

OPTION AGREEMENT

THIS OPTION AGREEMENT is dated as of April 14, 1998 among PEGASUS COMMUNICATIONS CORPORATION, a Delaware corporation ("Pegasus"); W.W. KEEN BUTCHER ("Butcher"); GUYON W. TURNER ("Turner"); KB COMMUNICATIONS CORPORATION, a Delaware corporation ("KB Communications"); CHANNEL 24 CORPORATION, a Delaware corporation ("Channel 24"); and KB PRIME MEDIA LLC, a Delaware limited liability company ("KB LLC", together with KB Communications and Channel 24, collectively the "KB Companies").

Background - KB Communications and Channel 24 have applied to the Federal Communications Commission ("FCC"), directly or indirectly, for construction permits for new television broadcast stations (collectively the "Stations") to operate in various markets pursuant to FCC licenses, permits and authorizations. Certain of the Stations are or will be represented by ownership by a KB Company of a 50% membership interest in a limited liability company that owns the Station. Butcher and Turner desire to borrow certain funds from First Union Bank, N.A. (the "Bank") in order to fund the operations of the KB Companies (Turner's participation in such loans being limited to KB LLC). Pegasus is willing to provide certificates of deposit as security for the repayment of loans from the Bank in consideration for the grant to Pegasus of an option to purchase capital stock, membership interests and assets of the KB Companies, subject to the terms and conditions of this Agreement.

NOW THEREFORE, in consideration of the promises and mutual covenants contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

1. Security for Repayment of Loans. In partial consideration for the grant of the option contained in paragraph 2 of this Agreement, Pegasus hereby agrees to provide security (in the form specified in the next sentence) for the repayment of loans from the Bank to Butcher in an aggregate principal amount not to exceed \$3.9 million and to Turner in an aggregate principal amount not to exceed \$100,000 (collectively, the "Loans"). Pegasus agrees to provide, and maintain during the term of the Loans, collateral for the repayment of the Loans in the form of certificates of deposit in an amount equal to the aggregate principal amount of the Loans then outstanding. Pegasus shall enter into an appropriate assignment of such certificates of deposit with the Bank as security for the Loans and such other agreements, documents and certificates as may be requested by the Bank, in form reasonably acceptable to Pegasus. Butcher agrees to loan or contribute to one or more of the KB Companies the proceeds of each of his Loans immediately following his receipt of the Loan proceeds and Turner agrees to loan or contribute to KB LLC the proceeds of each of his Loans immediately following his receipt of the Loan proceeds. Each of the KB Companies agrees, and Butcher and Turner each agree to cause each of the KB Companies, to use all such loans and contributions for the acquisition or operation of Stations, Station Facilities (as defined in paragraph 2(a)) or LLC Assets (as defined in paragraph 2(a)).

2. Grant of Option.

(a) Each of the KB Companies and Butcher and, with respect to KB LLC only, Turner hereby grants to Pegasus an exclusive and irrevocable option (the "Option") exercisable at any time that such exercise would be consistent with the rules, regulations and policies of the FCC, subject to compliance with applicable legal requirements and upon payment of the Option Price specified in paragraph 3, to purchase all of the capital stock of KB Communications and Channel 24, all of the membership interests in KB LLC, the membership interests owned by a KB Company in a limited liability company that has applied for or owns a Station (an "LLC Asser") and all or such part of the assets (including all current assets and FCC licenses, permits and authorizations relating to such Station) of any of the KB Companies (along with the assumption of all current liabilities of such KB Company relating thereto) that are used or useful in connection with the construction and operation of a Station in a specific geographic location ("Station Facilities"), free and clear of all security interests, mortgages and liens.

(b) In order to exercise the Option, Pegasus must give Butcher and, with respect to KB LLC only, Turner written notice of the exercise of the Option, identifying the specific stock, membership interests, LLC Assets or Station Facilities that are being purchased pursuant to the exercise of the Option. As soon thereafter as is practicable, Butcher, Turner or the KB Company, as applicable, shall convey such stock, interests, assets, or facilities to Pegasus against payment of the Option Price in cash or by wire transfer of immediately available funds. At the option of Pegasus, the closing on the exercise of the Option may be postponed until after the grant of any required FCC or other required regulatory approval becomes final, i.e., no longer subject to administrative or judicial review, reconsideration or appeal. The KB Companies, Butcher and Turner agree to cooperate in the preparation of such documentation, including but not limited to applications to be filed with the FCC, as is necessary to effectuate the transactions contemplated by this Agreement. Each of the KB Companies agrees to apply the net proceeds received from the payment of the Option Price to repay to the maximum extent possible the loans from the KB Companies to Butcher and Turner, and each of Butcher and Turner agrees to use the proceeds from such loan repayments to repay to the maximum extent possible the Loans.

3. Option Price.

(a) The Option Price shall be determined as follows:

(i) With respect to the purchase of capital stock or membership interests of a KB Company, (x) the amount of Costs incurred by such entity less (y) the amount of any revenues of such KB Company collected in cash plus (z) interest at the rate of 12 percent per annum, calculated monthly on the then current cumulative net amount of (x) and (y) and compounded annually.

(ii) With respect to the purchase of LLC Assets or Station Facilities from a KB Company, (x) the Asset Costs of the LLC Assets or Station Facilities purchased less (y) the amount of any revenues of such KB Company collected in cash relating directly or indirectly to such LLC Asset or Station Facility plus (z) interest at the

rate of 12 percent per annum, calculated monthly on the then current cumulative net amount of (x) and (y) and compounded annually.

(b) "Costs" shall mean all deposits, costs, expenses, fees and expenditures, whether capitalized or expensed for accounting purposes, including without limitation, organizational expenses, filing fees, engineering fees, FCC application fees, legal fees and expenses, accounting fees and expenses, wages and salaries of employees, amounts contributed to limited liability companies of which such entity is a member, and other direct and indirect expenses incurred in connection with the Station Facility; provided however, that Costs shall exclude interest.

(c) "Asset Costs" shall mean all Costs relating directly or indirectly to such LLC Asset or Station Facility plus an allocation of overhead and other Costs of the entity owning such LLC Asset or Station Facility determined on a reasonable basis.

(d) Within six months after the end of each calendar year beginning with calendar year 1998, Butcher and Turner will provide to Pegasus as of the end of such calendar year an itemized list of Costs for each KB Company, an itemized list of Asset Costs for each KB Company broken down by LLC Asset and Station Facility and an itemized list of revenues collected in cash for each KB Company (specifying an allocation to each LLC Asset and Station Facility). Exhibit A to this Agreement sets forth the Asset Costs as of December 31, 1997 for each of the Station Facilities specified thereon.

4. Vicksburg Channel 35 Associates, LLC. Butcher and KB Communications each agree to use his or its best efforts to cause Vicksburg Channel 35 Associates, LLC (the "Vicksburg LLC"), a limited liability company that has applied for the Vicksburg, Mississippi Station, of which a 50% membership interest will be owned by a KB Company, to enter into an LMA with Pegasus or an affiliate of Pegasus on terms set forth in the letter of intent dated January 29, 1998 among KB Communications, Pegasus and Innovative Television, Inc.

5. Settlement Amounts. KB Communications shall use the proceeds received by it from any settlement of the Jackson, Mississippi and Waterville, Maine Stations, which may aggregate up to \$550,000, to repay its loans to Butcher. Butcher agrees to apply the proceeds from such loan repayments to repay the Loans to the Bank to the maximum extent possible.

6. Term and Termination.

(a) Except as otherwise provided in paragraph 6(b), the Option shall continue in effect forever until exercised in its entirety and shall not terminate upon the repayment in full of all outstanding Loans. Pegasus' obligation to provide security for the payment of additional Loans (so long as the then outstanding principal amount of the Loans is not in excess of the aggregate principal amount set forth in paragraph 1) shall continue in effect forever, and Pegasus cannot terminate its obligation to provide security for the payment of any Loans while any such Loan remains outstanding.

(b) The Option contained in this Agreement shall terminate and be of no further force or effect if Pegasus or any assignee pursuant to paragraph 7(a) fails to provide or maintain the collateral for repayment of the Loans required pursuant to paragraphs 1 and 7(a) within 15 days after notice from Butcher, Turner and the KB Companies of such failure; provided that if such failure relates only to the failure of Pegasus or such assignee, then the termination shall relate only to that portion of the Option which Pegasus or such assignee, as applicable, has the right to exercise.

7. Miscellaneous.

(a) Parties Obligated and Benefited. This Agreement shall be binding upon the parties and their respective assigns and successors in interest and shall inure solely to the benefit of the parties and their respective assigns and successors in interest, and no other person shall be entitled to any of the benefits conferred by this Agreement. Without the prior written consent of the other party, no party may assign this Agreement or any of its rights or interests or delegate any of its duties under this Agreement; provided, however, that any party may assign this Agreement or any of its rights or interests or delegate any of its duties hereunder to an Affiliate. "Affiliate" of a party means a person controlling, controlled by or under common control with such party. Notwithstanding the foregoing, Pegasus can assign the Option, in whole or in part, to a third party by notice to Butcher, Turner and the KB Companies, but any assignment of the Option shall require that the assignee provide collateral for repayment of the Loans in accordance with paragraph 1 of this Agreement in an amount at least equal to the Option Price as of the date of such assignment for the capital stock, membership interests, LLC Assets or Station Facilities to which that portion of the Option that was assigned relates.

(b) Notices. Any notices and other communications required or permitted hereunder shall be in writing and shall be effective upon delivery by hand or upon receipt if sent by certified or registered mail (postage prepaid and return receipt requested) or by a nationally recognized overnight courier service (appropriately marked for overnight delivery) or upon transmission if sent by facsimile (with request for immediate confirmation of receipt in a manner customary for communications of such respective type and with physical delivery of the communication being made by one or the other means specified in this subsection as promptly as practicable thereafter). Notices shall be addressed as follows:

If to Pegasus:

Pegasus Communications Corporation
5 Radnor Corporate Center
100 Matsonford Road, Suite 454
Radnor, Pennsylvania 19087
Attn: Ted S. Lodge, Esquire
Telecopier: 610-341-1835

with a copy to:

Michael Jordan, Esquire
Drinker, Biddle & Reath
1345 Chestnut Street
Philadelphia, PA 19107

If to any of the KB Companies:

2130 Greenbrier Drive
Villanova, Pennsylvania 19085
Attn: Guyon W. Turner
Telecopier: 610-526-0679

with a copy to:

Larry P. Laubach, Esquire
Schnader Harrison Segal & Lewis LLP
1600 Market Street, Suite 3600
Philadelphia, Pennsylvania 19103
Telecopier: 215-751-2205

If to Butcher:

W.W. Keen Butcher
8811 Towanda Street
Philadelphia, Pennsylvania 19118
Telecopier: 215-242-6529

If to Turner:

Guyon W. Turner
2130 Greenbrier Drive
Villanova, Pennsylvania 19085
Telecopier: 610-526-0679

Any party may change the address to which notices are required to be sent by giving notice of such change in the manner provided in this subsection.

(c) Specific Performance. The KB Companies, Butcher and Turner (collectively the "KB Parties") recognize and acknowledge that, in the event that any of the KB Parties shall fail to perform its obligations to consummate the transactions contemplated hereby, money damages alone will not be adequate to compensate for Pegasus's injury. Each of the KB Parties, therefore, agrees and acknowledges that, in the event of its failure to perform its obligation to consummate the transactions contemplated hereby, Pegasus shall be entitled to

specific performance of the terms of this Agreement and of the obligation of the KB Parties to consummate the transactions contemplated hereby. Nothing in this Section shall be construed to limit any rights and remedies to which Pegasus is entitled at law or in equity.

(d) Headings. The Sections headings of this Agreement are for convenience only and shall not constitute a part of this Agreement or in any way affect the meaning or interpretation thereof.

(e) Governing Law. This Agreement and the rights of the parties under it shall be governed by and construed in all respects in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to any choice of law provision or rule (whether of the Commonwealth of Pennsylvania or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the Commonwealth of Pennsylvania.

(f) Rights Cumulative. All rights and remedies of each of the parties under this Agreement shall be cumulative, and the exercise of one or more rights or remedies shall not preclude the exercise of any other right or remedy available under this Agreement or applicable law.

(g) Time of the Essence. Time is of the essence under this Agreement. If the last day permitted for the giving of any notice or the performance of any act required or permitted under this Agreement falls on a day which is not a business day, the time for the giving of such notice or the performance of such act shall be extended to the next succeeding business day.

(h) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

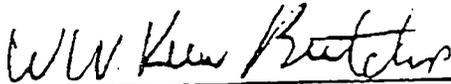
(i) Entire Agreement. This Agreement contains the entire agreement of the parties and supersedes all prior oral or written agreements, understandings and representations to the extent that they relate in any way to the subject matter hereof.

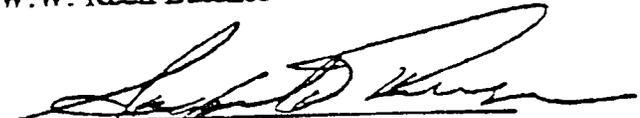
(j) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the parties. No waiver by any party of any default, misrepresentation or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence. The failure of any party to enforce any right arising under this Agreement on one or more occasions will not operate as a waiver of that or any other right on that or any other occasion.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

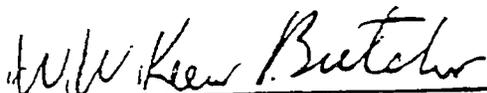
PEGASUS COMMUNICATIONS CORPORATION

By: 
Name: Ted S. Lodge
Title: San Francisco Vice President

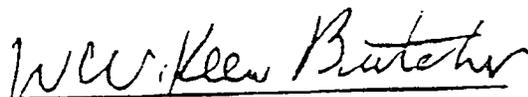

W.W. Keen Butcher
W.W. Keen Butcher

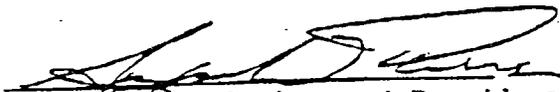

Guyon Turner
Guyon Turner

KB PRIME MEDIA LLC

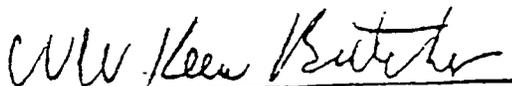
By: 
W.W. Keen Butcher, Chief Executive Officer
W.W. Keen Butcher, Chief Executive Officer

KB COMMUNICATIONS CORPORATION

By: 
W.W. Keen Butcher, President
W.W. Keen Butcher, President


Guyon Turner, Member and President
Guyon Turner, Member and President

CHANNEL 24 CORPORATION

By: 
W.W. Keen Butcher, President
W.W. Keen Butcher, President

Oct. 21. 1998 5:35PM

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IN WITNESS WHEREOF, the parties hereto have duly executed this Second Amendment to Option Agreement as of the date first written above.

PEGASUS COMMUNICATIONS CORPORATION

By [Signature]
Name:
Title:

KB PRIME MEDIA LLC

By _____
Name:
Title:

KB COMMUNICATIONS CORPORATION

By _____
Name:
Title:

CHANNEL 24 CORPORATION

By _____
Name:
Title:

W. W. Kean Butcher

Guyon Turner

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IN WITNESS WHEREOF, the parties hereto have duly executed this Second Amendment to Option Agreement as of the date first written above.

PEGASUS COMMUNICATIONS CORPORATION

By _____
Name:
Title:

KB PRIME MEDIA LLC

By *Guyon W. Turner*
Name: *Guyon W. Turner*
Title: *President*

KB COMMUNICATIONS CORPORATION

By *Guyon W. Turner*
Name: *Guyon W. Turner*
Title: *Vice President*

CHANNEL 24 CORPORATION

By *Guyon W. Turner*
Name: *Guyon W. Turner*
Title: *Vice President*

W. W. Keen Butcher

Guyon W. Turner
Guyon Turner

IN WITNESS WHEREOF, the parties hereto have duly executed this Second Amendment to Option Agreement as of the date first written above.

PEGASUS COMMUNICATIONS CORPORATION

By _____
Name:
Title:

KB PRIME MEDIA LLC

By _____
Name:
Title:

KB COMMUNICATIONS CORPORATION

By _____
Name:
Title:

CHANNEL 24 CORPORATION

By _____
Name:
Title:

W W Keen Butcher

W. W. Keen Butcher

Guyon Turner _____

FIRST AMENDMENT TO OPTION AGREEMENT

This First Amendment to Option Agreement is dated as of this 19th day of August, 1998, among Pegasus Communications Corporation ("Pegasus"), W.W. Keen Butcher ("Butcher"), Guyon W. Turner ("Turner"), KB Communications Corporation ("KB Communications"), Channel 24 Corporation ("Channel 24") and KB Prime Media LLC ("KB LLC") (KB LLC together with KB Communications and Channel 24, collectively the "KB Companies").

WHEREAS, the parties hereto have entered into an Option Agreement (the "Option") dated as of April 14, 1998, which Option gave Pegasus certain rights to acquire the KB Companies or some or all of the assets of those companies; and

WHEREAS, in connection with the proposed sale of certain assets related to WOLF(TV), Scranton, Pennsylvania from a subsidiary of Pegasus to one of the KB Companies, certain amendments to the Option are desired by the parties;

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and intending to be legally bound, the parties agree to amend the Option as follows:

1. Should Pegasus exercise the Option so as to acquire any of the assets of the KB Companies used or useful in connection with the operation of the television broadcast station WOLF(TV), located in Scranton, Pennsylvania, the Option Price as specified in paragraph 3 of the Option with respect to those assets only shall be computed without the deductions set forth in paragraphs 3(a)(i)(y) and 3(a)(ii)(y) and with interest calculated monthly pursuant to paragraphs 3(a)(i)(z) and 3(a)(ii)(z) on the then current amount of paragraphs 3(a)(i)(x) and 3(a)(ii)(x), respectively, compounded annually.
2. The first sentence of paragraph 6(a) of the Option shall be deleted and be replaced by the following sentence: "Except as otherwise provided in paragraph 6(b), the Option shall continue in effect until the later to occur of (i) 10 years from the date of this amendment, or (ii) that date which is 18 months after Pegasus is released in its entirety from any obligation to provide security to a third party lender for the repayment of any Loans made in accordance with paragraph 1 of this Agreement."
3. In all other respects, the provisions of the Option remain unchanged and continue in full force and effect. All terms used herein shall have the meanings given to them in the Option, unless otherwise specified herein.

SECOND AMENDMENT TO OPTION AGREEMENT

This Second Amendment to Option Agreement is dated as of this 9th day of November, 1998, among Pegasus Communications Corporation ("Pegasus"), W.W. Keen Butcher ("Butcher"), Guyon W. Turner ("Turner"), KB Communications Corporation ("KB Communications"), Channel 24 Corporation ("Channel 24") and KB Prime Media LLC ("KB LLC") (KB LLC together with KB Communications and Channel 24, collectively the "KB Companies").

WHEREAS, the parties hereto have entered into an Option Agreement (the "Option") dated as of April 14, 1998, and subsequently amended on August 19, 1998, which Option gave Pegasus certain rights to acquire the KB Companies or some or all of the assets of those companies; and

WHEREAS, in connection with the proposed acquisition of television station WFXU-TV, Live Oak, Florida by KB LLC, certain amendments to the Option are desired by the parties;

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and intending to be legally bound, the parties agree to amend the Option as follows:

1. Should Pegasus exercise the Option so as to acquire any of the assets of the KB Companies used or useful in connection with the operation of the television broadcast station WFXU-TV, located in Live Oak, Florida, the Option Price as specified in paragraph 3 of the Option with respect to those assets only shall be computed without the deductions set forth in paragraphs 3(a)(i)(y) and 3(a)(ii)(y) and with interest calculated monthly pursuant to paragraphs 3(a)(i)(z) and 3(a)(ii)(z) on the then current amount of paragraphs 3(a)(i)(x) and 3(a)(ii)(x), respectively, compounded annually.

2. In all other respects, the provisions of the Option remain unchanged and continue in full force and effect. All terms used herein shall have the meanings given to them in the Option, unless otherwise specified herein.

THIRD AMENDMENT TO OPTION AGREEMENT

2/27/01 - WPME

This Third Amendment to Option Agreement is dated as of this ___ day of _____, 2000, among Pegasus Communications Corporation ("Pegasus"), W.W. Keen Butcher ("Butcher"), Guyon W. Turner ("Turner"), KB Communications Corporation ("KB Communications"), Channel 24 Corporation ("Channel 24") and KB Prime Media LLC ("KB LLC") (KB LLC together with KB Communications and Channel 24, collectively the "KB Companies").

WHEREAS, the parties hereto have entered into an Option Agreement (the "Option") dated as of April 14, 1998, and subsequently amended on August 19, 1998, and on November 9, 1998, which Option gave Pegasus certain rights to acquire the KB Companies or some or all of the assets of those companies; and

WHEREAS, in connection with the proposed acquisition of television station WPME-TV, Lewiston, Maine by KB LLC, certain amendments to the Option are desired by the parties;

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and intending to be legally bound, the parties agree to amend the Option as follows:

1. Should Pegasus exercise the Option so as to acquire any of the assets of the KB Companies used or useful in connection with the operation of the television broadcast station WPME-TV, located in Lewiston, Maine, the Option Price as specified in paragraph 3 of the Option with respect to those assets only shall be computed without the deductions set forth in paragraphs 3(a)(i)(y) and 3(a)(ii)(y) and with interest calculated monthly pursuant to paragraphs 3(a)(i)(z) and 3(a)(ii)(z) on the then current amount of paragraphs 3(a)(i)(x) and 3(a)(ii)(x), respectively, compounded annually.

2. In all other respects, the provisions of the Option remain unchanged and continue in full force and effect. All terms used herein shall have the meanings given to them in the Option or earlier amendments, unless otherwise specified herein.