u>Estimated Recovery</u>	<u>Status</u>
2A, 2B, 2C and 2D	Priority Non-Tax Claims	Paid in full, in Cash.	100%	Unimpaired/ Deemed to Accept
3A	General Unsecured Claims against PSC	Paid a pro rata share of the Liquidating Trust Interests and/or Liquidating Trust Available Cash	[%] ³	Impaired
3B, 3C and 3D	General Unsecured Claims against PMC, the PBT Debtors and the PST Debtors	Paid in full, in Cash.	100%	Impaired
4A	Subordinated Claims	No distribution.	0%	Impaired/ Deemed to Reject
5A-1	Preferred Stock Interests in PSC	No distribution.	0%	Impaired/ Deemed to Reject
5A-2	Common Stock Interests in PSC	No distribution.	0%	Impaired/ Deemed to Reject
5B-2, 5C-2 and 5D-2	Common Stock Interests in PMC, PST and PBT	Retain Interests but not entitled to receive dividends or other Distributions under the Plan	--	Unimpaired/ Deemed to Accept

B. Voting Instructions

THE DEBTORS STRONGLY RECOMMEND EACH CREDITOR ENTITLED TO VOTE ON THE PLAN VOTE TO ACCEPT THE PLAN.

On [], 2005, after notice and a hearing, the Bankruptcy Court issued an order approving the Voting Procedures. Among other things, these procedures (i) designate which holders of Claims are entitled to vote on the Plan and (ii) establish other procedures governing the solicitation and tabulation of Ballots. A copy of the Voting Procedures is attached to this Disclosure Statement as Exhibit C.

The Bankruptcy Code entitles only holders of impaired claims or equity interests who receive some distribution under a proposed plan to vote to accept or reject that plan. Holders of claims or equity interests that are unimpaired under a proposed plan are conclusively presumed to have accepted that plan and are not entitled to vote on it. Holders of claims or equity interests

³ To be provided.

that will receive no distributions under a proposed plan are conclusively presumed to reject that plan and, therefore, are also not entitled to vote on it. _

The holders of Claims in Classes 1A, 1B, 1C, 1D, 2A, 2B, 2C, 2D and the holders of Interests in Classes 5B-2, 5C-2 and 5D-2 are not Impaired under the Plan. Thus, pursuant to section 1126(f) of the Bankruptcy Code, the holders of Claims and Interests in those Classes are deemed to have accepted the Plan and are not entitled to vote.

The holders of Claims in Classes 3A, 3B, 3C and 3D are Impaired and thus may vote to accept or reject the Plan. The Debtors have enclosed Ballots with this Disclosure Statement to solicit the votes of all claimants in Classes 3A, 3B, 3C and 3D.

The holders of Claims in Class 4A and the holders of Interests in Classes 5A-1 and 5A-2 will receive no Distributions under the Plan. Thus, pursuant to section 1126(g) of the Bankruptcy Code, the holders of Claims and Interests in such Classes are deemed to have rejected the Plan and are not entitled to vote.

A BALLOT FOR ACCEPTANCE OR REJECTION OF THE PLAN IS BEING PROVIDED ONLY TO HOLDERS OF CLAIMS IN CLASSES 3A, 3B, 3C AND 3D. BEFORE VOTING, SUCH HOLDERS SHOULD READ THIS DISCLOSURE STATEMENT AND ITS EXHIBITS, INCLUDING THE PLAN AND THE EXHIBITS THERETO, IN THEIR ENTIRETY.

You may vote on the Plan by completing the enclosed ballot (the "Ballot") and mailing it to The Trumbull Group, LLC, the Debtors' claims and balloting agent, at the following addresses:

By US Mail

Pegasus Satellite Television, Inc.
c/o The Trumbull Group, LLC
P.O. Box 721
Windsor, Connecticut 06095-0721

OR By Overnight Courier

Pegasus Satellite Television, Inc.
c/o The Trumbull Group, LLC
Griffin Center
4 Griffin Road North
Windsor, Connecticut 06095

You should use the Ballot sent to you with this Disclosure Statement to cast your vote for or against the Plan. You may not cast Ballots or votes orally or by facsimile. **In order for your Ballot to be considered by the Bankruptcy Court, it must be received at the above address by 4:00 p.m. (prevailing Eastern time) on _____, 2005 (the "Voting Deadline").** If you are a holder of a Claim in Classes 3A, 3B, 3C or 3D, and you did not receive a Ballot with this Disclosure Statement, please contact the Debtors' balloting agent, The Trumbull Group, LLC, as set forth above. Only holders of Allowed Claims in Impaired Classes of Claims are entitled to vote on the Plan. Any Ballot executed by the holder of an Allowed Claim, but which does not indicate acceptance or rejection of the Plan, will be considered a vote to accept the Plan. Any Ballot not executed by the holder of an Allowed Claim will not be counted as a vote to accept or reject the Plan.

[Master ballot procedures to be provided.]

An Impaired class of Claims accepts the Plan if holders of at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Allowed Claims in the Class that are actually voted vote in favor of the Plan. Whether or not a creditor or interest holder votes on the Plan, such Person will be bound by the terms and treatment set forth in the Plan if the Plan is accepted by the requisite majorities of the classes of creditors and interest holders and is confirmed by the Bankruptcy Court. Pursuant to the provisions of section 1126(e) of the Bankruptcy Code, the Bankruptcy Court may disallow any vote accepting or rejecting the Plan if such vote is not cast in good faith.

If the voting members of an Impaired Class do not vote unanimously for the Plan but, nonetheless, vote for the Plan by at least the requisite two-thirds (2/3) in amount and one-half (1/2) in number of Allowed Claims in that Class actually voted, the Plan, at a minimum, must provide that each member of such Class will receive property of a value, as of the Effective Date, that is not less than the amount such Class members would receive or retain if the applicable Debtor were liquidated under chapter 7 of the Bankruptcy Code.

The Debtors may dispute proofs of Claims or Interests that have been filed or that the Debtors listed as disputed in the schedules the Debtors filed with the Bankruptcy Court. Persons whose Claims are disputed may vote on or otherwise participate in distributions under the Plan only to the extent that the Bankruptcy Court allows their Claims. The Bankruptcy Court may temporarily allow a Claim for voting purposes only. Allowance of a Claim for voting purposes or disallowance of a Claim for voting purposes does not necessarily mean that all or a portion of that Claim will be allowed or disallowed for distribution purposes. The Debtors' schedules listing Claims and whether such Claims are disputed can be inspected at the Portland, Maine offices of Bernstein Shur, Sawyer & Nelson, P.A. or at the offices of The Trumbull Group, LLC, as set forth above.

C. Confirmation of the Plan by the Bankruptcy Court

Once it is determined which Impaired classes have or have not accepted the Plan, the Bankruptcy Court will determine whether the Plan may be confirmed. Classes 4A, 5A-1 and 5A-2 will receive no distributions on account of their respective Claims and Interests and are therefore deemed to have rejected the Plan. However, the Bankruptcy Court may confirm the Plan even if all but one of the Impaired classes do not accept the Plan if the Bankruptcy Court finds that the remaining Impaired Class of Claims (not including any acceptances by "insiders" as defined in section 101(31) of the Bankruptcy Code) has accepted the Plan and that certain additional conditions are met. The Debtors will therefore request that the Bankruptcy Court confirm the Plan under section 1129(b) of the Bankruptcy Code with respect to any non-accepting Class of Claims or Interests.

Section 1129(b) of the Bankruptcy Code is generally referred to as the "cramdown" provision. Pursuant to the cramdown provision, the Bankruptcy Court may confirm the Plan over the objection of a non-accepting Class of Secured Claims if the Plan satisfies one of the alternative requirements of section 1129(b)(2)(A) of the Bankruptcy Code. Likewise, the Bankruptcy Court may confirm the Plan over the objection of a non-accepting Class of

Unsecured Claims if the non-accepting claimants will receive the full value of their Claims, or, if the non-accepting claimants receive less than full value, if no Class of junior priority will receive anything on account of their pre-petition Claims or Interests. As there are no Impaired Classes of Secured Creditors under the Plan, the Bankruptcy Court may confirm the Plan if it meets the requirements of section 1129(b) of the Bankruptcy Code regarding unsecured creditors.

If the Plan does not meet the cramdown requirements as set forth above with respect to some but not all of the Debtors, the Debtors, with the consent of the Creditors' Committee, which consent shall not be unreasonably withheld, or upon order of the Bankruptcy Court, may (a) revoke the Plan as to all of the Debtors, or (b) revoke the Plan as to the Debtor not satisfying the cramdown requirements (such Debtor(s)' Chapter 11 Case(s) being converted to a chapter 7 liquidation, continued or dismissed as determined by the Debtors, with the consent of the Creditors' Committee, which consent shall not be unreasonably withheld, or upon order of the Bankruptcy Court) and confirmed as to the remaining Debtors.

THESE ARE COMPLEX STATUTORY PROVISIONS, AND THE PRECEDING PARAGRAPHS ARE NOT INTENDED TO BE A COMPLETE SUMMARY OF THE LAW. IF YOU DO NOT UNDERSTAND THESE PROVISIONS, PLEASE CONSULT WITH YOUR ATTORNEY.

Pursuant to section 1128 of the Bankruptcy Code, the Confirmation Hearing will be held on [], 2005, commencing at [] a.m./ p.m.] prevailing Eastern Time, before the Honorable James B. Haines, Jr., United States Bankruptcy Judge, at the United States Bankruptcy Court for the District of Maine, United States Courthouse, 537 Congress Street, Portland, Maine 04101. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served and filed so that they are received on or before [], 2005 at []:00 p.m., prevailing Eastern Time, in the manner described below in Section IV.B of this Disclosure Statement. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

II. GENERAL INFORMATION

A. Description and History of Debtors' Business

1. The Debtors

The Debtors in these Chapter 11 Cases are:

- Argos Support Services Company, a Texas corporation; Carr Rural TV, Inc., a Michigan corporation; DBS Tele-Venture, Inc., a Texas corporation; Digital Television Services of Indiana, LLC, a Georgia limited liability company; DTS Management, LLC, a Georgia limited liability company; Golden Sky DBS, Inc., a Delaware corporation; Golden Sky Holdings, Inc., a Delaware corporation; Golden Sky Systems, Inc., a Delaware corporation; Henry County MRTV, Inc., an Ohio corporation; Pegasus Satellite Television of Illinois, Inc., an Illinois corporation;

Pegasus Satellite Television, Inc., a Delaware corporation (“PST”); Primewatch, Inc., a North Carolina corporation; PST Holdings, Inc., a Delaware corporation (“PST Holdings”); and South Plains DBS, LP., a Texas limited partnership (collectively, the “PST Debtors”). PST Holdings owns, directly or through its subsidiaries, all of the equity interests of the other PST Debtors.

- Bride Communications, Inc., a Delaware corporation; B.T. Satellite, Inc., a Maine corporation; HMW, Inc., a Maine corporation; Pegasus Broadcast Associates, L.P., a Pennsylvania limited partnership; Pegasus Broadcast Television, Inc., a Pennsylvania corporation (“PBT”); Pegasus Broadcast Towers, Inc., a Delaware corporation; Portland Broadcasting, Inc., a Maine corporation; Telecast of Florida, Inc., a Florida corporation; WDSI License Corp., a Delaware corporation; WILF, Inc., a Delaware corporation; WOLF License Corp., a Delaware corporation; and WTLH License Corp., a Delaware corporation (collectively, the “PBT Debtors”). PBT owns, directly or through its subsidiaries, all of the equity interests of the other PBT Debtors.
- Pegasus Media & Communications, Inc., a Delaware corporation (“PMC”), which is the sole shareholder of both PBT and PST Holdings.
- Pegasus Satellite Communications, Inc., a Delaware corporation (“PSC”), which is the sole shareholder of PMC.

Pegasus Communications Corporation, a Delaware corporation (“PCC”), which is not a Debtor in these cases, is the ultimate corporate parent of the Debtors and is the sole shareholder of PSC. The chart attached as Exhibit D reflects the corporate organization of the Debtors as of the Petition Date.

2. Business Operations Prior to Chapter 11 Cases

PCC is a non-Debtor, publicly listed company trading on the NASDAQ stock market under the symbol PGTVE. PSC is a holding company and is the direct parent company and sole shareholder of PMC, which is also a holding company. Prior to the commencement of these chapter 11 cases, PMC conducted direct broadcast satellite operations through the PST Debtors and television broadcasting operations through the PBT Debtors. As of the Petition Date, the primary direct broadcast satellite operating subsidiary of PMC was PST and the primary broadcast operating subsidiary was PBT. As will be described in greater detail below, the Debtors’ direct broadcast satellite business was sold to DIRECTV, Inc. for approximately \$938 million, subject to certain adjustments, pursuant to an order of the Bankruptcy Court dated August 26, 2004. The Debtors anticipate that they may sell their broadcast business pursuant to bidding procedures to be approved by the Bankruptcy Court.

(a) Direct Broadcast Satellite Business

As of the Petition Date, the Debtors’ principal operating business was the direct broadcast satellite business. Specifically, the PST Debtors provided DIRECTV⁴ programming services to

⁴ “DIRECTV” is the registered trademark of DIRECTV, Inc.

rural households across the United States. As of March 31, 2004, the Debtors involved in the satellite business collectively were the largest independent distributor of DIRECTV programming with 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. The Debtors had consolidated assets of approximately \$1.6 billion related to their direct satellite business, which generated net revenues of approximately \$831 million during calendar year 2003.

Direct broadcast satellite programming services are digital broadcasting services that require a subscriber to install or have installed a satellite receiving antenna (or dish) and a digital receiver. DIRECTV requires subscribers to have a satellite dish, which can be as small as 18 inches in diameter depending on the services received, to which DIRECTV directly transmits programming services via multiple satellites. The PST Debtors, as exclusive distributors of DIRECTV DBS services, offered certain core DIRECTV programming packages to subscribers, which varied according to channels delivered and price.

As of the Petition Date, the Debtors had approximately 779 employees devoted to their direct satellite business. In addition, the PST Debtors maintained an independent retail network through dealer relationships to distribute DIRECTV programming in their exclusive territories. The PST Debtors' network included over 4,000 independent retailers, consumer electronics stores, and other retailers serving rural markets in the PST Debtors' exclusive service areas. The PST Debtors' retail network was one of the few sales and distribution channels available to digital satellite service providers seeking broad and effective distribution in rural areas throughout the continental United States.

The Debtors' rights to distribute DIRECTV programming were acquired through their affiliation with the National Rural Telecommunications Cooperative (the "NRTC"), a cooperative organization whose members and affiliates are engaged in the distribution of telecommunications and other services in predominantly rural areas of the United States. The Debtors provided DIRECTV DBS services through agreements with the NRTC called the "NRTC/Member Agreements for Marketing and Distribution of DBS Services" (the "Member Agreements"). The NRTC obtained DIRECTV DBS services through a contract with DIRECTV called the "DBS Distribution Agreement," dated as of April 10, 1992, as amended, between the NRTC and DIRECTV as well as its predecessor, Hughes Communications Galaxy, Inc. (the "DBS Agreement"). By virtue of obtaining DBS services under the Member Agreements, the Debtors involved in the satellite business became associate members (sometimes referred to as "affiliates") and patrons of the NRTC, and received patronage capital certificates (the "Patronage Certificates") representing ownership of equity in the NRTC.

(b) Broadcast Business

In addition to their direct satellite business, certain of the PBT Debtors are either owners or programmers of eight television stations affiliated with either CBS Television ("CBS"), Fox Broadcasting Company ("Fox"), United Paramount Network ("UPN"), or The WB Television Network ("WB"). As of December 31, 2003, the Debtors had consolidated assets of approximately \$57.0 million related to their television broadcasting business. As of the Petition

Date, the Debtors had approximately 163 employees devoted to their broadcast television business.

In certain markets where the PBT Debtors already own a television broadcast station, the PBT Debtors have entered into local marketing agreements or similar agreements (“LMA’s”). These agreements allow the PBT Debtors to program the broadcast hours and sell advertising for the time of a station whose FCC license is owned by a third party. The PBT Debtors entered into the LMA’s because pursuant to current rules administered by the Federal Communications Commission the number of television stations one entity may own in a given market is limited. Thus, the LMA’s allow the PBT Debtors to obtain additional opportunities for increasing revenue share with limited additional operating expenses. There are three markets in which the PBT Debtors own stations and separately program a station pursuant to an LMA: Portland, Maine; Wilkes-Barre/Scranton, Pennsylvania; and Tallahassee, Florida.

The markets served by, call letters and network affiliations of the stations owned and/or operated by the PBT Debtors are: Portland, Maine – WPXT (WB) and WPME (UPN); Chattanooga, Tennessee – WDSI (Fox); Tallahassee, Florida – WTLH (Fox) and WTLF (UPN); Wilkes-Barre/Scranton, Pennsylvania – WOLF (Fox), WILF (WB) and WSWB (WB), and Gainesville, Florida – WGFL (CBS). This coverage allowed the PBT Debtors to reach almost 2% of the television-viewing audience in the United States.

3. Debtors’ Capital Structure and Prepetition Financing Arrangements

As noted above, PST Holdings and PBT are the direct or indirect parents of the other PST Debtors and PBT Debtors, respectively. PST Holdings and PBT are direct subsidiaries of PMC, which is the wholly-owned subsidiary of PSC. PSC has issued and outstanding 100 shares of Class B common stock, all of which is owned by PCC. The Debtors’ prepetition debt structure is largely comprised of two components: (1) senior secured bank debt through two term loan credit facilities and one revolving credit facility, and (2) unsecured bond debt. As of March 31, 2004, the Debtors had outstanding indebtedness of approximately \$1.5 billion. As set forth in the Debtors’ Schedules, as of the Petition Date, there were no intercompany payables or receivables by and among the Debtors.

(a) Term Loans

As of the Petition Date, PMC was indebted under a term loan facility in the aggregate principal amount of \$391,766,856 and accrued but unpaid interest thereon in the approximate amount of \$2,950,150, plus all fees and other amounts due and owing under a Fourth Amendment and Restatement of Credit Agreement, dated as of October 22, 2003, among PMC, the various lenders party thereto (collectively, the “Prepetition Term Loan Lenders”) and Bank of America, N.A., as administrative agent, and Banc of America Securities, LLC, as sole lead arranger, and certain other agreements entered in conjunction thereto (collectively, as amended, the “Prepetition Term Loan Documents”, and the obligations thereunder, the “Prepetition Term Loan Obligations”). PSC, as limited recourse guarantor, is contingently liable to the Prepetition Term Loan Lenders with respect to the Prepetition Term Loan Obligations pursuant to a certain limited recourse guarantee executed by PSC. Certain subsidiaries of PMC, including PST, as

guarantors, are also contingently liable to the Prepetition Term Loan Lenders with respect to the Prepetition Term Loan Obligations pursuant to a subsidiary guaranty executed by them.

To secure the term loan obligations, PMC and the subsidiary guarantors granted to the Prepetition Term Loan Lenders security interests in and liens upon substantially all of their respective personal and material real property and other assets, then owned or thereafter acquired, as well as the proceeds, products, rents and profits of all such property. In addition, PSC granted security interests in and liens upon PSC's right, title and interest in all outstanding equity securities of PMC and certain of its other direct subsidiaries and certain other personal property collateral.

(b) Revolving Credit Agreement

As of the Petition Date, PMC was also indebted under a Credit Agreement, dated as of December 19, 2003, among PMC, Madeleine L.L.C., as administrative agent, the several lenders thereto (collectively, the "Revolving Lenders") and Banc of America Securities LLC, as sole lead arranger and sole book manager (the "Revolving Credit Agreement"), in the following amounts: (i) revolving loans in the aggregate principal amounts of \$18,000,000, (ii) accrued but unpaid interest thereon in the approximate amount of \$275,410, and (iii) a commitment fee in the amount of \$10,416.67 plus all other fees and other amounts due and owing under the revolving credit documents. PSC and the subsidiary guarantors of PMC are contingently liable on the Revolving Credit Agreement pursuant to certain guarantees executed by them. To secure the revolving credit obligations, PMC, PSC and the subsidiary guarantors granted security interests in and Liens upon all of the prepetition term loan collateral discussed above.

(c) Junior Term Loans

Pursuant to an Amended and Restated Term Loan Agreement, dated as of August 1, 2003, among PSC, the several lenders party thereto (the "Junior Term Loan Lenders") and DBS Investors Agent, Inc, (the "Junior Term Loan Agreement"), the Junior Term Loan Lenders made term loans and other financial accommodations to PSC in the aggregate principle amount of \$104,402,897 and accrued but unpaid interest thereon in the approximate amount of \$2,246,374 (the "Junior Term Loan Obligations"). To secure the Junior Term Loan Obligations, PSC granted security interests in and liens upon all outstanding equity securities of PMC, all dividends and Distributions thereon and all proceeds thereof, all indebtedness of PMC owed to PSC, including all intercompany loans made to PSC from PMC, and all payments received by PSC from PMC with respect to such indebtedness, and all Tax Sharing Payments (as defined in the Junior Term Loan Agreement) received by PSC.

(d) Unsecured Bonds

As of the Petition Date, PSC had issued and outstanding six (6) series of unsecured notes, with principal balances and accrued interest as follows:

<u>Notes</u>	<u>Principal</u>	<u>Accrued Interest</u>
9 5/8% Senior Notes Due 2005	\$80,591,000	\$1,034,251
9 3/4% Senior Notes Due 2006	\$71,055,000	\$3,502,419
12 1/2% Senior Notes Due 2007	\$118,521,000	\$5,020,681
12 3/8% Senior Notes Due 2006	\$158,205,000	\$6,634,722
13 1/2% Senior Subordinated Discount Notes Due 2007	\$128,790,000	\$4,443,255
11 1/4% Senior Notes Due 2010	\$341,924,000	\$14,745,473
	Total	
	\$899,086,000	\$35,380,801

4. Events Leading to Commencement of Chapter 11 Cases

(a) DIRECTV Litigation

As described above, prior to the Petition Date, the Debtors involved in the satellite business collectively were the largest independent distributor of DIRECTV DBS services with approximately 1.1 million subscribers and the exclusive right to distribute certain DIRECTV services to approximately 8.4 million rural households in specified territories within 41 states. The Debtors provided DIRECTV DBS services through the Member Agreements with the NRTC and through the NRTC's DBS Agreement with DIRECTV.

In 1999, the NRTC filed two lawsuits in the United States District Court for the Central District of California (the "California District Court") against DIRECTV, seeking to enforce the NRTC's contractual rights under the DBS Agreement (the "NRTC Litigation"). The NRTC Litigation sought to obtain from DIRECTV, among other things: (i) certain premium programming (including HBO, Cinemax, ShowTime and The Move Channel) and certain advanced services (such as the TiVo digital video recorder service) for exclusive distribution under the Member Agreements; and (ii) the NRTC's share of launch fees and other benefits that DIRECTV and its affiliates obtained relating to programming and other services. DIRECTV filed counterclaims in the NRTC Litigation seeking declarations clarifying the initial term (duration) of the DBS Agreement and its obligations after that initial term. In January of 2000, PST filed a lawsuit against DIRECTV in the California District Court asserting substantively similar claims as were pending in the NRTC Litigation (the "PST Litigation"). PST asserted various torts and unfair business practices claims under California law, and sought declaratory relief, damages (including punitive damages), restitution and injunctive relief. A class of plaintiffs, consisting of participants in the NRTC's direct broadcast satellite project other than PST, also filed a lawsuit in the California District Court asserting similar claims against DIRECTV as were pending in the PST Litigation (the "Class Litigation"). DIRECTV filed counterclaims in the PST Litigation and the Class Litigation asserting claims for declaratory

relief regarding the initial term of the Member Agreements and DIRECTV's obligations to PST and the class members after the initial term.

After several years of consolidated discovery and motion practice, during which time some of the pending claims were resolved by summary judgment and voluntary dismissal, a consolidated trial was scheduled to begin for the remaining claims and counterclaims in the NRTC Litigation, the PST Litigation and the Class Litigation in August 2003. However, on the eve of trial, and following an announcement by News Corporation of its intention to acquire control of DIRECTV and its parent, Hughes Electronics, DIRECTV and the NRTC reached an agreement to settle the NRTC Litigation (the "California Settlement"). In addition, the parties reached an agreement to settle the Class Litigation subject to a fairness hearing by the judge. Among other things, the California Settlement amended the DBS Agreement between the NRTC and DIRECTV to change the term of that agreement in a manner that PST considered detrimental, relinquish or redefine rights of NRTC members and affiliates to certain revenues, and accept an agency role with reduced economic benefits for NRTC members and affiliates in the sale of certain services.

In September 2003, PST moved to intervene in the NRTC Litigation for the limited purpose of objecting to the California Settlement. The court denied PST's motion to intervene, finding that PST's rights under its Member Agreements were not affected by the California Settlement. PST sought clarification of the court's ruling or reconsideration of its motion to intervene, or, in the alternative, a stay pending appeal. This motion was denied, and PST appealed the denial to the United States Court of Appeals for the Ninth Circuit. The Ninth Circuit denied PST's request for a stay of the California Settlement pending resolution of the appeal, and the California Settlement became effective in February 2004. PST subsequently dismissed its appeal.

As a result of the California Settlement, the district court dismissed PST's remaining causes of action against DIRECTV for lack of standing, based on finding that they represented an attempt to enforce rights held only by the NRTC. In addition, the district court dismissed DIRECTV's remaining counterclaim against PST regarding the duration of the Member Agreements. PST's rights under its Member Agreements were never fully litigated.

(b) Seamless Marketing Agreement Litigation

On June 22, 2001, DIRECTV brought suit against PST for alleged failure to make payments required by the Seamless Marketing Agreement dated August 9, 2000, as amended, between DIRECTV and PST (the "Seamless Marketing Agreement"). The Seamless Marketing Agreement provided for seamless marketing and sales for DIRECTV retailers and distributors and also provided for reciprocal obligations by DIRECTV and PST to pay subscriber acquisition fees and satellite receiver equipment buy down fees to each other under certain circumstances. PST filed counterclaims against DIRECTV, alleging that DIRECTV breached the Seamless Marketing Agreement and engaged in unlawful and/or unfair business practices as defined in the California Business and Professions Code. PST also sought rescission of the Seamless Marketing Agreement on grounds of fraudulent inducement. On April 14, 2004, a jury returned a verdict for DIRECTV, awarding DIRECTV \$51.5 million on its breach of contract and open book accounting claims. In addition, the jury ruled in DIRECTV's favor on PST's

counterclaims. On May 24, 2004, the court entered judgment in the amount of \$62,586,479.43, which included prejudgment interest calculated through the date of entry of the judgment.

(c) Termination of the DBS Agreement and the Member Agreements

On June 2, 2004, the Debtors received notice from the NRTC that effective June 1, 2004, the NRTC and DIRECTV terminated the DBS Agreement and their related Trademark License Agreement. The NRTC also informed the Debtors that it had terminated the Member Agreements effective August 31, 2004 and DIRECTV informed the Debtors that it had terminated a seamless consumer agreement separately covering provision of certain DBS services effective August 31, 2004. Immediately after notifying the Debtors of the termination of these agreements, DIRECTV began directly marketing and selling DBS services to the Debtors' subscribers within the Debtors' exclusive territories. These efforts by DIRECTV threatened to destroy the Debtors' relationship with its customers and its dealers and eroded the Debtors' DBS business.

B. Events During Chapter 11 Cases

On June 2, 2004, each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Maine. Since the Petition Date, the Debtors have continued to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. The Chapter 11 Cases are being jointly administered for procedural purposes but have not been substantively consolidated.

The following is a brief description of certain major events that have occurred during the pendency of these Chapter 11 Cases:

1. "First Day" Relief

On the first day of the Debtors' Chapter 11 Cases, the Debtors filed several motions seeking "first day" relief. This first day relief was designed to meet the goals of: (1) continuing the Debtors' operations in chapter 11 with as little disruption and loss of productivity as possible; (2) maintaining the confidence and support of customers, employees and certain other key constituencies; and (3) establishing procedures for the smooth and efficient administration of the Chapter 11 Cases.

The Bankruptcy Court approved the requested first day relief in various orders ("First Day Orders") signed by the Bankruptcy Court on June 4 and 6, 2004. These First Day Orders provided for, among other things:

- Joint administration of the Debtors' Chapter 11 Cases;
- The continued maintenance of the Debtors' bank accounts, continued use of existing business forms, continued use of the Debtors' existing cash management system, and approval of the Debtors' investment guidelines on an interim basis;

- Authority for payments to employees of accrued pre-petition wages, salaries and benefits;
- Authority for continued utility service during the pendency of the Debtors' Chapter 11 Cases;
- Authority to pay pre-Petition Date sales, use and other taxes;
- Authority to pay certain pre-Petition Date claims of non-debtor dealers;
- Authority to honor certain pre-Petition Date obligations to Debtors' customers;
- Authority to continue operating under the Support Services Agreement with Pegasus Communications Management Company ("PCMC").

2. Use of Cash Collateral

On June 3, 2004, the Debtors filed an Emergency Motion for an Interim Order (a) Authorizing Use of Cash Collateral, (b) Granting Adequate Protection to Certain Prepetition Secured Parties Pursuant to Sections 105, 361, and 363 of the Bankruptcy Code Including Replacement Liens and Superpriority Claims and (c) Scheduling a Hearing for Final Approval of Use of Cash Collateral (the "Cash Collateral Motion"). Pursuant to the Cash Collateral Motion, the Debtors sought to use cash collateral arising from or constituting proceeds of their prepetition collateral to satisfy the Debtors' ongoing business expenses in a manner consistent with the budget submitted with the motion. By order dated June 8, 2004, the Bankruptcy Court authorized the Debtors to use the cash collateral on an interim basis. On June 25, 2004, the Bankruptcy Court entered certain findings of fact and conclusions of law and a final order authorizing the Debtors to use the cash collateral (the "Final Cash Collateral Order").

3. Employment of Debtors' Professionals

In connection with the prosecution of these Chapter 11 Cases, the Debtors retained the professionals described below.

- By Order dated June 4, 2004, the Bankruptcy Court approved the retention of The Trumbull Group, L.L.C., as claims and noticing agent for the Debtors, effective as of the Petition Date.
- By Order dated June 24, 2004, the Bankruptcy Court approved the retention of Sidley Austin Brown & Wood, as attorneys for the Debtors, effective as of the Petition Date.
- By Order dated June 24, 2004, the Bankruptcy Court approved the retention of Bernstein, Shur, Sawyer & Nelson, as attorneys for the Debtors, effective as of the Petition Date.
- By Order dated June 24, 2004, the Bankruptcy Court approved the retention of Kekst & Company, Inc., as corporate communications consultants for the Debtors, effective as of the Petition Date.

- By Order dated June 24, 2004, the Bankruptcy Court approved the retention of Hewitt Associates, LLC, as compensation consultants for the Debtors, effective as of the Petition Date.
- By Order dated June 24, 2004, the Bankruptcy Court approved the retention of Capital Management Associates, Inc., as cooperative issues expert for the Debtors, effective as of the Petition Date.
- By Order dated June 28, 2004, the Bankruptcy Court approved the retention of Shaw Pittman, LLP, as special counsel in connection with certain communications law matters for the Debtors, effective as of the Petition Date.
- By Order dated June 28, 2004, the Bankruptcy Court approved the retention of Drinker, Biddle & Reath, LLP, as special corporate and regulatory counsel to the Debtors, effective as of the Petition Date.
- By Order dated June 29, 2004, the Bankruptcy Court approved the retention of FTI Consulting, Inc., as financial advisors to the Debtors, effective as of the Petition Date.
- By Order dated June 29, 2004, the Bankruptcy Court approved the retention of Arnold & Porter LLP, as special litigation counsel to the Debtors, effective as of the Petition Date.
- By Order dated July 22, 2004, the Bankruptcy Court approved the retention of PricewaterhouseCoopers LLP, as accountant and auditor for the Debtors, effective as of the Petition Date.
- By Order dated July 22, 2004, the Bankruptcy Court approved the retention of King & Spalding, as special corporate and transactional counsel to the Debtors, effective as of the Petition Date.
- By Order dated July 22, 2004, the Bankruptcy Court approved the retention of Herbein Consulting Inc., as corporate taxation advisors to the Debtors, effective as of the Petition Date.
- By Order dated August 2, 2004, the Bankruptcy Court approved the retention of Miller Buckfire Lewis Ying & Co., LLC, as financial advisor and investment banker to the Debtors, effective as of the Petition Date.
- By Order dated October 12, 2004, the Bankruptcy Court approved the retention of KPMG LLP, as taxation planning advisors, effective as of September 29, 2004.

In addition to the professionals listed above, on June 24, 2004, the Bankruptcy Court authorized the Debtors to retain and compensate certain “ordinary course professionals” that render services in the ordinary course of the Debtors’ businesses. These professionals include: (i) Seyfarth Shaw LLP, as counsel on employment issues; (ii) Capell & Howard, P.C., as counsel for litigation matters in Alabama; (iii) Polsinelli, Shalton & Welte, as counsel for litigation

matters in Kansas and Missouri; (iv) Balch & Bingham LLP, as counsel for ongoing litigation in Alabama; (v) Lynn, Tillotson & Pinker, LLP, as counsel for ongoing litigation in Texas; (vi) Fleischman & Walsh, as counsel with respect to matters involving the Federal Communications Commission; (vii) Martinez, Odell & Calabria, as counsel for employment issues in Puerto Rico; (viii) Murtha, Cullina, Richter & Pinney LLP, as counsel for ongoing litigation in Connecticut; (ix) Kreischer Miller & Co., as provider of accounting services in connection with regulatory compliance; and (x) Media Venture Partners, as an expert on valuation of television ownership combinations.

The Creditors' Committee has also retained certain professionals to assist them in their appointed duties, as described below.

4. Appointment of the Unsecured Creditors' Committee

On June 10, 2004, the United States Trustee for the District of Maine (the "U.S. Trustee") appointed a 6-member committee to represent the interests of unsecured creditors of the Debtors pursuant to section 1102(a)(1) of the Bankruptcy Code. On June 14, 2004, the U.S. Trustee added Silver Point Capital and its affiliates to the Creditors' Committee. On November 4, 2004, the U.S. Trustee filed a Second Amended Notice of Appointment of Creditors' Committee to reflect the resignation of certain members of the Creditors' Committee and the addition of Sandell Asset Management Corp. The current members of the Creditors' Committee are set forth below:

Creditors' Committee Members	
Wachovia Bank, NA, as indenture trustee 1230 Peachtree Street N.E., Suite 3100 Atlanta, Georgia 30309	J.P. Morgan Trust Company, NA, as indenture trustee 4 New York Plaza, 15th Floor New York, New York 10004
HSBC Bank USA, as indenture trustee 452 Fifth Avenue New York, New York 10018	Silver Point Capital and affiliates 600 Steamboat Road Greenwich, Connecticut 06830
Sandell Asset Management Corp. 1251 Avenue of the Americas, 23rd Floor New York, New York 10020	Par Investments Partners (<i>ex officio member</i>) One International Place, Suite 2401 Boston, Massachusetts 02110

In connection with these cases, the Creditors' Committee retained several professionals as described below.

- By Order dated July 13, 2004, the Bankruptcy Court approved the retention of Akin Gump Strauss Hauer & Feld, LLP, as counsel to the Creditors' Committee, effective as of the Petition Date.

- By Order dated July 13, 2004, the Bankruptcy Court approved the retention of Pierce, Atwood, as counsel to the Creditors' Committee, effective as of the Petition Date.
- By Order dated July 27, 2004, the Bankruptcy Court approved the retention of Greenhill & Co., LLC, as financial advisor to the Creditors' Committee, effective as of the Petition Date.
- By Order dated July 27, 2004, the Bankruptcy Court approved the retention of Capital Technology Advisors, LLC, as financial advisor to the Creditors' Committee, effective as of the Petition Date.

Since the Creditors' Committee's formation, the Debtors have consulted with the Creditors' Committee concerning the administration of these Chapter 11 Cases. Throughout these Chapter 11 Cases, the Debtors have kept the Creditors' Committee informed with respect to their operations and have sought the concurrence of the Creditors' Committee for actions and transactions outside of the ordinary course of the Debtors' business, including, without limitation, authorization to use cash collateral, negotiation of the Global Settlement described below and the sale of the Debtors' Satellite Assets and the proposed sale of the Debtors' Broadcast Assets.

5. Motion to Enforce Automatic Stay

On June 7, 2004, in response to DIRECTV's ongoing, post-petition efforts to convert existing subscribers of the Debtors to DIRECTV and by marketing and selling DBS services directly to subscribers in the Debtors' exclusive territories, the Debtors filed a motion pursuant to section 362 of the Bankruptcy Code seeking enforcement of the automatic stay against DIRECTV. On June 10, 2004, the Bankruptcy Court held that all actions taken by DIRECTV that were inconsistent with the Debtors' ownership of and rights to its Subscriber Information (as defined under the Member Agreements) violated the automatic stay. However, the Bankruptcy Court did not require that DIRECTV cease its efforts to convert existing subscribers of the Debtors to DIRECTV and did not require that DIRECTV cease its efforts to market and sell its DBS services in the Debtors' exclusive territories.

6. Adversary Proceeding

On June 14, 2004, the Debtors filed an adversary proceeding in the Bankruptcy Court (the "Adversary Proceeding") in which DIRECTV, the NRTC and the NRTC's officers and directors were named as defendants and in which the Debtors sought, among other things, either specific performance of the Member Agreements (and reinstatement of the DBS Agreement, to the extent such reinstatement was necessary to permit the NRTC to perform under the Member Agreements) or damages from the NRTC and DIRECTV to compensate the Debtors for the full value of the terminated Member Agreements. The Debtors alleged, among other things, that the NRTC and its officers and directors had violated fiduciary and other duties to the Debtors and that DIRECTV had aided and abetted those violations.

In connection with the Adversary Proceeding, the Debtors also sought a temporary restraining order requesting the Bankruptcy Court to, among other things, restore the status quo

as of the date of the termination of the DBS Agreement and the Trademark License Agreement (as defined in the DBS Agreement) and to prevent the scheduled termination of the Member Agreements and the Seamless Marketing Agreement from taking effect. In a bench decision and order rendered on June 21, 2004, the Bankruptcy Court denied the Debtors' request for a temporary restraining order, finding that the Debtors had demonstrated neither a probability of success on the merits of the underlying causes of action nor irreparable harm as a direct result of DIRECTV's and the NRTC's actions. In order to accelerate their ability to appeal this ruling, the Debtors accepted the Bankruptcy Court's offer to convert the temporary restraining order ruling into a ruling on a preliminary injunction, and the Bankruptcy Court entered the Injunction Order denying the Debtors' request for a preliminary injunction for the same reasons. The Debtors filed a notice of appeal from the Injunction Order (the "Appeal") with the United States District Court for the District of Maine (the "District Court"). The District Court granted the Debtors' motion for expedited briefing of the Appeal, but no hearing was scheduled.

In connection with the Adversary Proceeding, DIRECTV contended that the Debtors could not sell or transfer their proprietary DBS subscriber relationships to a purchaser of the Debtors' assets because the Debtors' rights, if any, to crucial Subscriber Information were circumscribed. It was DIRECTV's position that without the consent of DIRECTV (as the NRTC's assignee and as the intended third-party beneficiary of the Member Agreements), the Debtors were contractually prohibited from (i) selling or transferring Subscriber Information to third parties for a period of five years following the termination of the Member Agreements, and (ii) using any such information for any purpose other than as permitted by the Member Agreements and by the NRTC board policies.

7. Settlement Agreement

Recognizing (i) the threat to the Debtors' continued DBS operations posed by the August 31st termination of the Member Agreements and the seamless consumer agreement, (ii) the risk and expense of unrestrained litigation in the Adversary Proceeding, and (iii) the impediments to an effective sale process for the Debtors' DBS business imposed by both the impending termination of service and DIRECTV's position that the Debtors were contractually prohibited from selling or otherwise transferring any Subscriber Information to a competing buyer, the Debtors, with the assistance of the Creditors' Committee, engaged in extensive settlement discussions with DIRECTV and the NRTC throughout late June and July 2004 in an effort to both resolve the Adversary Proceeding and maximize the value that could be realized in respect of the Debtors' DBS business. Concurrently, the Creditors' Committee negotiated with certain non-Debtor affiliates of the Debtors (the "Pegasus Non-Debtors") regarding the terms on which the Pegasus Non-Debtors would join the Settlement as required by DIRECTV and the NRTC. On July 30, 2004, the parties entered into four (4) separate but related agreements in an effort to resolve their disputes (the "Global Settlement"), each of which was subject to the approval of the Bankruptcy Court and other conditions: (1) the Debtors and DIRECTV entered into an Asset Purchase Agreement under which the Debtors would receive a purchase price of approximately \$938 million, subject to certain adjustments, from DIRECTV in exchange for substantially all of the Debtors' satellite assets (the "Asset Purchase Agreement"); (2) the Debtors, the Pegasus Non-Debtors, the NRTC, DIRECTV and the Creditors' Committee entered into a Global Settlement Agreement under which the pending litigation would be dismissed and the parties would provide certain mutual releases (the "Global Settlement Agreement"); (3) the Debtors and

DIRECTV entered into a Cooperation Agreement to provide, among other things, for the continued operation of the Debtors' satellite assets until the consummation of the asset sale (the "Cooperation Agreement"); and (4) the Pegasus Non-Debtors and the Creditors' Committee entered into a Letter Agreement providing, among other things, an outline for a potential sale of the Debtors' broadcast assets (the "Letter Agreement").

On August 3, 2004, the Debtors filed a 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"). In an order dated August 26, 2004, the Bankruptcy Court approved the Global Settlement Motion.

(a) Asset Purchase Agreement

Under the Asset Purchase Agreement, DIRECTV agreed to purchase the Debtors' satellite assets (the "Satellite Assets") for a price of approximately \$938 million and the assumption of certain specified liabilities. Pursuant to the Asset Purchase Agreement, the cash purchase price payable was (i) reduced by (a) approximately \$62.7 million to reflect the amount owed by the Debtors to DIRECTV on account of the judgment entered in favor of DIRECTV and against Pegasus in the Seamless Marketing Litigation and (b) approximately \$159.8 million, representing amounts owed by the Debtors pursuant to the Member Agreements and (ii) increased by no less than (w) approximately \$16.8 million, consisting of \$10.8 million of cash patronage distributions due to Pegasus for 2003 and an agreed amount for 2004 and an additional \$6 million credited by DIRECTV, (x) approximately \$1.2 million, representing amounts owed to the Debtors at closing under the Cooperation Agreement, (y) \$11.4 million, representing an adjustment for the early closing of the sale of the Satellite Assets, and (z) approximately \$20.8 million it reflect the positive change in the net working capital associated with the Satellite Assets. In addition, under the Asset Purchase Agreement, the Debtors retained their rights to the Patronage Certificates in the aggregate face amount of approximately \$89 million. As discussed in more detail below, the closing of the sale of the Satellite Assets occurred on August 27, 2004.

The Satellite Assets acquired by DIRECTV from the Debtors included the following assets (with capitalized terms being defined in the Asset Purchase Agreement) held by the PST Debtors on the closing date:

- (a) all Subscriber Information;
- (b) all DIRECTV equipment and any rights to bill and collect from Subscribers for non-return fees in connection with DIRECTV equipment;
- (c) all rights to bill and collect from Subscribers for early termination or disconnect fees;
- (d) documents as specified in the Asset Purchase Agreement;

- (e) the leases, if any, set forth on Schedule 2.1(e) of the Asset Purchase Agreement (the “Purchased Facility Leases”), together with all improvements, fixtures and other appurtenances to real property subject to such Purchased Facility Leases and rights in respect thereof;
- (f) certain furniture and equipment;
- (g) the Member Agreements, the Seamless Agreement and the contracts set forth on Schedule 2.1(g) of the Asset Purchase Agreement and all rights thereunder;
- (h) all rights to receive cash patronage from the NRTC in an amount up to the Patronage Amount, with respect to the periods commencing January 1, 2003 and ending on the Closing Date, whenever such amounts may be distributed by the NRTC, excluding rights to Patronage Certificates or future cash distributions, if any, under Patronage Certificates as provided for in Section 4 of the Settlement Agreement;
- (i) all accounts receivable and unearned revenue of the selling Debtors as of the Closing Date that relate to the DBS business;
- (j) all rights under certain confidentiality agreements or under non-disclosure or confidentiality, non-compete or non-solicitation agreements with any employees that may be hired by DIRECTV;
- (k) to the extent transferable, all “1-800” telephone numbers owned or used by the Debtors in connection with the operation of the DBS business; and
- (l) any other asset, property or right existing on the closing date of the transactions contemplated by the Asset Purchase Agreement to the extent and in the amount such asset, property or right is included in calculating the Final Net Working Capital Amount.

(b) Cooperation Agreement

The Debtors and DIRECTV also entered into the Cooperation Agreement, which prescribed, inter alia, (i) the manner in which the Debtors would 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 would provide DBS services to the Debtors after August 31, 2004, if necessary, in the event that there was no closing of the Satellite Assets sale by that date. As more fully set forth in the Cooperation Agreement, working teams were 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 the transition. Prior to Court approval and closing of the Settlement, the working teams’ activities were limited to planning for the transition of subscribers and services to DIRECTV, with the actual transition of subscribers and services being implemented post-closing. The post-closing transition services were provided

by the Debtors for sixty (60) days following closing, and DIRECTV reimbursed the Debtors for all costs attendant to the provision of such services.

(c) Global Settlement Agreement

The Debtors could not realize the benefits of the Settlement without the participation and support of the Pegasus Non-Debtors. DIRECTV and the NRTC required, as a condition to the Global Settlement, a release of claims from all Pegasus entities including the Pegasus Non-Debtors. Moreover, without support services from the Pegasus Non-Debtors, including key management expertise provided by employees of PCMC, the Debtors could not have met their obligations to DIRECTV to maintain the integrity of the DBS business prior to closing and provide the pre- and post-closing cooperation and support envisioned by the Cooperation Agreement.

Under the Global Settlement Agreement, the Pegasus Non-Debtors released the Debtors from all claims, including an aggregate of approximately \$28.1 million due on the Petition Date under an inter-company note and other inter-company receivables due from the Debtors, other than claims arising after the Petition Date, including, but not limited to, claims arising under the Support Services Agreement. The Debtors released the Pegasus Non-Debtors from all claims, excluding claims under the Support Services Agreement. Both releases extend to the released parties' respective officers, directors and employees. The release given by the Debtors also extends to their own directors and officers, who overlap substantially with the directors and officers of the Pegasus Non-Debtors. Because of their dual roles, the Pegasus Non-Debtors' directors and officers (and derivatively, the Pegasus Non-Debtors themselves) would not have received a meaningful release unless they were also released in their capacity as directors and officers of the Debtors. In addition, certain members of the Creditors' Committee released the Pegasus Non-Debtors from all post-petition claims related to the Debtors, DIRECTV, the NRTC and the Chapter 11 Cases, including claims under the Support Services Agreement. In addition, the Creditors' Committee agreed not to object to (i) payment to PCMC for services provided or expenses incurred pre- and post-closing pursuant to the Cooperation Agreement or (ii) the allocation to the Debtors of liability for those payments in accordance with the Support Services Agreement.

Under the Global Settlement Agreement, the NRTC waived any argument that the Debtors' Patronage Certificates, in the aggregate face amount of approximately \$89 million, are subject to forfeiture as a consequence of the NRTC's alleged termination of the Debtors as affiliates of the NRTC. Specifically, the NRTC agreed that the Debtors will retain their right to receive patronage distributions in respect of the Patronage Certificates, but only upon the occurrence of certain trigger events. The NRTC also agreed that the Debtors' Patronage Certificates would not be subject to discriminatory treatment, subordination or distribution rights which are in any way inferior to other like patronage capital certificates held by other NRTC patrons, including by means of amendment to the NRTC's Articles of Incorporation or bylaws. In addition, the \$59 million letters of credit issued for the account of the NRTC (which are cash collateralized at 105% of their aggregate face amount) to secure payment of amounts due under the Member Agreements were returned to the Debtors undrawn and the Debtors received from the NRTC a general release of all claims. It is anticipated that the Patronage Certificates will be transferred to the Liquidating Trust on the Effective Date.

(d) Letter Agreement

Pursuant to the understanding set forth in the Letter Agreement, the Creditors' Committee and PCC agreed in general terms on PCC's submission of a stalking horse bid to acquire the Debtors' broadcast television assets (as more specifically defined in the Plan, the "Broadcast Assets"). The Creditors' Committee also agreed to support an employee retention plan on the terms outlined in the Letter Agreement, which included PCMC employees who provided services to the Debtors' DBS business.

(e) Closing of Sale

On August 27, 2004, following the Bankruptcy Court's approval of the Global Settlement, the Debtors consummated the sale of the Satellite Assets to DIRECTV pursuant to the terms of the Asset Purchase Agreement and the agreements comprising the Global Settlement became effective. Upon the closing of the sale of the Satellite Assets, the Debtors received from DIRECTV a general release of all claims, including with respect to the Seamless Litigation Judgment and all other litigation pending between the Debtors and DIRECTV.

(f) Payment of Secured Creditors

On September 10, 2004, the Debtors filed a Motion for an Order Pursuant to Sections 105 and 363(b) of the Bankruptcy Code (i) Shortening the Challenge Period in the Debtors' Cash Collateral Order, (ii) Allowing Certain Prepetition Secured Claims and (iii) Authorizing the Debtors to Make Payments to Certain Prepetition Secured Parties (the "Repayment Motion"), pursuant to which the Debtors sought to pay the principal and non-default accrued interest due under the Prepetition Term Loan Documents (the "Non-Disputed Secured Amounts"), the Revolving Credit Agreement and the Junior Term Loan Agreement. In addition to the Non-Disputed Secured Amounts, the Prepetition Term Loan Lenders, the Revolving Lenders (together with the Prepetition Term Loan Lenders, the "Senior Secured Lenders") and the Junior Term Loan Lenders (collectively with the Senior Secured Lenders, the "Secured Lenders") asserted the right to receive certain prepayment penalties and default interest under the prepetition loan documents.

In order to resolve the potential objections the Secured Lenders had to the Repayment Motion, the Debtors, the Secured Lenders and the Creditors' Committee entered into a Stipulation and Order Permitting Payment of Amounts to Senior Secured Lenders, Revolving Lenders and Junior Secured Lenders and Reserving Rights With Respect to Payment of Prepayment Premiums and Default Interest (the "Repayment Stipulation"), which was entered by the Bankruptcy Court on September 17, 2004. Pursuant to the Repayment Stipulation, on September 17, 2004, the Debtors paid (i) the Prepetition Term Loan Lenders \$393,609,123.23, (ii) the Revolving Lenders \$18,087,786.81 and (iii) the Junior Term Loan Lenders \$107,842,758.76. Additionally, as part of the Repayment Stipulation, the Secured Lenders agreed to file and serve a motion seeking allowance of prepayment premiums and default interest on or before October 5, 2004.

On October 15, 2004, following extensions agreed to between the Secured Lenders, the Debtors and the Creditors' Committee, (i) the Senior Secured Lenders filed the Motion of the

Steering Committee of the Secured Lenders for an Order Pursuant to Section 506(b) of the Bankruptcy Code for Allowance and Payment of (a) Default Interest and (b) Prepayment Amounts, and (ii) the Junior Term Loan Lenders filed a Motion for an Order Directing Payment of Prepayment Premium, Accrued Default Interest and Interest Thereon Under the Pegasus Junior Term Loan Agreement (together, the “Prepayment/Default Interest Motions”). Pursuant to the Prepayment/Default Interest Motions, the Senior Secured Lenders sought payment of \$2,420,066.69 in default interest and \$9,495,000 in prepayment penalties and the Junior Term Loan Lenders sought payment of \$791,579.35 in default interest and \$2,157,137.98 in prepayment penalties. The Creditors’ Committee, on behalf of the Estates, opposes the relief sought in the Default Interest Motions and, accordingly, on October 29, 2004, filed an objection to the Prepayment/Default Interest Motions. On November 5, 2004, the Secured Lenders filed responses to the Committee’s objection to the Default Interest Motions.

On November 24, 2004, the Junior Term Loan Lenders filed a Motion For Partial Summary Judgment (the “Partial Summary Judgment Motion”) requesting that the Bankruptcy Court enter an order finding that (i) the Junior Term Loan Lenders risked losing their recovery in these cases prior to the Debtors’ sale of their subscriber base on August 27, 2004, and (ii) the Global Settlement was voluntarily entered into by the Debtors and was not coerced by the Junior Term Loan Lenders. On December 10, 2004, the Senior Secured Lenders filed a joinder to the Partial Summary Judgment Motion. On December 13, 2004, the Creditors’ Committee, on behalf of the Estates, filed an objection to the Partial Summary Judgment Motion. On December 16, 2004, a hearing was held on the Partial Summary Judgment Motion. By order dated January 3, 2005, the Bankruptcy Court (i) granted the Junior Term Loan Lenders’ request for partial summary judgment on the issue of voluntariness of the Global Settlement, and (ii) denied the Junior Term Loan Lenders’ request for partial summary judgment on the issue of the risk of loss faced by the Junior Term Loan Lenders prior to the sale of the Debtors’ subscriber base, holding that there are disputed issues of material fact regarding the extent of the loss facing the Secured Lenders.

A hearing to consider the unresolved portions of the Prepayment/Default Interest Motions is currently scheduled for March __, 2005. To the extent the Secured Lenders are deemed to be owed any amounts in addition to the amounts paid to the Secured Lenders pursuant to the Repayment Stipulation, after the entry of a Final Order, the Debtors or the Liquidating Trustee, as the case may be, shall be required to make such payments to the Secured Lenders.

8. Sale of the Broadcast Business

The Debtors and the Creditors’ Committee have been engaged in negotiations with PCC regarding the sale of the Debtors’ Broadcast Assets. However, as of the date hereof, no agreement has been reached among the parties for the sale of the Debtors’ Broadcast Assets to PCC. If an agreement is reached with PCC, the Debtors’ obligations thereunder shall be subject to their ability to find higher and better offers and the approval of the Bankruptcy Court. To the extent no agreement is reached with PCC, the Debtors and the Creditors’ Committee may determine to, among other things, negotiate with an alternative “stalking horse” bidder, hold an open auction for the sale of the Broadcast Assets or otherwise provide for the transfer of the Broadcast Assets to the Liquidating Trust, which may be accomplished by, among other things, transferring the New PSC Common Stock to the Liquidating Trust.

If the Bankruptcy Court approves a Broadcast Sale, whether to PCC (a “PCC Court Approved Bid”) or to another entity (an “Alternate Court Approved Bid”), such sale will be consummated pursuant to the transaction documents approved by the Bankruptcy Court and the terms of the order approving the Broadcast Sale. The date on which the closing of the transactions contemplated by a PCC Court Approved Bid or an Alternate Court Approved Bid occurs is referred to herein as the “Closing Date” or the “Alternate Closing Date”, respectively.

If the Creditors’ Committee, in consultation with the Debtors, determines not to pursue a Broadcast Sale at this time, as soon as practicable after the later of the date of such determination and the Effective Date, the Old PSC Common Stock will be cancelled and the New PSC Common Stock transferred to the Liquidating Trust. If there is a PCC Court Approved Bid or an Alternate Court Approved Bid but the Broadcast Sale is not consummated on or before the Outside Closing Date, which shall be 120 days after the Confirmation Date (or such later date as the Reorganized Debtors, the Creditors’ Committee and PCC may agree) if PCC is the purchaser and six months (or such later date as the Creditors’ Committee may determine) after the Confirmation Date if another entity is the purchaser on the Outside Closing Date, the Old PSC Common Stock will be canceled and the New PSC Common Stock transferred to the Liquidating Trust. In either case, as directed by the Creditors’ Committee, the equity interests of one or more of the Reorganized Debtors may also be transferred to the Liquidating Trust or each Debtor or Reorganized Debtor, as applicable, may be dissolved.

9. Other Significant Events During the Chapter 11 Cases

(a) Key Employee Retention Plan.

The various aspects of the Debtors’ key employee retention plan, which has allowed the Debtors to retain the necessary complement of employees required to maximize the value of the Debtors’ estates during the Chapter 11 Cases, have been heavily negotiated by the Debtors and the Creditors’ Committee. On July 9, 2004, the Bankruptcy Court entered an 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, which provided for the retention of certain junior management employees. As part of the Global Settlement Agreement, the Debtors and the Creditors’ Committee were able to reach agreement on the retention of junior management employees and seven (7) members of senior management employed in the Debtors’ satellite business, which agreement was approved by the Bankruptcy Court pursuant to a Second Order Pursuant to 11 U.S.C. §§ 363(b) and 105(a) Authorizing and Approving Implementation of Management Retention Plan, as Further Modified, entered on August 3, 2004. 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, seeking authority to make certain retention payments to Mr. Ted S. Lodge, the president and chief executive officer of PCC and each of the Debtors, which was approved by the Bankruptcy Court on September 23, 2004.

On November 9, 2004, the Debtors filed a 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, seeking to further revise its key employee retention plan to ensure

the retention of key employees in both the satellite business and the broadcast business necessary to carry out the Debtors' obligations under the Plan. On November 24, 2004, the Bankruptcy Court entered an 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, in which it approved additional retention payments for key employees involved in the satellite business and certain severance payments and benefits for key employees involved in the broadcast business.

(b) Extensions of Exclusivity.

The Debtors' initial exclusive periods to propose a plan or plans of reorganization and solicit acceptances to such a plan (or plans) were set to expire on September 30, 2004 and November 28, 2004, respectively (the "Exclusive Periods"). The Exclusive Periods were extended from time to time, including pursuant to an order entered by the Bankruptcy Court on December 1, 2004, pursuant to which the exclusive period in which the Debtors could propose a plan or plans of reorganization was extended to December 31, 2004 and the exclusive period in which the Debtors were authorized to solicit acceptances to a filed plan was extended to February 28, 2005. The Debtors Exclusive Periods would automatically have been extended until January 31, 2005 and March 31, respectively, unless either the Creditors' Committee or Davidson Kempner Partners ("DK Partners"), opposed the extension of the Exclusive Periods by providing the Debtors with a written notification that it opposes such further extension by not later than December 21, 2004 (a "Notice of Non-Extension"). On December 21, 2004, the Creditors' Committee and DK Partners each served on the Debtors a Notice of Non-Extension. Accordingly, the Creditors' Committee and DK Partners had until January 7, 2005 to file an objection to such extension, and a hearing on the matter was scheduled before the Bankruptcy Court on January 10, 2005. The Exclusive Period for the Debtors to file the Plan was automatically extended until the scheduled hearing. With the filing of the Plan and Disclosure Statement on the date hereof, DK Partners' objection to the extension of the Exclusive Period in which the Debtors may file the Plan has become moot.

(c) Subscription Reporting Investigation.

On August 11, 2004, PCC received an investigative subpoena from the SEC to produce documents related to it and its subsidiaries' practices in reporting the number of subscribers of its direct satellite business. PCC and the Debtors are cooperating with the SEC in its investigation. The SEC has filed contingent, unliquidated claims for disgorgement and civil penalties that may arise from alleged possible violations of federal securities laws discovered by its investigation in the Chapter 11 Cases of PST, PST Holdings, PMC and PSC.

C. Bar Dates and Summary of Claims

1. Schedules and Statements

On August 16, 2004, the Debtors filed their respective Statements of Financial Affairs and Schedules of Assets and Liabilities (collectively, as amended, the "Schedules").

2. Bar Dates

By an order dated September 1, 2004 (the “Bar Date Order”), pursuant to Bankruptcy Rule 3003(c)(3), the Bankruptcy Court fixed October 12, 2004 (the “Bar Date”) as the date by which proofs of claim by all non-governmental claimants were required to be filed in these Chapter 11 Cases, except as otherwise provided for in the Bar Date Order. In accordance with the Bar Date Order, a proof of claim form, a notice regarding the scheduling of each Claim and a notice regarding the Bar Date and the Bar Date Order were mailed to creditors and parties in interest. Notice of the Bar Date also was published in The Wall Street Journal, The New York Times, and USA Today. The Bar Date Order further fixed November 30, 2004 as the date by which proofs of claim must be filed by governmental units in these Chapter 11 Cases. The Debtors have received approximately 1033 proofs of claim and equity interest.

On January __, 2005, the Debtors filed an [Administrative Bar Date Motion] requesting that the Bankruptcy Court enter an order establishing procedures for the filing and serving of Administrative Claim requests (the “Administrative Claims Bar Date Order”). Unless an earlier date is set forth in the Administrative Claims Bar Date Order, the Plan provides that all Administrative Claim requests must be filed and served no later than twenty (20) days after the Effective Date.

3. Summary of Claims

Based upon review of its Schedules and an initial review of the proofs of claim filed in these Chapter 11 Cases, the Debtors believe that a total of approximately \$ _____ in non-duplicative claims have been filed against or scheduled by them. In arriving at this estimate, the Debtors have given effect to the separate substantive consolidation of the PST Debtors and the PBT Debtors for purposes of the Plan.

The Debtors are in the process of undertaking an analysis to determine to what extent the non-duplicative scheduled and filed claims are valid. The actual amount of these claims that will share in Distributions from these estates depends upon many factors, including whether and in what form the Broadcast Sale takes place. In that regard, on December 27, 2004 the Debtors filed a First Omnibus Objection to and Motion to Reclassify, Reduce or Disallow Certain Claims Pursuant to 11 U.S.C. Section 502(b), Bankruptcy Rules 3001 and 3007, and D. ME. LBR 3007-1, objecting to certain Claims filed in the Chapter 11 Cases. as discussed in further detail herein, after the Effective Date, the Liquidating Trustee will be exclusively responsible for the claims resolution process.

III. THE PLAN

The Debtors believe that implementation of the Plan will provide holders of Allowed Claims a greater distribution than they would receive if the Chapter 11 Cases were converted to chapter 7 of the Bankruptcy Code. The Plan is annexed hereto as Exhibit A and forms a part of this Disclosure Statement. The summary of the Plan set forth below is qualified in its entirety by reference to the provisions of the Plan.

A. Effective Date

The following are conditions precedent to the Effective Date of the Plan:

- the Confirmation Order shall be reasonably acceptable in form and substance to the Debtors and the Creditors' Committee and shall have been entered;
- all authorizations, consents, and regulatory approvals, if any, required in connection with the Effective Date shall have been obtained;
- all documents, instruments and agreements, in form and substance satisfactory to the Debtors and the Creditors' Committee, provided for under or necessary to the Occurrence of the Effective Date, including the Liquidating Trust Agreement, shall have been executed and delivered by the parties thereto, unless such execution or delivery has been waived by all parties benefited thereby; and
- the Liquidating Trustee shall have established the Reserves in accordance with the Terms of the Plan and in amounts reasonably acceptable to the Debtors and the Creditors' Committee.

In the event that the Effective Date does not occur within sixty (60) days after the Confirmation Date, or such later date, after notice and a hearing, as is proposed by the Debtors and the Creditors' Committee, then upon motion by the Debtors, with the consent of the Creditors' Committee, or the Creditors' Committee and upon notice to such parties in interest as the Bankruptcy Court may direct, (a) the Confirmation Order shall be vacated, (b) the Plan shall be null and void in all respects, (c) any settlement of Claims made pursuant to the authority granted in the Plan shall be null and void without further order of the Bankruptcy Court and (d) the time within which the Debtors may assume or reject executory contracts and unexpired leases shall be extended for a period of thirty (30) days after the date the Confirmation Order is vacated or as otherwise determined by the Bankruptcy Court.

Each of the conditions to the Effective Date other than the establishment of the Reserves may be waived in whole or in part by the Debtors and the Creditors' Committee without notice and a hearing. To be effective, any such waiver must be in writing and filed with the Bankruptcy Court.

B. Substantive Consolidation

The Plan is conditioned upon entry of an order, which may be the Confirmation Order, substantively consolidating the Estates of the PBT Debtors and, separately from the PBT Debtors, the PST Debtors (each such group of consolidated Estates, a "Consolidated Group"), solely for the purposes of confirmation and consummation of the Plan. On the Confirmation Date, or such other date as may be set by an order of the Bankruptcy Court, but subject to the occurrence of the Effective Date, (i) all intercompany Claims by, between and among Debtors within a Consolidated Group shall be eliminated, (ii) all assets and liabilities of the Debtors within a Consolidated Group shall be merged or treated as if they were merged with the assets and liabilities of PBT or PST, as applicable, (iii) any obligation of a Debtor within a Consolidated Group and all guarantees thereof by one or more of the other Debtors in such

Consolidated Group shall be deemed to be one obligation of PBT or PST, as applicable, and (iv) each Claim filed or to be filed against any Debtor in a Consolidated Group shall be deemed filed only against PBT or PST, as applicable and shall be deemed a single Claim against a single obligation of PBT or PST, as applicable. On the Confirmation Date, all Claims based upon guarantees of collection, payment or performance made by the Debtors in a Consolidated Group as to the obligations of another Debtor in the same Consolidated Group shall be released and of no further force and effect. PSC and PMC will retain their separate identities for all purposes and shall not be substantively consolidated with either Consolidated Group or with one another.

The separate deemed consolidation of the PBT Debtors and the PST Debtors shall not (other than for purposes related to voting on and funding Distributions under the Plan as set forth herein) affect: (i) the legal and organizational structure of the Debtors, (ii) pre- and post-Petition Date guarantees, liens and security interests that are required to be maintained (A) in connection with executory contracts or unexpired leases that were entered into during the Chapter 11 Cases or that have been or will be assumed or (B) pursuant to the Plan, (iii) defenses to any cause of action or requirements for any third party to establish mutuality in order to assert a right of setoff and (iv) distributions out of any insurance policy or proceeds of such policy.

C. Classification and Treatment of Claims and Interests

Subject to the effectiveness of the substantive consolidation described above, the Plan classifies Claims and Interests of each Debtor or Consolidated Group separately and provides different treatment for different Classes of Claims and Interests in accordance with the Bankruptcy Code. As described more fully below, the Plan provides, separately for each Class, that holders of certain Claims will receive various amounts and types of consideration, thereby giving effect to the different rights of holders of Claims and Interests in each Class.

1. Unclassified Claims

(a) Administrative Claims

Administrative Claims are Claims for costs and expenses of administration of the Chapter 11 Cases, including the actual and necessary costs of preserving the Debtors' Estates, certain taxes and professional and other fees, charges and expenses provided for in the Bankruptcy Code. Except to the extent that any entity entitled to payment of any Allowed Administrative Expense Claim agrees to different treatment, or as otherwise provided in the case of Fee Claims, each holder of an Allowed Administrative Expense Claim, on the later of the Effective Date or as soon as reasonably practicable thereafter and thirty (30) Business Days after the date such Allowed Administrative Expense Claim becomes an Allowed Administrative Expense Claim, or as soon thereafter as practicable, shall receive an amount in Cash equal to the Allowed amount of such Claim. To the extent an Allowed Administrative Claim is not yet due and payable or is an Administrative Claim of the U.S. Trustee for fees pursuant to 28 U.S.C. § 1930(a)(6), such claim shall be paid in full and performed by the Liquidating Trustee in accordance with the terms and subject to the conditions of the particular transactions and any applicable agreement or the applicable schedule for the payment of the U.S. Trustee's fees.

Requests for payment of Administrative Claims arising from and after the Petition Date through the Effective Date must be filed and served pursuant to the procedures set forth in the Administrative Claims Bar Date Order, no later than the date set forth in the Administrative Claims Bar Date Order.

(b) Fee Claims

Fee Claims are Administrative Claims for compensation for services rendered by a professional or other person under section 328, 330(a), 331, 503 or 1103 of the Bankruptcy Code. All entities seeking payment of a Fee Claim shall file their respective final applications for allowance of compensation for services rendered and reimbursement of expenses incurred through the Effective Date by no later than the date that is forty-five (45) days after the Effective Date. Any Fee Claims incurred thereafter may be paid by the Liquidating Trust in accordance with section 5.4(i) of the Plan. Except to the extent that any entity entitled to payment of any Allowed Fee Claim agrees to different treatment, each holder of an Allowed Fee Claim, to the extent not already paid, on or as soon as practicable following the date upon which the Bankruptcy Court order allowing such Allowed Fee Claim is issued, shall receive an amount in Cash equal to the Allowed amount of such Claim.

(c) Priority Tax Claims

Priority Tax Claims are Claims of governmental units of the kind specified in sections 502(a) and 507(a)(8) of the Bankruptcy Code. On the later of the Effective Date or as soon as reasonably practicable thereafter and thirty (30) Business Days after the date on which such Claim becomes an Allowed Claim, the holder of an Allowed Priority Tax Claim shall receive an amount in Cash equal to the Allowed amount of such Claim, provided, however, that each Debtor may elect, upon written notice sent to the holder of the relevant Priority Tax Claim prior to the Effective Date, to pay any Priority Tax Claim, with interest as ordered by the Bankruptcy Court, over a period not longer than six (6) years from the date of assessment of the applicable tax.

2. Classified Claims

(a) Classes 1A, 1B, 1C and 1D—Secured Claims

Secured Claims in Classes 1A, 1B, 1C and 1D are Claims that are secured by a lien on property in which a Debtors' Estate has an interest. Claims in Classes 1A, 1B, 1C, and 1D are not Impaired and the holders thereof will be deemed to have accepted the Plan.

At the election of the Debtors, with the consent of the Creditors' Committee, which consent shall not unreasonably be withheld, or the Liquidating Trustee, as applicable, or upon order of the Bankruptcy Court, on or before the later of the Effective Date or as soon as reasonably practicable thereafter and thirty (30) Business Days after the date on which a Secured Claim becomes an Allowed Claim, such Claim shall be satisfied in full by either:

- (i) reinstating such Claim by curing all pre- and postpetition defaults (other than defaults relating to the insolvency or financial condition of the Debtors or its status as a debtor under the Bankruptcy Code) and reinstating the maturity

date of the Claim and otherwise leaving unaltered the legal, equitable, and contractual rights respecting such Claim

- (ii) paying such Claim in full, in Cash, in an amount equal to such Allowed Secured Claim on the Effective Date or as soon as reasonably practicable thereafter; or
- (iii) transferring title to the Collateral securing such Allowed Secured Claim to the holder of such Claim. Within thirty (30) days after mailing by the Liquidating Trustee of notice of the election of this option (iii), if the holder of an Allowed Secured Claim has recourse to a Debtor respecting such Claim, it shall be entitled to amend in writing or file a proof of claim for any unsecured deficiency Claim respecting such Claim. To the extent, if any, Allowed, such deficiency Claim shall be treated in Class 3A, 3B, 3C or 3D, as appropriate.

(b) Classes 2A, 2B, 2C and 2D—Priority Non-Tax Claims

Priority Non-Tax Claims in Classes 2A, 2B, 2C and 2D are Claims, other than Administrative Claims or Priority Tax Claims, that are entitled to priority in payment pursuant to section 507(a) of the Bankruptcy Code. Claims in Classes 2A, 2B, 2C and 2D are not Impaired and the holders thereof will be deemed to have accepted the Plan.

On the later of the Effective Date or as soon as reasonably practicable thereafter and thirty (30) Business Days after the date on which a Priority Non-Tax Claim becomes an Allowed Claim, such Claim shall be paid in full, in Cash.

(c) Classes 3A, 3B, 3C and 3D—General Unsecured Claims

General Unsecured Claims are Claims that are not otherwise classified under the Plan. Claims in Classes 3A, 3B, 3C and 3D are Impaired and the holders thereof will be entitled to vote on the Plan.

On the Initial Distribution Date and on each Distribution Date thereafter that is at least thirty (30) Business Days after the date on which a Class 3A Claim becomes an Allowed Class 3A Claim, in full settlement, satisfaction, and payment of all Allowed Class 3A Claims, each Holder of an Allowed Class 3A Claim shall receive its Pro Rata share of Liquidating Trust Interests, Liquidating Trust Available Cash and/or such other Distributions as made by the Liquidating Trustee in respect of Allowed Class 3A Claims until such Holder of an Allowed Class 3A Claim may be paid in full, or such other treatment as may be agreed to by the Holder thereof.

On the later of the Effective Date or as soon as reasonably practicable thereafter and thirty (30) Business Days after the date on which a General Unsecured Claim becomes an Allowed Claim, Allowed Claims in Classes 3B, 3C and 3D shall be paid in full, in Cash.

(d) Class 4A—Subordinated Claims

Subordinated Claims are Claims subordinated to General Unsecured Claims pursuant to section 510 of the Bankruptcy Code and include Subordinated Note Claims. No Distributions will be made on account of Subordinated Claims. Claims in Class 4A are therefore Impaired and the holders thereof will be deemed to have rejected the Plan.

(e) Classes 5A-1, 5A-2, 5B-2, 5C-2 and 5D-2—Interests

Interests are the rights arising from the equity securities of the Debtors.

No Distributions will be made on account of the Interests in PSC in Classes 5A-1 and 5A-2. Interests in Classes 5A-1 and 5A-2 are therefore Impaired and the holders thereof will be deemed to have rejected the Plan. On the Effective Date, the Old PSC Preferred Stock will be cancelled. The New PSC Common Stock will initially be issued as treasury stock and held by Reorganized PSC, and will not be outstanding.

The ultimate disposition of the New PSC Common Stock will vary depending on whether a Broadcast Sale occurs, whether the Broadcast Sale is pursuant to a PCC Court Approved Bid or an Alternate Court Approved Bid and whether the Broadcast Sale successfully closes on or before the Outside Closing Date, as follows:

(i) PCC Court Approved Bid. In the case of a Broadcast Sale pursuant to a PCC Court Approved Bid that closes on or before the Outside Closing Date, on the Closing Date, the New PSC Common Stock will be transferred to PCC, and thereafter will be outstanding. If the Closing Date does not occur on or before the Outside Closing Date, the New PSC Common Stock will be transferred to the Liquidating Trust, and thereafter will be outstanding.

(ii) Alternate Court Approved Bid. In the case of a Broadcast Sale pursuant to an Alternate Court Approved Bid that provides for the purchaser of the Broadcast Assets to obtain the New PSC Common Stock that closes on or before the Outside Closing Date, the New PSC Common Stock will be transferred to such purchaser, and thereafter will be outstanding. In the case of a Broadcast Sale pursuant to an Alternate Court Approved Bid that does not provide for the purchaser of the Broadcast Assets to obtain the New PSC Common Stock that closes on or before the Outside Closing Date, the New PSC Common Stock will be transferred to the Liquidating Trust, and thereafter will be outstanding. In the case of any Alternate Court Approved Bid, if the Alternate Closing Date does not occur on or before the Outside Closing Date, on the Outside Closing Date, the New PSC Common Stock will be transferred to the Liquidating Trust, and thereafter will be outstanding.

(iii) No Broadcast Sale. In the event the Creditors' Committee, in consultation with the Debtors or Reorganized Debtors, as applicable, determines that there will be no Broadcast Sale, as soon as practicable after the date such determination is made, the New PSC Common Stock will be transferred to the Liquidating Trust, and thereafter will be outstanding.

Holders of Interests in PMC, the PST Debtors and the PBT Debtors in Classes 5B-2, 5C-2 and 5D-2, respectively, will retain all of their rights thereunder, but will not be entitled to receive dividends or other Distributions under the Plan in respect of such Interests. Interests in Classes 5B-2, 5C-2 and 5D-2 are not Impaired and the holders thereof will be deemed to have accepted the Plan.

D. Liquidating Trust

On the Effective Date, the Liquidating Trust Agreement shall be executed, and all other necessary steps shall be taken to establish the Liquidating Trust and the Reserves, which shall make Distributions to Holders of Allowed Claims pursuant to the terms of the Plan. The Liquidating Trust Interests shall be for the benefit of the Holders of Allowed Claims in Class 3A. The Creditors' Committee shall appoint the Liquidating Trustee and the Liquidating Trust Board, which shall consist of at least one (1) but not more than three (3) directors. The Liquidating Trustee and the Liquidating Trust Board shall act in a fiduciary capacity for the interests of all Holders of Liquidating Trust Interests and Holders of Allowed Claims entitled to receive Distributions pursuant to the terms of the Plan until such Distributions are made. In the event of a conflict between the terms of the Plan relating to the Liquidating Trust set forth in section 5.4 of the Plan and the terms of the Liquidating Trust Agreement, the terms of the Liquidating Trust Agreement will control.

On the Effective Date, the Debtors shall transfer the Remaining Assets to the Liquidating Trust and/or the Reserves and such assets shall vest therein free and clear of all Liens, Claims and other interests. In addition, if, when and to the extent it is determined that certain Broadcast Assets will not be sold pursuant to a Broadcast Sale, such assets will cease to be Broadcast Assets, shall become Remaining Assets and shall be transferred to the Liquidating Trust and/or the Reserves and vest therein free and clear of all Liens, Claims and other interests. Such transfer may be accomplished in whole or in part by the transfer to the Liquidating Trust of the stock of the Reorganized Debtors or otherwise.

From and after the Effective Date, the Liquidating Trust shall, in accordance with the Liquidating Trust Agreement, (i) wind-down the Debtors' affairs, including making Distributions as contemplated in the Plan; (ii) establish and maintain the Reserves in accordance with the terms of the Plan, (iii) (a) liquidate or distribute directly to Holders of Liquidating Trust Interests the Liquidating Trust Assets, in order to maximize the recovery of Holders of Liquidating Trust Interests, (iv) investigate, enforce and prosecute the Litigation Claims, (v) object to, settle, compromise, dispute and prosecute Disputed Claims, (vi) administer and take such actions as are necessary to effectuate the Plan, (vii) file appropriate tax returns and (viii) retain such professionals as are necessary and appropriate in furtherance of such fiduciary obligations.

To the extent that the sale of the Broadcast Assets does not occur, the Liquidating Trustee, in consultation with the Liquidating Trust Board, will (a) sell the stock or assets of Reorganized PSC or the Reorganized PBT Debtors to third-parties and distribute the proceeds of such sale or sales to Holders of Liquidating Trust Interests; (b) directly distribute the stock or assets of Reorganized PSC or the Reorganized PBT Debtors to Holders of Liquidating Trust Interests; or (c) engage in combinations of distributions and sales of stock or assets of Reorganized PSC or the Reorganized PBT Debtors, which in the business judgment of the

Liquidating Trust Board, would be most likely to maximize the value of recoveries to Holders of Allowed Claims in Class 3A.

On the Initial Distribution Date or as soon thereafter as is practicable, holders of Allowed Claims in Class 3A that are to receive Liquidating Trust Interests will receive notification from the Liquidating Trustee as to the number of Liquidating Trust Interests allocated to such Holder. The Liquidating Trust Interests will not be certificated and will be reflected only through book entries made by the Liquidating Trustee. The Liquidating Trust Interests will be transferable in accordance with the terms of the Liquidating Trust Agreement.

The Liquidating Trustee shall distribute at least annually, beginning as soon after the Administrative Claims Bar Date as is practicable, all Liquidating Trust Available Cash on hand and permitted investments, except such amounts (i) as are necessary to maintain the Reserves in accordance with the terms of the Plan, (ii) as are reasonably necessary to meet contingent liabilities and to maintain the value of the Liquidating Trust Assets during liquidation, (iii) to pay reasonable expenses (including, but not limited to, any taxes imposed on the Liquidating Trust or in respect of the Liquidating Trust Assets), and (iv) to satisfy other liabilities incurred by the Liquidating Trust in accordance with the Plan or the Liquidating Trust Agreement.

Subject to the terms of the Broadcast Sale, if applicable, and to the extent necessary, the Liquidating Trustee shall file on behalf of PMC, PSC, the PST Debtors and the PBT Debtors, as the case may be, a certification of dissolution with the Bankruptcy Court and with the official public office for keeping corporate records in their respective state of organization.

The Liquidating Trust shall be dissolved no later than five years from the Effective Date unless the Bankruptcy Court, upon motion within the six month period prior to the fifth anniversary of the Effective Date (or the end of any extension period approved by the Bankruptcy Court), determines that a fixed period extension (not to exceed three years, together with any prior extensions, without a favorable letter ruling from the IRS that any further extension would not adversely affect the status of the Liquidating Trust as a liquidating trust for federal income tax purposes) is necessary to facilitate or complete the recovery and liquidation of the Liquidating Trust Assets.

If possible, the Liquidating Trust will be structured to be treated for federal income tax purposes as a “liquidating trust” as defined in Treasury Regulation Section 301.7701-4(d), according to the guidelines established by the Internal Revenue Service in Rev. Proc. 94-45, 1994 2 C.B. 684 for the formation of liquidating trusts. If the Liquidating Trust cannot be structured to comply with Rev. Proc. 94-45, then the Liquidating Trust will be structured as another entity (or entities) intended not to be subject to federal income tax, *i.e.*, a “flow through” entity.

E. Disputed Claims

On and after the Effective Date, only the Liquidating Trustee shall have the right to object to Claims (other than Fee Claims). The Liquidating Trustee shall file objections to the allowance of Claims on or before (a) with respect to Claims other than Administrative Claims and Fee Claims, one hundred and fifty (150) days after the Effective Date; and (b) with respect to

Administrative Claims, forty-five (45) days after the Administrative Claims Bar Date (or, in each case, such later deadline as the Bankruptcy Court may establish). The Debtors, the Reorganized Debtors (in the event the stock of the Reorganized Debtors is transferred to the Liquidating Trust), the Creditors' Committee or the Liquidating Trustee may, at any time, request that the Bankruptcy Court estimate any contingent or unliquidated Claim pursuant to section 105, 502(c) and/or 505 of the Bankruptcy Code. In the event that the Bankruptcy Court estimates any contingent or unliquidated Claim, that estimated amount shall constitute either the amount of such Claim or a maximum limitation on the amount of such Claim, as determined by the Bankruptcy Court, to the extent permissible under the Bankruptcy Code. If the estimated amount constitutes a maximum limitation on the amount of such Claim, the Liquidating Trustee may elect to pursue any supplemental proceedings to object to any ultimate payment or Distribution on account of such Claim.

No partial payments and no partial Distributions shall be made with respect to a Disputed Claim until such Disputed Claim becomes an Allowed Claim. In the event, and to the extent, a Disputed Claim becomes an Allowed Claim after the Effective Date, the holder of such Allowed Claim shall receive all payments and/or Distributions to which such holder would have been entitled under the Plan had such Claim been an Allowed Claim on the Effective Date or such other treatment as may be agreed to by such Holder.

The Liquidating Trustee shall hold in reserve, either in the Liquidating Trust or a separate entity, for the benefit of each holder of a Disputed Claim (the "Disputed Claims Reserve"), Cash, Remaining Assets, and/or Liquidating Trust Interests in an amount required by order of the Bankruptcy Court, or in the absence of such order, equal to the Distributions which would have been made to the holder of such Disputed Claim, if it were an Allowed Claim in the Disputed Claim Amount. If a Disputed Claim is disallowed, in whole or in part, pursuant to a Final Order, on the first Distribution Date that is at least thirty (30) Business Days after such disallowance, the Liquidating Trustee shall: (a) first, reallocate Cash and/or Liquidating Trust Interests that had been reserved on account of such disallowed Disputed Claim to the holders of then Allowed and Disputed Claims in such Class; and (b) second, distribute to each holder of an Allowed Claim in such Class and allocate to the Disputed Claims Reserve established for remaining Disputed Claims in such Class, pro rata, the Cash and/or Liquidating Trust Interests that have been so reallocated to such Class in accordance with clause (a) of this Section.

F. Executory Contracts and Unexpired Leases

1. Rejection

On the Effective Date, the Debtors shall reject all of their executory contracts and unexpired leases except those that: (i) are the subject of motions to assume, assume and assign, or reject filed with the Bankruptcy Court and pending on the Effective Date; (ii) were assumed or rejected before the Confirmation Date; or (iii) are listed on Schedule 8.2(a) of the Plan Supplement; provided, however, that the Debtors shall have the right to modify Schedule 8.2(a) of the Plan Supplement prior to the Effective Date on notice to the parties to any executory contracts or unexpired leases affected by such modification. The Debtors shall not be required to assume or reject any executory contract or unexpired lease with any party that is a debtor under

the Bankruptcy Code unless and until such contract or lease has been assumed or rejected by such other party.

The entry by the Bankruptcy Court on or after the Confirmation Date of an order authorizing the rejection of an executory contract or unexpired lease shall result in such rejection being a prepetition breach under sections 365(g) and 502(g) of the Bankruptcy Code. Each Person who is a party to a contract or lease rejected under the Plan must file with the Bankruptcy Court and serve on the Liquidating Trustee and the Creditors' Committee a proof of claim for damages alleged to arise from the rejection of the applicable contract or lease, on or before (i) thirty (30) days after the Effective Date, if such rejection is subject to the occurrence of the Effective Date, (ii) thirty (30) days after the Closing Date or the Alternate Closing Date, if such rejection is subject to the occurrence of either of the foregoing, or (iii) such other date as may be set by the Bankruptcy Court, or be forever barred from filing a Claim, or sharing in Distributions under the Plan, related to such alleged rejection damages.

2. Assumption

On the Effective Date, the Debtors shall assume the executory contracts and unexpired leases listed on Schedules 8.2(a) and (b) of the Plan Supplement. Unless a party to such an executory contract or unexpired lease files with the Bankruptcy Court and serves upon the attorneys for the Debtors and the Creditors' Committee, prior to the Confirmation Date or such other date as may be set by the Bankruptcy Court, an objection to the cure amount listed on Schedules 8.2(a) or (b) for such contract or lease, such party shall be forever barred from asserting any additional or other amounts against the Debtors with respect to such cure amount. In the event of a Broadcast Sale, the deadline to object to cure amounts for those executory contracts or unexpired leases to be assumed pursuant to the Broadcast Sale Order shall be set forth in the Broadcast Sale Order. The Debtors may also assume or assume and assign executory contracts and unexpired leases that are the subject of motions filed with the Bankruptcy Court and pending on the Confirmation Date. As noted above the Debtors shall retain the right to modify Schedule 8.2(a) of the Plan Supplement prior to the Effective Date on notice to the parties to any executory contracts or unexpired leases affected by such modification.

The Liquidating Trustee shall pay any monetary defaults under executory contracts or unexpired leases assumed pursuant to the Plan (i) within forty-five (45) days after the Closing Date or Alternate Closing Date, if such assumption is subject to the occurrence of either of the foregoing (or such longer period ordered by the Bankruptcy Court), (ii) within the time ordered by the Bankruptcy Court if such assumption is not subject to the occurrence of the Closing Date or the Alternate Closing Date or (iii) upon such other terms as may be agreed by the parties to such contract or lease. If a dispute occurs regarding the cure amount, the ability of the Reorganized Debtors to provide adequate assurance of their future performance under an assumed contract or lease, or any other matter, cure payments will not be made until after entry of a Final Order of the Bankruptcy Court resolving such dispute and approving assumption. The Debtors, the Reorganized Debtors or the Liquidating Trustee, as applicable, shall retain the right to reject any executory contract or unexpired lease that is subject to such a dispute until the date that is thirty (30) days following entry of a Final Order establishing the cure amount.

G. Discharge, Injunction, Indemnifications and Releases

1. Discharge of Claims and Interests. Except as provided in the Plan or the Confirmation Order, pursuant to Section 1141(d) of the Bankruptcy Code, (i) the rights afforded under the Plan and the treatment of all Claims and Interests in the Plan shall be in exchange for and in complete satisfaction, discharge and release of Claims and Interests of any nature whatsoever, including any interest accrued on Claims from and after the Petition Date, against or in any of the Debtors or any of their respective assets or properties, (ii) on the Effective Date, all such Claims against and Interests in the Debtors shall be satisfied, discharged and released in full, and (iii) any Holder of a Claim against or Interest in any Debtor may not, on account of such Claim or Interest, seek or receive any payment or other distribution from, or seek recourse against, any Debtor, any Reorganized Debtor, their respective successors or their respective property.

2. Injunction. ALL INJUNCTIONS OR STAYS PROVIDED FOR IN THE CHAPTER 11 CASES PURSUANT TO SECTIONS 105 AND 362 OF THE BANKRUPTCY CODE OR OTHERWISE AND IN EFFECT ON THE CONFIRMATION DATE, SHALL REMAIN IN FULL FORCE AND EFFECT UNTIL THE ENTRY OF A FINAL ORDER CLOSING THE CHAPTER 11 CASES. EXCEPT AS OTHERWISE PROVIDED IN THIS PLAN OR THE CONFIRMATION ORDER, ALL PERSONS THAT HAVE HELD, HOLD OR MAY HOLD CLAIMS AGAINST ON INTERESTS IN THE DEBTORS SHALL BE, AS OF THE EFFECTIVE DATE (A) PERMANENTLY ENJOINED FROM TAKING ANY OF THE FOLLOWING ACTIONS AGAINST THE ESTATES OR ANY OF THE PROPERTIES ON ACCOUNT OF ANY SUCH CLAIMS OR INTERESTS AND (B) PERMANENTLY ENJOINED FROM TAKING ANY OF THE FOLLOWING ACTIONS AGAINST ANY OF THE DEBTORS, THE REORGANIZED DEBTORS, OR THEIR PROPERTY OR ASSETS ON ACCOUNT OF SUCH CLAIMS OR INTERESTS: (I) COMMENCING, CONDUCTING OR CONTINUING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY SUIT, ACTION OR OTHER PROCEEDING; (II) ENFORCING, LEVYING, ATTACHING, COLLECTING OR OTHERWISE RECOVERING IN ANY MANNER OR BY ANY MEANS, WHETHER DIRECTLY OR INDIRECTLY, ANY JUDGMENT, AWARD, DECREE OR ORDER; (III) CREATING, PERFECTING OR ENFORCING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY LIEN; (IV) ASSERTING ANY SETOFF, RIGHT OF SUBROGATION OR RECOUPMENT OF ANY KIND, DIRECTLY OR INDIRECTLY, AGAINST ANY DEBT, LIABILITY OR OBLIGATION DUE TO THE DEBTORS; AND (V) PROCEEDING IN ANY MANNER IN ANY PLACE WHATSOEVER THAT DOES NOT CONFORM WITH OR IS INCONSISTENT WITH THE PROVISIONS OF THE PLAN. NOTWITHSTANDING THIS INJUNCTION, THE SETOFF RIGHTS OF ANY HOLDERS OF ALLOWED CLAIMS WILL BE PRESERVED TO THE EXTENT OF APPLICABLE LAW

3. Indemnifications

The Liquidating Trust shall, to the fullest extent permitted by the laws of the State of New York, indemnify and hold harmless the Debtors, the Reorganized Debtors, the Liquidating Trustee (in its capacity as such), the Creditors' Committee (in its capacity as such) and their

respective officers, directors, managers, employees, current or former members or agents (each acting in such capacity) or any professional persons employed by any of them (collectively, the “Indemnified Parties”) from and against and with respect to any and all liabilities, losses, damages, claims, costs and expenses, including but not limited to attorneys’ fees, arising out of or due to their actions or omissions, or consequences of such actions or omissions, other than actions or omissions resulting from the Indemnified Party’s willful misconduct or gross negligence, with respect to the formulation, preparation, dissemination, implementation, confirmation or consummation of the Plan, the Disclosure Statement, the Liquidating Trust Agreement, any contract, release, or other agreement or document created or entered into, or any other action taken or omitted to be taken in connection with the Plan or the Chapter 11 Cases. To the extent the Liquidating Trust indemnifies and holds harmless the Indemnified Parties as provided above, the legal fees and related costs incurred by counsel to the Liquidating Trustee in monitoring and participating in the defense of such claims giving rise to the right of indemnification shall be paid out of the Liquidating Trust. The indemnification provisions of the Liquidating Trust Agreement shall remain available to and be binding upon any former Liquidating Trustee and shall survive the termination of the Liquidating Trust Agreement.

Nothing in the Plan shall in any way impair, alter or otherwise affect (i) the rights of the Debtors' respective directors, officers, agents, employees and representatives (collectively, the “Directors and Officers”) to assert Claims based upon the Debtors' respective certificates of incorporation, by-laws, applicable statutes and preconfirmation agreements or (ii) any of the Debtors' or Estates' rights and defenses, both legal and equitable, with respect to any Claims of the Directors and Officers, including, but not limited to, all rights with respect to filing and serving objections to such Claims (which objections may be prosecuted by the Debtors, the Creditors' Committee and/or the Liquidating Trustee, as applicable). For the avoidance of doubt, the Estates' rights and defenses with respect to the foregoing shall be deemed assigned to the Liquidating Trust as of the Effective Date. Nothing in the Plan, including any releases, shall diminish or impair the enforceability of any policies of insurance that may cover any claims against the Debtors or any other Person or the Estates' rights in such policies.

4. Releases and Exculpations

EXCEPT AS OTHERWISE PROVIDED IN THE PLAN, AS OF THE CONFIRMATION DATE, BUT SUBJECT TO THE OCCURRENCE OF THE EFFECTIVE DATE: NONE OF: (I) THE LIQUIDATING TRUSTEE, THE DEBTORS, THE REORGANIZED DEBTORS, THEIR SUCCESSORS AND ASSIGNS; (II) THEIR PRESENT DIRECTORS AND OFFICERS; (III) THEIR FORMER DIRECTORS AND OFFICERS WHO HELD SUCH POSITION WITH THE DEBTORS AS OF OR SINCE THE PETITION DATE; (IV) AGENTS, ATTORNEYS, ADVISORS, FINANCIAL ADVISORS, INVESTMENT BANKERS AND EMPLOYEES OF THE DEBTORS; AND (V) THE CREDITORS’ COMMITTEE AND ITS CURRENT AND FORMER MEMBERS, AGENTS, ATTORNEYS, ADVISORS, FINANCIAL ADVISORS AND INVESTMENT BANKERS, SHALL HAVE OR INCUR ANY LIABILITY TO ANY PERSON FOR ANY CLAIM, OBLIGATION RIGHT, CAUSE OF ACTION OR LIABILITY (INCLUDING, BUT NOT LIMITED TO, ANY CLAIMS ARISING OUT OF ANY ALLEGED FIDUCIARY OR OTHER DUTY AND THE AVOIDANCE OF PREFERENCES OR FRAUDULENT CONVEYANCES OR ANY GUARANTY ISSUED

BY ANY OF THE DEBTORS), WHETHER KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, EXISTING OR HEREINAFTER ARISING, BASED IN WHOLE OR IN PART ON ANY ACT OR OMISSION, TRANSACTION OR OCCURRENCE FROM THE BEGINNING OF TIME THROUGH THE EFFECTIVE DATE IN ANY WAY RELATING TO THE DEBTORS; AND ALL SUCH CLAIMS BASED UPON OR ARISING OUT OF SUCH ACTIONS OR OMISSIONS SHALL BE FOREVER WAIVED AND RELEASED; PROVIDED, HOWEVER, THAT THIS WAIVER AND RELEASE SHALL HAVE NO EFFECT ON THE LIABILITY OF ANY PERSON THAT OTHERWISE WOULD RESULT FROM ANY ACTION OR OMISSION TO THE EXTENT THAT SUCH ACTION OR OMISSION IS DETERMINED IN A FINAL ORDER TO HAVE CONSTITUTED WILLFUL MISCONDUCT.

The release described above shall be enforceable as a matter of contract against any holder of a claim timely notified of the provisions of the Plan. Claimants against the Debtors shall be enjoined from commencing or continuing any action, employment of process or act to collect, offset or recover any claim that is released as provided in the Plan.

Furthermore, none of the Debtors, the Reorganized Debtors, the Liquidating Trustee, the Creditors' Committee, or their respective officers, directors, managers, employees, members or agents (each acting in such capacity), or any professional persons employed by any of them will have or incur any liability to any person for any action taken or omitted to be taken in connection with or related to the formulation, preparation, dissemination, implementation, confirmation or consummation of the Plan, the Disclosure Statement, any contract, release or other agreement or document created or entered into, or any other action taken or omitted to be taken in connection with the Plan or the Chapter 11 Cases, and all claims based upon or arising out of such actions or omissions will be forever waived and released; provided, however, that nothing herein shall affect the liability of any person that otherwise would result from any action or omission to the extent that such action or omission is determined in a Final Order to have constituted willful misconduct.

H. Summary of Other Provisions of the Plan

The following subsections summarize certain other significant provisions of the Plan. The Plan should be referred to for the complete text of these and other provisions of the Plan.

1. Creditors' Committee

On the Effective Date, except with respect to matters pending as of the Effective Date, the Creditors' Committee shall be dissolved and its members shall be deemed released of all their duties, responsibilities and obligations in connection with the Chapter 11 Cases or the Plan and its implementation, and the retention or employment of the Creditors' Committee's attorneys, accountants and other agents shall terminate. All expenses of Creditors' Committee members and the fees and expenses of their professionals through the Effective Date shall be paid in accordance with the terms and conditions of the Fee Order and the terms of the Plan.

2. Transfer and Settlement of Litigation Claims

Except as otherwise provided in the Plan, the Confirmation Order, the Broadcast Sale Order, if applicable, or in any document, instrument, release or other agreement entered into in connection with the Plan, on the Effective Date, the Debtors shall transfer the Litigation Claims to the Liquidating Trust. Only the Liquidating Trust, as successor in interest to the Debtors, may enforce, sue on, settle or compromise (or decline to do any of the foregoing) any or all of the Litigation Claims.

3. Modification of the Plan

The Debtors, in each case with the Creditors' Committee's consent, may alter, amend, or modify this Plan under section 1127 of the Bankruptcy Code. The Debtors may make any non-material modifications to this Plan at any time prior to the Effective Date, including, without limitation, such modifications that may be required to consummate the Broadcast Sale. After the Effective Date, the Liquidating Trustee may institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan, the Disclosure Statement, or the Confirmation Order, or to address such matters as may be necessary to carry out the purposes and effects of the Plan.

4. Withdrawal or Revocation of the Plan

The Debtors, with the Creditors' Committee's consent, may withdraw or revoke the Plan at any time prior to the Confirmation Date. If the Debtors revoke or withdraw the Plan prior to the Confirmation Date, or if the Confirmation Date does not occur, then the Plan shall be deemed null and void. In such event, nothing contained in the Plan shall be deemed to constitute a waiver or release of any Claim by or against the Debtors or any other person or to prejudice in any manner the rights of the Debtors or any other person in any further proceedings involving the Debtors.

5. Effectuating Documents and Further Transactions

Upon entry of the Confirmation Order, each of the Debtors, Reorganized Debtors and Liquidating Trustee shall be authorized to execute, deliver, file or record such contracts, instruments, releases, indentures and other agreements or documents and take such actions as may be reasonably necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

6. Corporate Action

On the Effective Date, all matters provided for under or contemplated by the Plan that would otherwise require approval of the directors or shareholders of the Debtors shall be deemed to have occurred (without having to have obtained such approval) and shall be in effect from and after the Effective Date pursuant to the applicable general corporation law of the states in which the Debtors are incorporated, without any requirement of action by the stockholders or by the directors of the Debtors. To the extent that a matter not provided for under the Plan would require approval of or further action by the stockholders or directors of one or more of the Debtors or Reorganized Debtors, such action may be done with the Creditors' Committee's

consent or upon court approval. The Debtors will disclose the identities and compensation of the individuals who will serve as directors and officers of the Reorganized Debtors and any insiders to be employed by the Reorganized Debtors in the Plan Supplement.

7. Severability

In the event that the Bankruptcy Court determines, prior to the Confirmation Date, that any provision of the Plan is invalid, void or unenforceable, the Bankruptcy Court shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of the Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

8. Binding Effect

The Plan shall be binding upon and inure to the benefit of the Debtors and their respective successors and assigns, including, but not limited to, the Reorganized Debtors. The rights, benefits and obligations of any entity named or referred to in the Plan shall be binding on, and shall inure to the benefit of, any heir, executor, administrator, successor or assign of such entity.

9. Indenture Trustee Fees

All reasonable compensation, fees, expenses and disbursements of agents and counsel retained by the indenture trustees for the Senior Notes and Subordinated Notes shall be paid in Cash on or as soon as practicable after the Effective Date by the Liquidating Trustee as an Allowed Administrative Expense, without the need for application to, or approval of, the Bankruptcy Court.

10. Payment of Statutory Fees

All fees payable pursuant to 28 U.S.C. § 1930, as determined by the Bankruptcy Court on the Confirmation Date, shall be paid on the Effective Date, and none of the Debtors, their Estates, the Reorganized Debtors and the Liquidating Trustee shall thereafter be liable for the payment of additional fees under 28 U.S.C. § 1930.

IV.

CONFIRMATION AND CONSUMMATION PROCEDURE

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan:

A. Solicitation of Votes

In accordance with sections 1126 and 1129 of the Bankruptcy Code, the Claims in Classes 3A, 3B, 3C and 3D are impaired and will receive Distributions under the Plan. The holders of Allowed Claims, and Claims that have been temporarily allowed for voting purposes only under Bankruptcy Rule 3018(a), in Classes 3A, 3B, 3C and 3D are entitled to vote to accept or reject the Plan. Claims and Interests in Classes 1A, 1B, 1C, 1D, 2A, 2B, 2C, 2D, 5B-2, 5C-2 and 5D-2 are unimpaired. The holders of Allowed Claims and Interests in each of such Classes are conclusively presumed to have accepted the Plan, and the solicitation of acceptances with respect to such Classes is not required under section 1126(f) of the Bankruptcy Code. Claims and Interests in Classes 4A, 5A-1 and 5A-2 are not expected to receive a distribution under the Plan, are deemed to have rejected the Plan and are not entitled to vote to accept or reject the Plan.

As to the classes of claims entitled to vote on a plan, the Bankruptcy Code defines acceptance of a plan by a class of creditors as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the claims of one such class that have timely voted to accept or reject a plan.

A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

Any creditor in an impaired Class (i) whose Claim has been listed by the Debtors in the Schedules filed with the Bankruptcy Court (provided that such Claim has not been scheduled as disputed, contingent or unliquidated) or (ii) who filed a proof of claim on or before the Bar Date (October 12, 2004 for all non-governmental entities and November 30, 2004 for governmental entities) or any proof of claim properly filed within any other applicable period of limitations or with leave of the Bankruptcy Court, which Claim is not the subject of an objection or request for estimation, is entitled to vote on the Plan.

B. The Confirmation Hearing

The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a confirmation hearing. The Confirmation Hearing in respect of the Plan has been scheduled for [], 2005, commencing at [] .m., prevailing Eastern Time, before the Honorable James B. Haines, Jr., United States Bankruptcy Judge, at the United States Bankruptcy Court for the District of Maine, United States Courthouse, 537 Congress Street, Portland, Maine 04101. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served and filed so that they are received on or before [], 2005 at []:00 p.m., prevailing Eastern Time. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the Confirmation Hearing. Any objection to confirmation must be made in writing and specify in detail the name and address of the objector, all grounds for the objection and the amount of the Claim or number of shares of common stock of the Debtors held by the objector. Objections must be timely served upon the following parties:

Sidley Austin Brown & Wood LLP
Attorneys for the Debtors and
Debtors-in-Possession
Bank One Plaza
10 South Dearborn Street
Chicago, Illinois 60603
Attn: Larry J. Nyhan, Esq.
James F. Conlan, Esq.

-and-

787 Seventh Avenue
New York, New York 10019
Attn: Guy S. Neal, Esq.
Ellen R. Moring, Esq.
Christopher F. van Elk, Esq.

Office of the United States Trustee
537 Congress Street
Portland, Maine 04101
Attn: Robert Checkoway, Esq.

Akin Gump Strauss Hauer & Feld LLP
Attorney for the Creditors' Committee
590 Madison Avenue
New York, New York 20036
Attn: Daniel H. Golden, Esq.
David H. Botter, Esq.

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014.

C. Confirmation

At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation of a plan are that the plan is (i) accepted by all impaired classes of claims and equity interests or, if rejected by an impaired class, that the plan “does not discriminate unfairly” and is “fair and equitable” as to such class, (ii) feasible and (iii) in the “best interests” of creditors and stockholders that are impaired under the plan.

1. Acceptance

Classes 3A, 3B, 3C and 3D are impaired under the Plan and are entitled to vote to accept or reject the Plan. Classes 1A, 1B, 1C, 1D, 2A, 2B, 2C, 2D, 5B-2, 5C-2 and 5D-2 of the Plan are unimpaired and, therefore, are conclusively presumed to have voted to accept the Plan. Classes 4A, 5A-1 and 5A-2 are deemed to have rejected the Plan.

2. Unfair Discrimination and Fair and Equitable Tests

The Debtors will seek to confirm the Plan notwithstanding the deemed rejection of the Plan by Class 4A, 5A-1 and 5A-2 or the actual rejection by any of Classes 3A, 3B, 3C or 3D, if applicable. To obtain nonconsensual confirmation of the Plan, it must be demonstrated to the Bankruptcy Court that the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to each impaired, nonaccepting Class. The Bankruptcy Code provides a non-exclusive definition of the phrase “fair and equitable.” The Bankruptcy Code establishes “cram down” tests for unsecured creditors and equity holders, as follows:

- Unsecured Creditors. Either (i) each impaired unsecured creditor receives or retains under the plan property of a value equal to the amount of its allowed claim or (ii) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the plan.
- Interests. Either (i) each holder of an equity interest will receive or retain under the plan property of a value equal to the greatest of the fixed liquidation preference to which such holder is entitled, the fixed redemption price to which such holder is entitled or the value of the interest or (ii) the holder of an interest that is junior to the nonaccepting class will not receive or retain any property under the plan.

A plan does not “discriminate unfairly” with respect to a nonaccepting class if the value of the cash and/or securities to be distributed to the nonaccepting class is equal to, or otherwise fair when compared to, the value of the Distributions to other classes whose legal rights are the same as those of the nonaccepting class.

The Debtors believe that these requirements are met and that the Plan may be confirmed on a nonconsensual basis (provided that at least one impaired class of claims votes to accept the Plan). Accordingly, the Debtors will demonstrate at the Confirmation Hearing that the Plan satisfies the requirements of section 1129(b) of the Bankruptcy Code as to any non-accepting Class.

3. Feasibility

Section 1129(a)(11) of the Bankruptcy Code provides that a chapter 11 plan may be confirmed only if the Bankruptcy Court finds that such plan is feasible. A feasible plan is one that will not lead to a need for further reorganization or liquidation of the debtor, unless such reorganization or liquidation is proposed in the plan. Since the Plan provides for the liquidation of the Debtors, the Bankruptcy Court will find that the Plan is feasible if it determines that the Debtors will be able to satisfy the conditions precedent to the Effective Date and otherwise have sufficient funds to meet its post-Confirmation Date obligations to pay for the costs of administering and fully consummating the Plan and closing the Chapter 11 Cases. The Debtors believe that the Plan satisfies the financial feasibility requirement imposed by the Bankruptcy Code.

4. Best Interests Test

With respect to each impaired Class of Claims and Interests, confirmation of the Plan requires that each holder of a Claim or Interest either (i) accept the Plan or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code.

The starting point in determining whether the Plan meets the “best interests” test is a determination of the amount of proceeds that would be generated from the liquidation of the Debtors’ remaining assets in the context of a chapter 7 liquidation. Such value must then be reduced by the costs of such liquidation, including costs incurred during the Chapter 11 Cases and allowed under chapter 7 of the Bankruptcy Code (such as professionals’ fees and expenses), a trustee’s fees, and the fees and expenses of professionals retained by a trustee. The potential chapter 7 liquidation distribution in respect of each Class must be further reduced by costs imposed by the delay caused by conversion to chapter 7. In addition, inefficiencies in the claims resolution process in a chapter 7 would negatively impact the recoveries of creditors. The net present value of a hypothetical chapter 7 liquidation distribution in respect of an impaired Class is then compared to the recovery in respect of such Class provided for in the Plan. A liquidation analysis is annexed hereto as Exhibit E.

For the reasons set forth above, the Debtors submit that each impaired Class will receive under the Plan a recovery at least equal in value to the recovery such Class would receive pursuant to a liquidation of each Debtor under chapter 7 of the Bankruptcy Code.

V.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following discusses certain U.S. federal income tax considerations in connection with the implementation of the Plan relating to the Debtors and to holders of Claims that are Impaired but receiving Distributions under the Plan, i.e., Claims in Classes 3A, 3B, 3C and 3D. The following does not address the federal income tax considerations particular to (i) holders whose Claims are entitled to satisfaction in full, (ii) holders of Secured Claims, or (iii) holders of Interests.

The following is based on the Internal Revenue Code of 1986, as amended (the “Tax Code”), existing and proposed Treasury regulations promulgated thereunder (the “Treasury Regulations”), judicial decisions, and published administrative rules and pronouncements of the Internal Revenue Service (the “IRS”), all as in effect on the date hereof. These rules are subject to change, possibly on a retroactive basis, and any such change could significantly affect the federal income tax considerations described below.

The federal income tax considerations in connection with the Plan are complex and are subject to significant uncertainties, as a result of both the uncertainty of the law in certain contexts and the uncertainty regarding the precise manner in which the Plan will be implemented. The Debtors have not requested, nor do the Debtors expect to request, a ruling from the IRS or an opinion of counsel with respect to any of the tax aspects of the Plan. Thus, no assurance can be given as to the interpretation that the IRS will adopt. In addition, this

description addresses neither state, local, or foreign income or other tax considerations relating to the Plan, nor the federal income tax considerations relating to the Plan particular to special classes of taxpayers (such as foreign taxpayers, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax-exempt organizations, persons holding a Claim as part of a hedging, integrated constructive sale or straddle, and investors in pass-through entities).

Accordingly, the following summary of certain material U.S. federal income tax considerations is for informational purposes only and is not a substitute for careful tax planning and advice based upon the particular circumstances pertaining to a holder of a Claim. Each holder of a Claim is urged to consult its own tax advisors for the federal, state, local and foreign income and other tax consequences applicable under the Plan.

A. [TAX DISCUSSION TO COME]

**VI.
RISK FACTORS**

HOLDERS OF CLAIMS AGAINST THE DEBTORS SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT, PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION OR INVESTING IN NEW STOCK AND/OR ASSETS OF THE DEBTORS.

A. Certain Bankruptcy Considerations

Although the Debtors believe that the Plan will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Moreover, there can be no assurance that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate a resolicitation of votes.

Among other things, the Plan provides for the estates of the PST Debtors and the PBT Debtors to be substantively consolidated for purposes of voting on and making Distributions under the Plan. Should the Bankruptcy Court fail to allow such substantive consolidation, the administration of the Plan, if still possible, could be substantially more burdensome, time consuming and costly and may result in a different distribution scheme than that originally contemplated by the Plan.

B. Risk that Distributions Will be Less than Estimated

The projected Distributions and recoveries set forth in the Disclosure Statement and the Liquidation Analysis are based on the Debtors' initial estimate of Allowed Claims, without having undertaken a substantive review of all filed Claims. The Debtors project that the Claims asserted against them will be resolved in and reduced to an amount that approximates their estimates. However, there can be no assurance that the Debtors' estimates will prove accurate.

C. Litigation Risks

The Plan provides, among other things, for the Litigation Claims to be conveyed into the Liquidating Trust, with the Liquidating Trust Reserve available, in part, to facilitate the prosecution of the Litigation Claims and Disputed Claims. Although the Debtors anticipate that the Liquidating Trust, in time, will resolve the Litigation Claims and Disputed Claims on a basis providing a substantial net benefit to the Debtors' estates, there can be no guarantee that the result will be favorable. There also can be no assurance that Liquidating Trust Reserve will be sufficient to fund completely the prosecution of the Litigation Claims and the Disputed Claims.

D. Broadcast Sale Risks

The Broadcast Sale, if any, may be subject to certain regulatory approvals, including broadcast licensing and anti-trust issues. There can be no guarantee that such regulatory approvals will be acquired. If the Broadcast Sale does not occur, recoveries may be limited by many factors affecting companies in the television broadcasting industry, including, but not limited to, the ability to operate the broadcast business effectively, attract and retain executives and management, comply with regulatory requirements and adapt to adverse business conditions.

VII.

ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan is not confirmed and consummated, the Debtors' alternatives include (i) liquidation of the Debtors under chapter 7 of the Bankruptcy Code and (ii) the preparation and presentation of an alternative plan or plans of liquidation.

A. Liquidation Under Chapter 7

If the Plan or any other chapter 11 plan for the Debtors cannot be confirmed under section 1129(a) and (b) of the Bankruptcy Code, the Chapter 11 Cases may be converted to cases under chapter 7 of the Bankruptcy Code, in which case a trustee(s) would be elected or appointed to liquidate any remaining assets of the Debtors for distribution to creditors pursuant to chapter 7 of the Bankruptcy Code. If a trustee(s) is appointed and the remaining assets of the Debtors are liquidated under chapter 7 of the Bankruptcy Code, all creditors holding Allowed General Unsecured Claims may receive Distributions of a lesser value on account of their Allowed Claims and would have to wait a longer period of time to receive such Distributions than they would under the Plan.

Attached as Exhibit E is a preliminary liquidation analysis of the Debtors on a consolidated and individual basis. This analysis contains details, for each operating Debtor, of the costs that would be incurred in its shut down. From this analysis, it appears that, on liquidation, creditors, particularly unsecured creditors, will receive [to come].

B. Alternative Chapter 11 Plan

If the Plan is not confirmed, the Debtors, or any other party in interest, if the exclusive period during which the Debtors may file and seek approval of a plan under section 1121 of the Bankruptcy Code has lapsed, may attempt to formulate an alternative chapter 11 plan, which

might provide for the liquidation of the Debtors' remaining assets other than as provided by the Plan. Any attempt to formulate an alternative chapter 11 plan would unnecessarily delay creditors' receipt of Distributions yet to be made and, due to the incurrence of additional administrative expenses during such period of delay, may provide for smaller Distributions to holders of Allowed Claims than are currently provided for in the Plan. Accordingly, the Debtors believe that the Plan will enable all creditors to realize the greatest possible recovery on their respective Claims with the least delay.

VIII. CONCLUSION AND RECOMMENDATION

The Debtors believe that confirmation and implementation of the Plan is preferable to any of the alternatives described above because it will provide the greatest recoveries to holders of Claims. Other alternatives would involve significant delay, uncertainty and substantial additional administrative costs. The Debtors urge holders of Impaired Claims entitled to vote on the Plan to accept the Plan and to evidence such acceptance by returning their Ballots so that they will be received no later than 4:00 p.m., prevailing Eastern Time, on [], 2005.

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 TO CONSIDER APPROVAL OF DISCLOSURE STATEMENT

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’ Joint Chapter 11 Plan dated January 7, 2005 (the “Plan”) and the disclosure statement related to the Plan dated January 7, 2005 (the “Disclosure Statement”).

PLEASE TAKE FURTHER NOTICE that a hearing (the “Disclosure Statement Hearing”) will be held before the Honorable James B. Haines, Jr., United States Bankruptcy Judge, on **February 9, 2005 at 11:00 a.m. (prevailing Eastern time)** at the United States Bankruptcy Court for the District of Maine, 537 Congress Street, Portland, Maine 04101, or as soon thereafter as counsel can be heard, to consider the entry of an order finding, pursuant to section 1125 of the Bankruptcy Code, as supplemented by rules 2002 and 3017 of the Federal Rules of Bankruptcy Procedure and D. Me. LBR 2002-1(b) and 3017-1(a), that the proposed Disclosure Statement contains “adequate information” sufficient to enable a reasonable holder of claims against or interests in the Debtors to make an informed judgment on the Plan and approving the Disclosure Statement.

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.

PLEASE TAKE FURTHER NOTICE that the Disclosure Statement and the Plan are on file with the Clerk of the Bankruptcy Court and may be examined by parties in interest by visiting the Office of the Clerk of the Bankruptcy Court during business hours. In addition, copies may be obtained upon written request to:

By US Mail

Pegasus Satellite Television, Inc.
c/o The Trumbull Group, LLC
P.O. Box 721
Windsor, Connecticut 06095-0721

OR **By Overnight Courier**

Pegasus Satellite Television, Inc.
c/o The Trumbull Group, LLC
Griffin Center
4 Griffin Road North
Windsor, Connecticut 06095

PLEASE TAKE FURTHER NOTICE that objections, if any, to the approval of the Disclosure Statement must (a) be in writing, (b) state the name and address of the objecting party and the nature of the claim or interest of such party, (c) state with particularity the basis and nature of any objection and include, where appropriate, proposed language to be inserted in the Disclosure Statement to resolve any such objection, and (d) be filed, together with proof of service, so as to be **actually received** on or before **4:00 p.m. (prevailing Eastern time) on February 2, 2005** by: (i) The Clerk of the Bankruptcy Court, United States Bankruptcy Court, 537 Congress Street, Portland, ME 04101 (ii) 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 (iii) Robert J. Keach, Esq., Bernstein, Shur, Sawyer & Nelson, 100 Middle Street, P.O. Box 9729, Portland, ME 04104-5029 (iv) Daniel Golden, Esq., David Botter, Esq., Akin Gump Strauss Hauer & Feld LLP, 590 Madison Avenue, New York, NY 10022; and (v) Robert Checkoway, The Office of the United States Trustee for the District of Maine, 537 Congress Street, Suite 303, Portland, ME 04101.

PLEASE TAKE FURTHER NOTICE that unless an objection to the Disclosure Statement is filed with the Bankruptcy Court by the date and time prescribed herein, the objecting party may be barred from objecting to the adequacy and manner of the Disclosure Statement and may not be heard at the Disclosure Statement Hearing.

PLEASE TAKE FURTHER NOTICE that upon approval of the Disclosure Statement by the Bankruptcy Court, holders of claims against in the Debtors will receive a copy of the Disclosure Statement, the Plan, and various documents related thereto, together with a ballot for those holders of claims against and interests in the Debtors entitled to vote on the Plan, unless otherwise ordered by the Bankruptcy Court. Such holders will also be notified of the date, time and place of the hearing to confirm the Plan, the deadline for voting on the Plan, and the deadline for filing objections to confirmation of the Plan.

PLEASE TAKE FURTHER NOTICE that the Debtors may amend the Disclosure Statement up until ten days prior to the Disclosure Statement Hearing to, among other things, update certain of the information contained in the Disclosure Statement and file certain exhibits to the Disclosure Statement.

PLEASE TAKE FURTHER NOTICE that the Disclosure Statement Hearing may be adjourned from time to time without further notice other than an announcement of the adjourned date or dates at the hearing or at a later hearing.

Dated: Portland, Maine
January 7, 2005

SIDLEY AUSTIN BROWN & WOOD LLP
Larry J. Nyhan
James F. Conlan
Paul S. Caruso
Bank One Plaza
10 South Dearborn Street
Chicago, Illinois 60603
Telephone: (312) 853-7000
Facsimile: (312) 853-7036

-and-

SIDLEY AUSTIN BROWN & WOOD LLP
Guy S. Neal
Ellen R. Moring
787 Seventh Avenue
New York, New York 10019
Telephone: (212) 839-5300
Facsimile: (212) 839-5599

-and-

BERNSTEIN, SHUR, SAWYER & NELSON

By: /s/ Robert J. Keach
Robert J. Keach
100 Middle Street
P.O. Box 9729
Portland, ME 04104
Telephone: (207) 774-1200
Facsimile: (207) 774-1127

Attorneys for Debtors and Debtors in Possession