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UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEVADA

IN RE: :
: **Case Nos. BK-S 97-20554-GWZ**
STRATOSPHERE CORPORATION, : **and BK-S 97-20555-GWZ**
a Delaware corporation, and :
STRATOSPHERE GAMING CORP., : **(Jointly Administered Under**
a Nevada corporation, : **Case No. 97-20555-GWZ)**
: **Chapter 11**
Debtors. :
: **Hearing Date: 12/10/98**
EIN Nos. 88-0292318 and : **Hearing Time: 10:00 a.m.**
88-0320164, respectively. : **Scheduled By: Sheila**

**SIXTH INTERIM AND FINAL APPLICATION OF JONES, DAY, REAVIS & POGUE
FOR ALLOWANCE OF COMPENSATION AND REIMBURSEMENT OF EXPENSES**

Dated: November 12, 1998

1801

TABLE OF CONTENTS

PRELIMINARY STATEMENT 2

BACKGROUND 5

 General Background 5

 The Committee 6

 The Retention of Jones Day and the Scope of Its Employment 6

 Jones Day's Qualifications 7

 Status of the Debtors' Chapter 11 Cases 9

RELIEF REQUESTED AND REASONS THEREFOR 9

 Legal Authority 9

 Request for Interim and Final Allowance of Compensation
 and Reimbursement of Expenses 10

 Description of Services Rendered 15

 Overview 15

 Case Administration 15

 Plan of Reorganization/Disclosure Statement 16

 Court Hearings 16

 Litigation/Adversary Proceedings 16

 Preparation of Fee Applications 17

 Description of Expenses Incurred 17

 Adjustments to Fees and Expenses 18

CONCLUSIONS 19

 Jones Day's Fees Were Reasonable 19

 Jones Day's Expenses Were Actual and Necessary 20

 Comparison to Budget 20

 Available Funds 20

 Affidavit 20

10-14

TABLE OF CASES

In re Manoa Finance Co., 853 F.2d 687 (9th Cir. 1988) 9

In re Nucorp Energy, Inc., 764 F.2d 655 (9th Cir. 1985) 9

SCHEDULE OF EXHIBITS

EXHIBIT A - Jones Day Retention Order

EXHIBIT B - Professional Summary

EXHIBIT C - Time Detail and Summary

EXHIBIT D - Expense Detail and Summary

EXHIBIT E - Comparison to Budget

EXHIBIT F - Affidavit of Timothy R. Pohl

EXHIBIT G - Proposed Order

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Jones, Day, Reavis & Pogue ("Jones Day"), counsel for the Official Committee of Noteholders of the above-captioned debtors and debtors in possession (collectively, the "Debtors"), submits this sixth application (the "Application") for (i) interim allowance of compensation of \$18,113.70 and reimbursement of related expenses of \$4,986.12 for the period July 1, 1998 through October 31, 1998 (the "Sixth Compensation Period"); (ii) final allowance of compensation of \$801,012.00 and reimbursement of related expenses of \$112,943.02 for the

$$\begin{array}{r} +5000.00 \\ \hline 806,012.00 + 15,256 \text{ holdback from period 2} = \underline{\underline{821,268}} \end{array}$$

period May 7, 1997 through October 31, 1998 (the "Combined Compensation Period"), including \$99,510.41 in fees held back from the First Compensation Period; and (iii) final allowance of \$5,000 in (A) estimated fees and expenses incurred after the conclusion of the Combined Compensation Period for the preparation of this Application and related fee matters and (B) estimated expenses incurred by Jones Day during the Sixth Compensation Period but not yet billed due to delays in the applicable billing cycle for such expenses (collectively, the "Estimated Fees and Expenses"). In support of this Application, Jones Day represents as follows:

PRELIMINARY STATEMENT

Jones Day entered this case midstream on May 7, 1997, as substitute counsel to the Committee. At that time, the chapter 11 cases of the above-captioned debtors and debtors in possession (collectively, the "Debtors") were in transition. When the Debtors' cases were commenced on January 27, 1997 (the "Petition Date"), it appeared that the cases would move quickly and consensually toward conclusion. Prior to the Petition Date, the Debtors had negotiated the terms of a financial restructuring and recapitalization agreement (the "Prepetition Restructuring Agreement") with (a) Grand Casinos, Inc. ("Grand"), the Debtors' primary shareholder, and (b) a group of holders (the "Noteholders") of certain \$203 million 14.75% first mortgage notes due 2002 (the "Notes"), the Debtors' primary financial stakeholders. These negotiations resulted in the preparation of a proposed plan of reorganization (the "Debtors' Plan"), which was filed by the Debtors on the Petition Date. By the beginning of May, however, the consensual restructuring appeared to be stalled, and the Debtors' cases, in turn, had begun to stagnate.

Despite the optimism of the parties during the initial weeks of these cases, it soon became clear that the Debtors' postpetition operating performance was not as strong as

anticipated. Following several months of disappointing financial results, Grand notified the Committee that it was abandoning the Prepetition Restructuring Agreement and the reorganization and recapitalization plan contemplated thereby. At the time that Grand withdrew its support of the Debtors' Plan, these cases had fallen into a routine based upon the parties' presumption that the Prepetition Restructuring Agreement would be implemented. As a result, when support for this restructuring deteriorated, it became apparent (at least in hindsight) that little actual progress had been made toward the ultimate goal of completing the Debtors' reorganization. Upon its retention on May 7, 1997, Jones Day immediately assisted the Committee in initiating an effort to reinvigorate these cases and move them toward a successful and expeditious conclusion. As the Court is well-aware, these efforts culminated in the negotiation, filing and confirmation of a fully consensual reorganization plan.

From the outset, Jones Day devoted significant resources to the examination of the Debtors' existing financial arrangements, possible reorganization structures and financial restructuring strategies. Of particular interest was the Standby Equity Commitment executed by the Debtors and Grand contemporaneously with the completion of the original Note offering in March 1995 (the "Standby Equity Commitment").

At the Committee's suggestion, Jones Day focused its initial effort on developing a strategy to enforce the Standby Equity Commitment in light of the Debtors' apparent unwillingness or inability to pursue such relief. Following an extensive analysis by Jones Day, the Committee filed a motion on or about June 2, 1997 (the "Assumption Motion") for authority to assume the Standby Equity Commitment on behalf of the Debtors, pursuant to section 365 of the Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "Bankruptcy Code"). The Assumption Motion thereafter became the subject of substantial litigation among the Committee, Grand and the Debtors that was completed during the Fourth Compensation Period.

During the Fourth Compensation Period, the parties engaged in extensive discovery and other activities in preparation for an evidentiary hearing on this complex issue, which was held on February 12 and 13, 1998. Although the Assumption Motion was denied by the Court following this hearing, the litigation process was beneficial to the progress of the Debtors' reorganization efforts by forcing the primary parties in these cases to embark on an extensive examination of the obligations imposed by the Standby Equity Commitment in connection with the development of revised plan structures. Moreover, building on its experience in litigating the Assumption Motion, the reorganized Debtors (through a newly formed limited liability company whose sole purpose is to prosecute claims and causes of action against Grand and other parties for the benefit of Noteholders) will continue to examine and pursue what are believed to be viable and valuable causes of action against Grand and third parties arising out of the facts surrounding the issuance of the Notes and the Standby Equity Commitment.

In addition to seeking substantive relief that the Committee believed was warranted, the filing of the Assumption Motion signaled clearly that efforts by Grand to sponsor a self-serving restructuring plan would be fought vigorously by the Committee. On or about June 20, 1997, the Debtors filed an amended plan (the "Debtors' Amended Plan") based in part on agreements reached with Grand on the terms of an Amended and Restated Investment and Reorganization Agreement. The Debtors' Amended Plan called for less favorable treatment of the Noteholders' claims than the treatment originally negotiated in the Debtors' Plan, and was unacceptable to the Committee. Accordingly, the Committee filed a competing plan on July 3, 1997 — only 57 days after Jones Day's retention.

Subsequently, the parties engaged in extensive negotiations to resolve their differences on plan issues. To facilitate the Debtors' reorganization on terms more favorable to

the Debtors' creditors, Jones Day devoted substantial resources during the Combined Compensation Period to the negotiation of plan terms with the Debtors and certain majority Noteholder groups led by investor Carl Icahn — *i.e.*, High River Limited Partnership and American Real Estate Partners, L.P. (collectively, the "Icahn Group"). Significant progress in resolving plan issues was achieved prior to the Fourth Compensation Period, upon the Debtors' decision to abandon efforts to sponsor a plan built around a deal with Grand and instead focus on constructing a plan that creditors would accept.

As a result, the Debtors filed a restated plan (the "Debtors' Restated Plan") and an accompanying disclosure statement (the "Disclosure Statement") on February 13, 1998. The Debtors' Restated Plan embodied agreements with the Committee and the Icahn Group. The accompanying Disclosure Statement was approved by the Court on February 26, 1998. Thereafter, the parties worked to resolve the remaining plan issues — a result that was achieved during the Fifth Compensation Period. Accordingly, following a hearing on May 15, 1998 (the "Confirmation Hearing"), the Court entered an order (the "Confirmation Order") confirming the Debtors' Restated Plan on a consensual basis.

Jones Day's work on behalf of the Committee — including its work during the Sixth Compensation Period — has (a) helped the Committee meet its statutory obligations and achieve its case objectives and (b) assisted in moving these cases toward a successful conclusion on the terms most beneficial to all interested parties. As a result, Jones Day is entitled to the interim and final allowance of the fees and expenses requested in this Application.

BACKGROUND

General Background

1. On the January 27, 1997, the Debtors commenced their respective reorganization cases by filing voluntary petitions for relief under chapter 11 of the Bankruptcy