

## (1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **THE COMPANY**

The accompanying condensed consolidated financial statements present the financial position, results of operations and cash flows of Stratosphere Corporation and its wholly-owned subsidiaries, Stratosphere Gaming Corp., Stratosphere Land Corporation, Stratosphere Advertising Agency and 2000 Las Vegas Boulevard Retail Corporation (collectively the "Company"). The Company operates an integrated casino, hotel and entertainment facility and a 1,149 foot, free-standing observation tower located in Las Vegas, Nevada.

On January 27, 1997 ("Petition Date"), Stratosphere Corporation and its wholly-owned subsidiary Stratosphere Gaming Corp. ("SGC" and collectively with Stratosphere Corporation, the "Debtors") filed voluntary petitions for Chapter 11 Reorganization pursuant to the United States Bankruptcy Code. As of that date, the United States Bankruptcy Court for the District of Nevada ("Bankruptcy Court") assumed jurisdiction over the assets of Stratosphere Corporation and SGC. Stratosphere Corporation and SGC are acting as debtors-in-possession on behalf of their respective bankrupt estates, and are authorized as such to operate their business subject to Bankruptcy Court supervision. The condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. These condensed consolidated financial statements do not include any adjustments that might result if the Company is unable to successfully emerge from bankruptcy and continue as a going concern.

### **PRINCIPLES OF PRESENTATION**

The condensed consolidated financial statements have been prepared in accordance with the accounting policies described in the Company's 1997 Annual Report on Form 10-K. Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these financial statements be read in conjunction with the notes to the consolidated financial statements which appear in that report.

In addition, as a result of the restructuring (see Note 2), the Company has implemented the guidance provided by the American Institute of Certified Public Accountants ("AICPA") Statement of Position 90-7 "Financial Reporting By Entities In Reorganization Under The Bankruptcy Code" in the preparation of the accompanying June 28, 1998, condensed consolidated financial statements. The Company has not separately reported financial statements of non-debtor subsidiaries as it has determined such disclosure is not material to the condensed consolidated financial statements.

In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments (consisting only of a normal recurring nature) which are necessary for a fair presentation of the results for the interim periods presented. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations of the Securities and Exchange Commission. Interim results are not

necessarily indicative of results to be expected for any future interim period or for the entire fiscal year. Significant intercompany accounts and transactions have been eliminated.

## **INVENTORIES**

Inventories consisting primarily of food and beverage, retail and operating supplies are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Inventories totaled \$2.7 million and \$2.9 million as of June 28, 1998 and June 29, 1997, respectively.

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## **EARNINGS PER SHARE ("EPS")**

The Company adopted Statement of Financial Accounting Standards No. 128 ("SFAS 128") in 1997. However, there is no effect on the EPS calculation as all Stock Options were in excess of the average market share price. On May 15, 1998, the Bankruptcy Court confirmed the Restated Second Amended Plan of Reorganization filed by the Debtors (the "Restated Second Amended Plan"). The Restated Second Amended Plan will become effective upon the occurrence of certain events (see Note 2). Upon the Restated Second Amended Plan becoming effective, all existing equity interests (including Common Stock, options and warrants) will be canceled and the holders of such equity interests will receive nothing.

## **RECLASSIFICATIONS**

Certain amounts in the 1997 condensed consolidated financial statements have been reclassified to conform with the 1998 presentation. These reclassifications had no effect on the Company's net loss.

### **(2) RESTRUCTURING**

On May 15, 1998, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Restated Second Amended Plan. The Restated Second Amended Plan will not become effective until receipt of all regulatory approvals, including approval from the Nevada State Gaming authorities, which is expected to occur by September 30, 1998. Among other things, under the Restated Second Amended Plan, the secured portion of the First Mortgage Notes (estimated at \$120 million) will be converted into one hundred percent (100%) of the equity of reorganized Stratosphere Corporation, and all currently outstanding Common Stock of the Company and all other existing equity interests (including stock options and warrants) of the Company will be canceled. The remaining portion of the First Mortgage Notes claim (approximately \$104 million) will be treated as a general unsecured claim. In addition to the deficiency claim arising from the First Mortgage Notes, the general unsecured class of claims would include the balance of the note due Grand Casinos, Inc. (approximately \$52.4 million) and other general unsecured claims. The Restated Second Amended Plan provides for the general unsecured class of claims to share pro ratably in the distribution of approximately \$6.0 million in full settlement of their related claims. In addition, the Restated Second Amended Plan assumes

that the reorganized Stratosphere Corporation will continue to make payments pursuant to the Debtors' pre-petition capital lease and operating lease agreements.

On March 27, 1998, the Company became a party to a global settlement agreement ("Settlement Agreement") with the holders of the Vegas World Vacation Packages ("Package Holders"). The Settlement Agreement required the approvals of the Bankruptcy Court and Nevada State District Court. Upon obtaining the necessary approvals, the Settlement Agreement became effective on June 23, 1998. Pursuant to the terms of the Settlement Agreement, the Company will provide room nights, tower elevations and beverages (at the casino bars) to the Package Holders identified in Exhibit A to the Settlement Agreement. The Company estimates the total cost of providing such services to be approximately \$3.3 million. The Company received from Bob Stupak the Deed to the Stupak Center (estimated fair market value of \$350,000), \$.4 million of cash and the remaining three million shares of Common Stock held in the escrow account previously established by Bob Stupak and will write-off the Stupak receivable of \$3.9 million (\$800,000 of which was unreserved). The Company has not attributed any value to the treasury stock received as it will be canceled upon the Restated Second Amended Plan becoming effective. The net estimated cost of the Settlement Agreement of \$3.3 million is reflected as a Reorganization Item in the accompanying Condensed Consolidated Statement of Operations for the period ending June 28, 1998.

The Company has implemented the guidance provided by AICPA Statement of Position 90-7 "Financial Reporting By Entities In Reorganization Under The Bankruptcy Code" and, accordingly, expenses reorganization items as incurred (see Note 4). These items include professional fees, management retention compensation, interest income earned and any other costs and expenses deemed to have resulted from reorganization efforts since the Petition Date. All professional fees require approval by the Bankruptcy Court prior to the Company making payment in respect thereof. The Company will apply fresh-start reporting upon the Restated Second Amended Plan becoming effective which is anticipated to occur prior to September 30, 1998.

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Under Chapter 11 Reorganization, actions to enforce claims against the Debtors or Debtors' property are stayed pending further order of the Bankruptcy Court if those claims arose, or are based on events that occurred, on or before the Petition Date, and such claims can not be paid or restructured prior to the conclusion of the Chapter 11 proceedings. Other liabilities may arise or be subject to compromise as a result of rejection of executory contracts, including leases, or the Bankruptcy Court's resolution of claims for contingencies and other disputed amounts. Liabilities Subject to Compromise, included in the accompanying condensed consolidated balance sheets, represent the Company's estimate of the Debtors' pre-petition liabilities which are subject to compromise (see Note 3).

### (3) LIABILITIES SUBJECT TO COMPROMISE

Liabilities subject to compromise under reorganization proceedings consist of the following as of June 28, 1998 (in thousands):

1998

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Accounts payable trade  
\$ 348  
Accrued payroll and related expenses  
58  
Affiliate payable  
2,408  
Other accrued expenses  
4,751  
Capital lease obligations  
13,321  
14 1/4% first mortgage notes - including accrued interest through 1/27/97  
223,661  
Note payable to affiliate  
50,000

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\$ 294,547

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The Company ceased accruing interest on the First Mortgage Notes and the note payable to affiliate as of the Petition Date. Although classified to "Liabilities Subject to Compromise," the Company anticipates the continuation of payments on its capital lease obligations pursuant to a pre-petition Standstill Agreement, an order entered by the Bankruptcy Court on March 4, 1997, approving a stipulation for adequate protection and the Restated Second Amended Plan. The June 28, 1998, condensed consolidated balance sheet does not reflect as liabilities the total amount of the claims as filed against the Debtors in the bankruptcy proceedings since a reasonable estimate of additional bankruptcy claims and pre-petition liabilities and the settlement value of certain contingent and/or disputed bankruptcy claims could not be made at June 28, 1998.

#### (4) REORGANIZATION ITEMS

Reorganization Items consisted of the following for the six month periods ended June 28, 1998 and June 29, 1997 (in thousands):

1998	1997
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Settlement of vacation package claims	

\$3,347	\$	-
Write-off of debt issuance costs		
-	11,210	
Professional fees		
2,000	2,500	
Interest earned on accumulated cash during Chapter 11 proceedings		
(530)	(362)	
Management retention compensation		
233	-	
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\$5,050	\$13,348	
=====	=====	

Cash interest earned since the Petition Date totals \$1,381,703.

Costs and expenses related to the reorganization of the Company have been separately classified as Reorganization Items in the condensed consolidated statements of operations since the Petition Date. Prior to the Petition Date, such costs and expenses were classified as selling, general and administrative in the condensed consolidated statement of operations.

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## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. The actual results of the Company could differ materially from the Company's historical results of operations and those discussed in the forward-looking statements.

### **OVERVIEW**

The Company operates an integrated casino, hotel and entertainment facility and a 1,149 foot, free-standing observation tower in Las Vegas, Nevada. As of July 23, 1998, the operations included 1,873 slot machines, 34 table games, a sports book, keno lounge, 1,444 hotel rooms and five themed restaurants.

As of the Petition Date, the Bankruptcy Court assumed jurisdiction over the assets of the Debtors. The Debtors are acting as debtors-in-possession on behalf of their respective bankrupt estates, and are authorized as such to operate their business subject to Bankruptcy Court supervision.

### **RESULTS OF OPERATIONS**

## **COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED JUNE 28, 1998 AND JUNE 29, 1997**

### **NET LOSS**

The Company reported a net loss of \$1.6 million (\$0.03) per common share for the 1998 second quarter as compared to the 1997 second quarter loss of \$2.4 million or (\$0.4) per common share.

### **REVENUES**

Casino revenues of \$13.7 million for the 1998 second quarter were \$2.1 million (13%) less than the same period in 1997. Management attributes the decline to an increased number of casinos implementing similar favorable gambling odds promotions currently offered by the Company. Management anticipates increased competition with the opening of several new mega resorts on the Las Vegas Strip during the next eighteen months. Casino marketing efforts have been directed toward the development of several promotional events and direct mail programs. Casino revenues represented 38% and 42% of total gross revenues for the second quarters of 1998 and 1997, respectively.

Hotel revenues of \$6.3 million for the 1998 second quarter were approximately \$.3 million (4%) higher than the same period in 1997. Hotel occupancy was 93.3% during the 1998 second quarter as compared to 91.0% in 1997. The average rate per guest room was \$51.00 during the 1998 and 1997 second quarters. Hotel revenues averaged 17% and 16% of total gross revenues during the second quarters of 1997 and 1998, respectively. Management anticipates increased competition for hotel room sales during the next eighteen months with the increase of approximately 20,000 newly constructed hotel rooms in the Las Vegas market.

Tower visitations (including the Top of The World dining) totaled 656,724 during the 1998 second quarter as compared to 743,917 for the same period in 1997. The revenue impact of the decline in visitations was offset by an increase in ride admissions from 232,191 for the 1997 second quarter to 326,371 during 1998. The increase in ride admissions was primarily due to less down time associated with ride maintenance.

### **COSTS AND EXPENSES**

Casino operating costs declined approximately 16% from \$7.3 million for the 1997 second quarter to \$6.1 million for 1998. Approximately \$.8 million of the reduction was due to reduced labor costs associated with reducing the table games offered from 53 to 34 on April 30, 1998. Management does not anticipate further significant labor reductions in the near future.

approximately \$1.0 million during the second quarter of 1998 as compared to the same period for 1997. Management does not anticipate additional significant reductions in food and beverage labor costs in the near future.

Selling, general and administrative expenses declined approximately 15% from \$13.8 million in the 1997 second quarter to \$11.7 million for the second quarter of 1998. The cost savings in 1998 were realized through a reduction of \$1.0 million in payroll and related expenses, \$.2 million in advertising expenses and approximately \$.2 million reduction in bad debt expense. In addition, the 1997 amounts included approximately \$.4 million of non-recurring expenses. Management does not anticipate further significant reductions in selling, general and administrative expenses in the near future.

## **OTHER FACTORS IMPACTING EARNINGS**

The Company expensed Reorganization Items of \$3.7 million or \$.06 per common share and \$1.3 million or \$.02 per common share during the second quarters of 1998 and 1997, respectively. Included as a Reorganization Item during the 1998 second quarter was \$3.3 million related to the net cost of the Settlement Agreement ("see Note 2 to the Condensed Consolidated Financial Statements included in this Form 10-Q).

The Company currently employs approximately 1,830 full time equivalents of which approximately 900 are covered by collective bargaining agreements. The existing collective bargaining agreements between the Culinary Worker's Union, Local 226 and Bartenders, Local 165 expired June 1, 1997. Since that date, the parties have agreed to honor the terms and conditions of that contract until such time as a new agreement is reached. Active negotiations between the parties should commence once other agreements have been reached with other Las Vegas casinos. Management does not anticipate any disruption of its business during negotiations with these unions.

In addition, Management has continued negotiations with Operating Engineers, Local 501 union. Management does not anticipate any business disruption as a result of these negotiations.

## **YEAR 2000**

The Company is currently in the process of finalizing its plans regarding the year 2000 computer systems issues. Based on its preliminary assessment of its most critical systems, management believes it will be required to upgrade its existing casino operating system and will most likely replace its current hotel operating system. Management expects to complete the casino operating system and hotel operating system upgrades by the end of the first quarter of 1999. Management continues to assess all other information support systems throughout the Company, as well as those systems it relies on from its primary vendors. Although a full assessment regarding all systems is not complete, management currently estimates that the combined upgrades and purchases of new systems may total approximately \$3.0 million. There can be no assurance based on future assessment or other changed circumstances that the amount estimated will represent the actual costs incurred. In addition, the Company's ability to upgrade its software timely is largely dependent on the performance of its software vendors.

## **COMPARISON OF OPERATING RESULTS FOR THE SIX MONTHS ENDED JUNE 28, 1998 AND JUNE 29, 1997**

### **NET LOSS**

The Company reported a net loss of \$.3 million or (\$0.01) per common share for the period ending June 28, 1998, as compared to a net loss of \$17.6 million or (\$0.30) per common share for the same period in 1997.

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### **REVENUES**

Casino revenues for the six months ended June 28, 1998, of \$28.7 million were \$4.5 million (14% less than the same period in 1997). Management attributes the decline to an increased number of casinos implementing similar favorable gambling odds promotions currently offered by the Company. Management anticipates increased competition with the opening of several new mega resorts on the Las Vegas Strip during the next year. Casino marketing efforts have also been directed toward the development of several promotional events and direct mail programs. Casino revenues represented 39% and 43% of total gross revenues for the six months ended June 28, 1998 and June 29, 1997, respectively.

Hotel occupancy was 91.9% for the six months ended June 28, 1998, as compared to 89% during the same period in 1997. The average rate per guest room during the 1998 six month period was approximately \$50 which was \$3 below the same period in 1997. Management anticipates increased competition for hotel room sales during the next eighteen months with the increase of approximately 20,000 newly constructed hotel rooms in the Las Vegas market. Hotel revenues averaged approximately 17% and 16% of total gross revenues during the six months ended June 28, 1998 and June 29, 1997, respectively.

Tower visitations (including the Top of The World dining) totaled 1.3 million during the six month period ended June 28, 1998, as compared to 1.4 million for the same period in 1997. The revenue impact of the decline in visitation was offset by an increase in ride admissions from 398,907 in 1997 to 587,553 in 1998.

### **COSTS AND EXPENSES**

Casino operating expenses declined 12% from \$14.7 million for the six months ended June 29, 1997, to \$12.9 million for the six months ended June 28, 1998. Approximately \$1.3 million of this decrease was due to a decline in payroll and related expenses and the remainder of the savings was related to lower gaming taxes associated with the decline in revenues.

Food and beverage operating costs declined 15% from \$13.6 million for the six months ended June 29, 1997, to \$11.6 million for the same period in 1998. Food and beverage payroll and



related costs declined \$1.8 million for the six months ended June 28, 1998. Management does not anticipate additional significant reductions in food and beverage labor costs in the near future.

Selling, general and administrative expenses declined approximately 19% from \$28.7 million for the six months ended June 29, 1997, to \$23.2 million for the same period in 1998. The cost savings in 1998 were realized through a reduction of \$2.3 million in payroll and related expenses, \$.6 million in advertising expenses and approximately \$.4 million reduction in bad debt expense. In addition, the 1997 amounts included approximately \$1.1 million of non-recurring items and \$.4 million restructuring costs incurred prior to the Petition Date. Management does not anticipate further significant reductions in selling, general and administrative expenses in the near future.

Interest expense declined \$3.5 million from \$4.3 million for the six months ended June 29, 1997, to \$.8 million for the same period in 1998. The Company ceased accruing interest on its 14.25% First Mortgage Notes since the Petition Date. Interest expense in 1997 included pre-petition interest related to the 14.25% First Mortgage Notes of \$2.3 million and \$.5 million of interest related to the Grand note. In addition, interest related to the Company's capital lease obligations declined \$.5 million during 1998.

The Company expensed Reorganization Items of \$5.1 million or \$.09 per common share during the six months ended June 28, 1998. Included as a Reorganization Items during 1998 was \$3.3 million related to the net costs of the Settlement Agreement (see Note 2 to the Consolidated Financial Statements included in this Form 10-Q). Reorganization Items totaled \$13.3 million or \$.23 per common share during the same period in 1997, which included an \$11.2 million write-off of preferred debt issuance costs.

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## **LIQUIDITY AND CAPITAL RESOURCES**

### **RESTRUCTURING**

On May 15, 1998, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Restated Second Amended Plan. The Restated Second Amended Plan will not become effective until receipt of all regulatory approvals, including approval from the Nevada State Gaming authorities, which is expected to occur by September 30, 1998. Among other things, under the Restated Second Amended Plan, the secured portion of the First Mortgage Notes (estimated at \$120 million) will be converted into one hundred percent (100%) of the equity of reorganized Stratosphere Corporation, and all currently outstanding Common Stock of the Company and all other existing equity interests (including stock options and warrants) of the Company will be canceled. The remaining portion of the First Mortgage Notes claim (approximately \$104 million) would be treated as a general unsecured claim. In addition to the deficiency claim arising from the First Mortgage Notes, the general unsecured class of claims would include the balance of the note due Grand Casinos, Inc. (approximately \$52.4 million) and

other general unsecured claims. The Restated Second Amended Plan provides for the general unsecured class of claims to share pro ratably in the distribution of approximately \$6.0 million in full settlement of their related claims. In addition, the Restated Second Amended Plan assumes that the reorganized Stratosphere Corporation will continue to make payments pursuant to its capital lease and operating lease agreements.

On March 27, 1998, the Company became a party to a global settlement agreement ("Settlement Agreement") with the holders of the Vegas World Vacation Packages ("Package Holders"). The Settlement Agreement required the approvals of the Bankruptcy Court and Nevada State District Court. Upon obtaining the necessary approvals, the Settlement Agreement became effective on June 23, 1998. Pursuant to the terms of the Settlement Agreement, the Company will provide room nights, tower elevations and beverages at the casino bars to the Package Holders identified in Exhibit A to the Settlement Agreement. The Company estimates the total cost of providing such services to be approximately \$3.3 million. The Company will receive from Bob Stupak the Deed to the Stupak Center (estimated fair market value of \$350,000), \$.4 million of cash and the remaining three million shares of Common Stock held in the escrow account previously established by Bob Stupak and will write-off the Stupak receivable of approximately \$3.9 million (\$800,000 of which was unreserved). The Company has not attributed any value to the Common Stock received as it will be canceled upon the Restated Second Amended Plan becoming effective. The net estimated cost of the Settlement Agreement of \$3.3 million is reflected as a Reorganization Item in the Condensed Consolidated Statement of Operations for the period ended June 28, 1998.

## **CASH FLOW, WORKING CAPITAL AND CAPITAL EXPENDITURES**

The Company had unrestricted cash balances of \$22.9 million as of June 28, 1998. Since the Petition Date, the Company has relied on unrestricted cash balances and its ability to generate cash flow from operations to fund its working capital needs.

During the six month period ended June 28, 1998, the Company generated \$7.6 million from operating activities. These funds were primarily used to fund capital expenditures of \$.8 million and payments on capital lease obligations of \$4.6 million.

Upon the Restated Second Amended Plan becoming effective, the Company will be required to provide payment of \$6.0 million to general unsecured creditors and approximately \$1.1 million to creditors with priority claims. The Company estimates that its current level of cash and anticipated funds from operations will be adequate to fund cash requirements through the term of the bankruptcy proceedings.

## **PRIVATE SECURITIES LITIGATION REFORM ACT**

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Form 10-Q and other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company) contains statements that are

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forward-looking, such as statements relating to plans for future expansion, future construction costs and other business development activities as well as other capital spending, financing sources and the effects of regulation (including gaming and tax regulation) and competition. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, those relating to development and construction activities, dependence on existing management, leverage and debt service (including sensitivity to fluctuations in interest rates), domestic or global economic conditions, changes in federal or state tax laws or the administration of such laws and changes in gaming laws or regulations (including the legalization of gaming in certain jurisdictions).

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## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Caesar case motion to dismiss filed by the defendants was granted in part and denied in part by the United States District Court for the District of Nevada on April 8, 1998.

See the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, for information regarding other pending legal proceedings.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

The Company defaulted on its First Mortgage Note interest payment obligation due November 15, 1996, and has not made any subsequently scheduled interest payments. The Company does not anticipate meeting future payment obligations during the term of the bankruptcy proceedings. The total principal and interest accrued as of June 28, 1998, was approximately \$223.7 million. Interest has not been accrued since the Petition Date.

The Company is also in default on its capital lease obligations due to its inability to meet certain financial covenants. The Company anticipates it will continue payment on this obligation during the term of the bankruptcy proceedings. The Company was current on this payment obligation as of June 28, 1998. The balance of principal and accrued interest as of June 28, 1998, was approximately \$13.5 million. Pursuant to the Restated Second Amended Plan becoming effective, all financial covenants related to the capital lease obligations will be eliminated.

### **ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

27 Financial Data Schedule  
99.1 Settlement Agreement

(b) Reports on Form 8-K.

The Company filed the following reports on Form 8-K during the fiscal quarter ended June 28, 1998:

Date Filed -----	Items Listed -----
April 1, 1998	5, 7
May 20, 1998	3, 7

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

**STRATOSPHERE CORPORATION**

*Date: August 7, 1998*

*By: /s/ Thomas A. Lettero*

*Name: Thomas A. Lettero*

*Title: Chief Financial Officer*

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**EXHIBIT INDEX**  
**STRATOSPHERE CORPORATION**

Exhibit  
No.  
27 Financial Data Schedule  
99.1 Settlement Agreement

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**EXHIBIT 99.1**

## **SETTLEMENT AGREEMENT AND RELEASE**

This Settlement Agreement ("SETTLEMENT AGREEMENT") and release is entered into by and between the parties identified below, and on the dates identified below, and is intended to resolve the matters and disputes between the parties identified herein.

### **I THE SETTLING PARTIES**

STRATOSPHERE CORPORATION ("STRATOSPHERE") is a Delaware corporation and a DEBTOR and DEBTOR IN Possession in Case Number BK-S-97-20554 GWZ before the United States Bankruptcy Court for the District of Nevada ( hereinafter referred to as the "BANKRUPTCY COURT"), doing business as among other names, the Stratosphere Hotel and Casino, a 1444 room hotel and casino operating within the City of Las Vegas, County of Clark, State of Nevada, and located at 2000 South Las Vegas Boulevard, Las Vegas, Nevada 89104. (The hotel and casino referred to herein is hereinafter referred to as the "SUBJECT PROPERTY".)

STRATOSPHERE GAMING CORP. ("GAMING CORP.") is a Nevada corporation and a DEBTOR and DEBTOR IN POSSESSION in Case Number BK-S-97-20555 GWZ (collectively with Case Number BK-S-97-20554 GWZ hereinafter referred to as "BANKRUPTCY PROCEEDINGS") doing business as, among other names, the Stratosphere Hotel and Casino. (Hereinafter, Stratosphere and the Stratosphere Gaming Corp. will be collectively referred to as the "DEBTORS".)

GRAND CASINOS, INC. is a Minnesota corporation, authorized and licensed to do business within the State of Nevada.

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GRAND CASINOS RESORTS, INC. is a Minnesota corporation. (Hereinafter, Grand Casinos, Inc. and Grand Casinos Resorts, Inc. will be collectively referred to as "GRAND".)

LAS VEGAS VACATION CLUB, INC. is a Nevada corporation, authorized and licensed to do business within the State of Nevada. (Hereinafter referred to as "LVVC")

BOB STUPAK ENTERPRISES, INC. is a Nevada corporation, authorized and licensed to do business within the State of Nevada. (Hereinafter referred to as "BSE".)

BOB STUPAK is an individual residing within the State of Nevada who previously was the sole proprietor of Vegas World Hotel and Casino and is the owner of 100% of the stock in BSE and LVCC. (Hereinafter, Las Vegas Vacation Club, Inc., Bob Stupak Enterprises, Inc., and Bob Stupak will be collectively referred to as "STUPAK", unless otherwise noted.)

RICHARD DUNCAN is an individual residing in the State of Minnesota and the Class Representative for the SETTLEMENT CLASS in the BANKRUPTCY ACTION (as defined below).

THE SETTLEMENT CLASS consists of all persons or entities, including Richard Duncan, to be certified in the BANKRUPTCY ACTION (defined below) and the NEVADA STATE ACTION (defined below). This definition of "SETTLEMENT CLASS" is meant to be interpreted in the broadest possible context and is to include, without limitation, all persons, approximately 19,000 in number, to whom notice of the BANKRUPTCY ACTION was previously sent, and any other persons who obtained at any time, from any source, pre-paid vacations, of any length in duration, at the SUBJECT PROPERTY and/or the Vegas World Hotel and Casino, including, without limitation, all those purchasers who

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submitted class proofs of claims in the BANKRUPTCY ACTION identified hereinbelow.

SHIRINIAN & ROITMAN is a Nevada general partnership, authorized and doing business within the County of Clark, State of Nevada, licensed to practice law within the State of Nevada, and attorneys of record for RICHARD DUNCAN and the SETTLEMENT CLASS.

RUSING & LOPEZ, P.L.L.C. is an Arizona professional limited liability corporation, and attorneys of record for RICHARD DUNCAN and the SETTLEMENT CLASS. (Hereinafter Shirinian & Roitman and Rusing & Lopez will be collectively referred to as the "ATTORNEYS REPRESENTING THE SETTLEMENT CLASS".)

Andrew S. Blumen, Esq., Thomas Lettero, Thomas Bell, Robert Maheu, David Wirshing, and Russell Lederman, individually, are current or former officers, directors or professionals of Debtors (collectively, the "DEBTORS INDIVIDUALS").

## II THE DISPUTES

By this SETTLEMENT AGREEMENT, the parties intend on settling and resolving all disputes between the parties in the following actions:

1. That bankruptcy adversarial proceeding known as "Richard Duncan, Individually and on behalf of all other similarly situated Claimants vs. Stratosphere Corporation and Stratosphere Gaming Corporation," United States Bankruptcy Court, District of Nevada, Adversarial No. 982008 ("BANKRUPTCY ACTION").
2. That Nevada State court action known as "Richard Duncan, individually and on behalf of all others similarly situated vs. Bob and Jane Doe Stupak, Bob Stupak Enterprises, Inc., Las Vegas Vacation Club, Inc., Grand Casinos, Inc., Grand Casinos Resorts, Inc., State of Nevada, County of Clark, Eighth Judicial District, Case Number

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**A370127. ( The "NEVADA STATE ACTION" or together with THE BANKRUPTCY ACTION, the "Actions".)**

3. That interpleader action commenced in the BANKRUPTCY PROCEEDINGS entitled "The Bank of New York, Plaintiff vs. Stratosphere Corporation, a Delaware Corporation; Bob Stupak dba Vegas World Casino and Hotel; and Does 1-5, inclusive, Defendants," and the cross claim Stratosphere Corporation v. Bob Stupak dba Vegas World Casino & Hotel", Adversary No. 972286 ("INTERPLEADER ACTION").

4. That certain Motion To Authorize; (1) Payment of Proof of Claim; (2) Expenditure Outside The Ordinary Course of Business; and (3) To Deposit Monies in Court Registry filed in the BANKRUPTCY PROCEEDINGS on February 10, 1998. ("COMPEL MOTION") granted by the BANKRUPTCY COURT on March 19, 1998 ("COMPEL MOTION ORDER").

5. That certain complaint to compel turnover of property entitled "Stratosphere Corporation a Delaware Corporation, Plaintiff vs. Robert Stupak, an individual, Defendant" filed in the BANKRUPTCY PROCEEDINGS as Adversary No. 982041 on February 6, 1998. ("TURNOVER ACTION").

### **III PROCESS FOR APPROVAL BY NEVADA STATE COURT AND BANKRUPTCY COURT OF PROPOSED SETTLEMENT**

The parties to this SETTLEMENT AGREEMENT agree to cooperate in seeking the establishment of the procedure satisfactory to all parties to this SETTLEMENT AGREEMENT to secure the complete and final dismissal, with prejudice, of the ACTIONS in accordance with the terms of this Settlement Agreement. The parties shall further join in taking such steps

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as may be necessary, or as may be requested by either the BANKRUPTCY COURT or the Nevada State Court hearing the NEVADA STATE ACTION (hereinafter the "NEVADA STATE COURT"), and otherwise use their best efforts to effectuate the above, and the parties therefore agree as follows:

1. GRAND, STUPAK, and the ATTORNEYS REPRESENTING THE SETTLEMENT CLASS have convened a Nevada Rule of Civil Procedure 16(c) conference in the NEVADA STATE ACTION to discuss with the NEVADA STATE COURT the process described in this SETTLEMENT AGREEMENT for settling the NEVADA STATE COURT ACTION.

2. The general terms of this SETTLEMENT AGREEMENT having been deemed acceptable by the NEVADA STATE COURT, GRAND, STUPAK, and the ATTORNEYS REPRESENTING THE SETTLEMENT CLASS will, within 5 (five) days of execution of this SETTLEMENT

AGREEMENT, execute the following stipulations in a form acceptable to the NEVADA STATE COURT:

a. Certification, for settlement purposes only, of a settlement class in the NEVADA STATE ACTION under Nev. R. Civ. P.26(b)(3) conforming to the definition of SETTLEMENT CLASS in Article I of this SETTLEMENT AGREEMENT. This contemplated stipulation is conditional and shall be null and void in the event this SETTLEMENT AGREEMENT is not approved by both the NEVADA STATE COURT and the BANKRUPTCY COURT pursuant to the provisions of Article III, Paragraph 4. This stipulation to the certification of a SETTLEMENT CLASS shall also be null and void if more than two hundred and fifty (250) potential SETTLEMENT CLASS members

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opt out of the SETTLEMENT CLASS certified in the NEVADA STATE ACTION. In the event that certification becomes null and void due to the provisions of this paragraph, GRAND and STUPAK will be deemed to have preserved all their rights to challenge any further attempt to certify a class in the NEVADA STATE ACTION.

b. Limited stay of the NEVADA STATE ACTION and the tolling of all discovery and other deadlines. Any party hereto may act to lift the stay after ten (10) days of providing written notice to the other parties that settlement efforts have failed.

c. Referral by the NEVADA STATE COURT to the BANKRUPTCY COURT of the initial determination of the following with respect to the NEVADA STATE ACTION.

(1) pre-approval of the settlement contemplated by this SETTLEMENT AGREEMENT.

(2) adequacy and method of notice to potential members of the SETTLEMENT CLASS in the NEVADA STATE ACTION.

(3) allowing the BANKRUPTCY COURT to conduct a fairness hearing regarding the settlement contemplated by this SETTLEMENT AGREEMENT and a determination of the fee application by the ATTORNEYS REPRESENTING THE SETTLEMENT CLASS in the BANKRUPTCY PROCEEDINGS and NEVADA STATE ACTION together with the creation by the BANKRUPTCY COURT of an Order and Findings of Fact with respect to the issues identified in this paragraph.

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3. DEBTORS and the ATTORNEYS REPRESENTING THE SETTLEMENT CLASS agree to expand the definition of the existing certified class in the BANKRUPTCY ACTION to correspond with the definition of the SETTLEMENT CLASS in Article I of this SETTLEMENT AGREEMENT and to provide identical notice to all potential members of the SETTLEMENT



CLASS in the BANKRUPTCY ACTION as is sent to potential members of the SETTLEMENT CLASS in the NEVADA STATE ACTION including the right to opt out of the SETTLEMENT CLASS and to obtain an Order of the BANKRUPTCY Court ("BANKRUPTCY COURT CERTIFICATION ORDER") to that effect. DEBTORS and the ATTORNEYS REPRESENTING THE CLASS further agree to promptly seek an entry of a stipulated Order staying and tolling all discovery and other deadlines in the BANKRUPTCY ACTION pending the BANKRUPTCY COURT'S final approval hearing.

4. GRAND, STUPAK and the ATTORNEYS REPRESENTING THE SETTLEMENT CLASS agree that in addition to the conditions stated in Article IV, Paragraph 8 and Article V, the conditions precedent to the settlement contemplated by this SETTLEMENT AGREEMENT becoming effective are; (a) the issuance of a final non-appealable Order (the "STATE APPROVAL ORDER") by the NEVADA STATE COURT approving this settlement, with respect to the NEVADA STATE ACTION, and either adopting the BANKRUPTCY COURT'S ORDER and findings of fact pursuant to Article III, Paragraph 2.c. of this SETTLEMENT AGREEMENT, or entering a substantially similar order and findings of its own acceptable to each of the parties hereto; (b) the BANKRUPTCY COURT ORDER (the "RULE 7023 ORDER") approving this SETTLEMENT AGREEMENT pursuant to Rule 7023 becoming final and non-appealable; (c) approval by the BANKRUPTCY COURT of this SETTLEMENT AGREEMENT as a settlement

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and compromise pursuant to Bankruptcy Rule 9019 to be evidenced by an Order (the "9019 ORDER") and such 9019 ORDER becoming final and non-appealable; and (d) the absence of any collateral attack challenging this SETTLEMENT AGREEMENT due to the method of providing notice to the potential SETTLEMENT CLASS. Forty-eight (48) hours after all such conditions precedent have been satisfied, or by close of the next business day, whichever is later, shall be the "EFFECTIVE DATE" as and for GRAND, its affiliates, officers, directors, agents, employees, (all of the foregoing, both individually and in their corporate capacity), STUPAK and the SETTLEMENT CLASS.

5. STUPAK, DEBTORS and THE ATTORNEYS REPRESENTING THE SETTLEMENT CLASS agree that in addition to the conditions stated in Article V. A, B & C (2), the conditions precedent to the settlement contemplated by this SETTLEMENT AGREEMENT becoming effective are (a) the RULE 7023 ORDER approving the SETTLEMENT AGREEMENT pursuant to RULE 7023 becoming final and non-appealable; and (b) approval by the BANKRUPTCY COURT of this SETTLEMENT AGREEMENT as a settlement and compromise pursuant to BANKRUPTCY RULE 9019 to be evidenced by the final and non-appealable 9019 ORDER. Forty-eight hours after all such conditions are satisfied, or by close of the next business day, whichever is later, shall be the "EFFECTIVE DATE" as and for DEBTOR, DEBTORS INDIVIDUALS, their affiliates, agents, officers, directors and employees, (all of the foregoing, both individually and in their corporate capacity), STUPAK and the SETTLEMENT CLASS.

#### **IV TERMS OF THE SETTLEMENT WITH RICHARD DUNCAN AND THE CLASS**

RICHARD DUNCAN, individually, and on behalf of and as a member of the SETTLEMENT CLASS, the SETTLEMENT CLASS, and their agents, consultants, successors, experts, heirs, administrators, executors, and assigns, fully release and forever discharge, DEBTORS AND REORGANIZED DEBTORS, GRAND, STUPAK, and their respective affiliates, agents, directors, employees, officers, and subsidiaries both individually and in their corporate capacities of any and all liability, claims, demands, actions, or causes of action, of whatever kind or nature, arising out of or in any way connected with the ACTIONS, for and in consideration of the following:

1. DEBTORS and REORGANIZED DEBTORS, hereby agree, to provide RICHARD DUNCAN and the SETTLEMENT CLASS for use at the SUBJECT PROPERTY, now and in the future, under whatever name the SUBJECT PROPERTY shall be known by, or by whomever the SUBJECT PROPERTY shall be owned, managed or controlled by, use and enjoyment of the unredeemed hotel Room Nights, pre-paid by the SETTLEMENT CLASS, and previously purchased as part of those STUPAK marketing programs known as "The Vacation Club", "The Stratosphere Club" and "The Stratosphere Tower Club", or otherwise, and purchased from STUPAK or his or its affiliates or agents. These unredeemed Room Nights as reflected in the records of STRATOSPHERE and STUPAK and as set forth in Exhibit A attached hereto, shall be provided without further costs or annual dues to the SETTLEMENT CLASS. Exhibit A shall include the total number of room nights available to each and every member of the SETTLEMENT CLASS to whom Class notice was previously sent, in the

BANKRUPTCY ACTION, regardless of whether that member still has unredeemed vacation package benefits available or not. The actual number of Room Nights shall be ascertained prior to this SETTLEMENT AGREEMENT being approved by the BANKRUPTCY COURT, and shall be set forth in Exhibit A in a form which provides sufficient data to determine the individual holder, the number of Room Nights the holder is entitled to, and any restrictions or limitations the SETTLEMENT CLASS MEMBERS were subject to when they originally purchased these Room Nights. (Hereinafter, this portion of the Settlement Agreement shall be referred to as the "ROOM NIGHTS" portion of the settlement).

Usage of the Room Nights due and owing the SETTLEMENT CLASS shall be made based upon room availability at the SUBJECT PROPERTY. DEBTORS and their successors and/or assigns agree to use their best efforts to allow the SETTLEMENT CLASS members to utilize their ROOM NIGHTS on the dates requested by members of the SETTLEMENT CLASS, subject to reasonable business judgment, any use restrictions existing on the subject packages as originally

sold, and excluding all major holiday weekends, Super Bowl weekend, and the COMDEX and CES convention weeks. In no way, however, shall any member of the SETTLEMENT CLASS be deprived of the ultimate use of his/her ROOM NIGHTS as set forth in Exhibit A, even if this requires a reasonable extension of any relevant time period to utilize ROOM NIGHTS for any individual member of the SETTLEMENT CLASS' ROOM NIGHTS so long as he or she makes a valid request within the permitted time period for those remaining ROOM NIGHTS which request could not be satisfied by DEBTORS within the allowed time period.

2. While DEBTORS and REORGANIZED DEBTORS hereby agree that while RICHARD

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DUNCAN and the SETTLEMENT Class are in use and enjoyment of the ROOM NIGHTS at the SUBJECT PROPERTY to be provided as part of this Settlement Agreement, DEBTORS and REORGANIZED DEBTORS agree to provide to RICHARD DUNCAN and the SETTLEMENT Class, without cost or monetary obligation, unlimited free alcoholic and/or non-alcoholic beverages, of any kind provided in the normal course, which are served at any bar then operated and located in the casino. (Hereinafter, this portion of the Settlement Agreement will be referred to as the "DRINKS").

3. While DEBTORS and REORGANIZED DEBTORS hereby agree that while RICHARD DUNCAN and the SETTLEMENT CLASS are in use and enjoyment of the ROOM NIGHTS at the SUBJECT PROPERTY to be provided as a part of this Settlement Agreement, DEBTORS and REORGANIZED DEBTORS agree to provide to each member of the SETTLEMENT CLASS, without cost or monetary obligation, with unlimited free access by that member of the SETTLEMENT CLASS via the elevators to the "Stratosphere Tower", or whatever name that tower of approximately one hundred and ten stories located upon the Subject Property is hereafter referred to as during that SETTLEMENT CLASS member's stay. (Hereinafter, this portion of the Settlement Agreement will be referred to as the "ELEVATIONS");

4. The parties agree to the following timetable for disbursements of the total cash proceeds of the settlement (the "Cash Proceeds"):

a. In the event no appeals or collateral attacks are filed challenging the State Approval Order, the 9019 Order, the 7023 order, or the method of providing notice to the potential Settlement Class, the disbursement of the Cash Proceeds shall occur as follows:

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upon the STATE APPROVAL ORDER becoming final (thirty [30] days after receipt of written notice of entry of the STATE APPROVAL ORDER with no appeal filed), the 9019 ORDER becoming final (eleven [11] days after the 9019 Order is docketed with no appeal filed) and the RULE 7023 Order becoming final (eleven [11] days after the RULE 7023 ORDER is docketed with no appeal filed), together with receipt by counsel for GRAND and STUPAK of the

stipulation of dismissal, with prejudice, of the NEVADA STATE ACTION (in the form attached hereto as Exhibit B) and signed by the ATTORNEYS REPRESENTING THE SETTLEMENT CLASS, and upon the release described in this Article IV and the GRAND/STUPAK RELEASE (as defined in Article V, Paragraph C below) becoming fully effective, GRAND shall, within forty-eight (48) hours thereof, deposit by wire transfer the sum of \$1,150,000 (One Million One Hundred Fifty Thousand Dollars), in cash, and STUPAK shall, within forty-eight (48) hours thereof, or after May 1, 1998, whichever is later, deposit by wire transfer the sum of \$1,150,000 (One Million One Hundred Thousand Dollars), in cash to the Shirinian & Roitman Class Action Trust Account. DEBTORS shall instruct the escrow to, within five (5) business days of the Effective Date as defined in Article III, Paragraph 5, wire transfer the sum of \$700,000 (Seven Hundred Thousand Dollars), in cash from the funds deposited with the Bankruptcy Court registry in the Interpleader Action, into the "Shirinian & Roitman Class Action Trust Account." The ATTORNEYS REPRESENTING THE SETTLEMENT CLASS SHALL PROVIDE the account number in writing to Grand, Stupak and the Debtors and confirm deposit of each parties' contribution of the same, in writing by same day facsimile and by copy of deposit receipt, to all counsel for all parties to this SETTLEMENT AGREEMENT.

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b. In the event an appeal is filed in either the BANKRUPTCY ACTION and/or the NEVADA STATE ACTION, GRAND, STUPAK, and the DEBTORS or REORGANIZED DEBTORS shall deposit by wire transfer within 48 hours of the filing of the notice of appeal, or 30 days after STATE COURT APPROVAL, whichever is later, there above-stated respective contributions (\$3,000,000 in total - the CASH PROCEEDS) into a segregated, interest-bearing, trust account to be opened with Nevada Title, Nevada Title acting as trustee over said funds. The ATTORNEYS REPRESENTING THE SETTLEMENT CLASS shall be responsible for opening said interest bearing trust account upon notice of appeal being filed, and notifying GRAND, STUPAK and the DEBTORS or REORGANIZED DEBTORS of the account number of said interest-bearing trust account. In the event that any Appeals Court overturns and/or modifies the STATE APPROVAL ORDER, the 9019 ORDER and/or the 7023 ORDER, and said Appeals Court order becomes final and nonappealable, the balance of the trust account shall be paid, within forty-eight (48) hours by wire transfer deposit, to the designated accounts of GRAND, STUPAK and the DEBTORS or REORGANIZED DEBTORS in an amount equal to the respective contributions of GRAND, STUPAK, and the DEBTORS or REORGANIZED DEBTORS. In the event of denial or dismissal of all appeals of the STATE APPROVAL ORDER, the 9019 ORDER, and the 7023 ORDER, Nevada Title will be directed to deposit, within 48 hours by wire transfer, the balance of the trust account to the Shirinian and Roitman Class Action Trust Account for distribution by the ATTORNEYS REPRESENTING THE SETTLEMENT CLASS as directed by the BANKRUPTCY COURT and/or the NEVADA STATE COURT.

It is understood and agreed the ATTORNEYS REPRESENTING THE SETTLEMENT CLASS will

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apply to the BANKRUPTCY COURT for payment of their fees and costs from the proceeds of the settlement described above at the time of application for the RULE 7023 ORDER. It is further understood the BANKRUPTCY COURT'S Order with respect to such fees is subject to review and approval by the NEVADA STATE COURT as provided in Article III, Paragraph 4 above. The ATTORNEYS REPRESENTING THE SETTLEMENT CLASS hereby agree to limit their recovery to an amount not to exceed the total cash proceeds of the settlement, (the "CASH PROCEEDS") in the amount of \$3,000,000 (Three Million Dollars) and agree not to seek recovery of any additional attorneys' fees and costs in excess of the CASH PROCEEDS, or to claim any right to recover any portion, share or percentage of the ROOM NIGHTS, DRINKS AND/OR ELEVATIONS portions of this SETTLEMENT AGREEMENT, or condition final approval of this SETTLEMENT AGREEMENT upon approval of said attorneys' fees. GRAND, STUPAK, and DEBTORS further agree not to object to the application by the ATTORNEYS REPRESENTING THE SETTLEMENT CLASS for recovery of their attorneys' fees and costs to the extent the application conforms to this SETTLEMENT AGREEMENT.

5. The costs incurred in administrating the ROOM NIGHTS, DRINKS and ELEVATIONS portion of this SETTLEMENT AGREEMENT, shall be borne solely by the then owner of the SUBJECT PROPERTY, whether DEBTORS or otherwise. It is understood that DEBTORS are only responsible to provide CLASS MEMBERS the benefits set forth in this SETTLEMENT AGREEMENT, and as set forth in detail in Exhibit A, and are not responsible for any dispute resolution, including but not limited to CLASS MEMBER disputes claiming more ROOM NIGHTS than set forth in Exhibit A or requests for refunds. It is further understood by all parties hereto that in no event will Grand have any obligations whatsoever for ROOM

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#### **NIGHTS, DRINKS or ELEVATIONS.**

6. Honoring of the ROOM NIGHTS, DRINKS and ELEVATIONS portion of the settlement by the DEBTORS or REORGANIZED DEBTORS, subject to Article V, Paragraphs A and B, shall begin no later than thirty (30) days after the 9019 ORDER and the RULE 7023 ORDER becoming final and non-appealable (whichever is later), and shall continue until fully satisfied on the terms, conditions, benefits and limitations as RICHARD DUNCAN and the SETTLEMENT CLASS were subject to by contract relative to the ROOM NIGHTS, DRINKS and ELEVATIONS portion of the settlement at the time originally purchased, and as further described and/or limited hereinabove. Any time limitations found in any contract for purchase by RICHARD DUNCAN and the SETTLEMENT CLASS of pre-paid vacations from STUPAK, or otherwise, are hereby, however, deemed extended by a time period equal to the period from the original "cancellation" of the pre-paid vacation packages (January 13, 1997) to the date upon which the DEBTORS and REORGANIZED DEBTORS begin honoring the ROOM NIGHTS, DRINKS, and ELEVATIONS portions of the SETTLEMENT AGREEMENT. In no way however shall this extension be seen in any way as a limitation on the right of any individual

member of the SETTLEMENT CLASS to utilize his ROOM NIGHTS, as such right is described in Article IV, Paragraph 1 of this SETTLEMENT AGREEMENT.

7. This SETTLEMENT AGREEMENT, in its entirety, and all Court Orders approving it, shall be binding upon all current and subsequent owners of the SUBJECT PROPERTY, their successors in interest, and/or assigns. Debtors shall cause a Memorandum of this SETTLEMENT AGREEMENT to be recorded upon the SUBJECT PROPERTY as provided in the Escrow Instructions attached as Exhibit C hereto, so as to provide notice to all of the

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property and contract rights of the SETTLEMENT CLASS in the SUBJECT PROPERTY created by this Settlement Agreement. This Agreement shall remain in effect until the earlier of the use by the SETTLEMENT CLASS of all Room Nights to which the SETTLEMENT CLASS is entitled or January 1, 2009. It is understood by the parties that the provisions of this paragraph have no force or effect with respect to the releases by the SETTLEMENT CLASS of GRAND and STUPAK following their compliance with Article IV, Paragraph 4 of this SETTLEMENT AGREEMENT.

8. This SETTLEMENT AGREEMENT is conditioned upon approval of this SETTLEMENT AGREEMENT, in its entirety, by the BANKRUPTCY COURT with regard to DEBTORS, DEBTORS INDIVIDUALS, STUPAK and the SETTLEMENT CLASS, and with regard to GRAND, STUPAK and the SETTLEMENT CLASS, the approval of the BANKRUPTCY COURT and the NEVADA STATE COURT as provided in Article III, Paragraph 4 herein. As it relates to GRAND and STUPAK, this SETTLEMENT AGREEMENT and the certification of the SETTLEMENT CLASS in the NEVADA STATE ACTION shall not be effective in the event more than two hundred and fifty (250) potential class members opt out of the SETTLEMENT CLASS to be certified in the NEVADA STATE COURT, absent waiver of this condition by GRAND and STUPAK.

V.

#### **TERMS OF THE SETTLEMENT BETWEEN STUPAK, STRATOSPHERE AND GRAND**

A. The parties to this SETTLEMENT AGREEMENT agree that the following conditions precedent for the settlement set forth in Article IV hereof, to be effective, must be satisfied within five days of execution of this SETTLEMENT AGREEMENT:

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1. STUPAK AND DEBTORS will open an Escrow with Nevada Title Company, 3800 Howard Hughes Parkway, Las Vegas, Nevada 89109 ("Escrow Agent"), and deposit an executed copy of

this SETTLEMENT AGREEMENT and Escrow instructions in the form attached hereto as Exhibit C with the Escrow Agent.

2. STUPAK and DEBTORS will execute and deliver to Escrow Agent a stipulated Order in the form attached hereto as Exhibit D which shall be lodged in the Interpleader Action upon the entry of the 9019 ORDER directing that upon entry of the Interpleader Order (i) all moneys, funds, and STRATOSPHERE stock (held by the Bank of New York) be immediately deposited with the BANKRUPTCY COURT registry; and (ii) the Bank of New York shall receive from such moneys the immediate payment of attorneys' fees and costs in the amount of \$2,021.03 and \$1,250.00 in Escrow Fees. Upon the Effective Date as provided for in Article III, Paragraph 5, the balance of all such moneys, funds and STRATOSPHERE stock less the \$700,000 paid directly to the Shirinian & Roitman Class Action Trust Account be released from the registry to Stratosphere and the Interpleader Action shall be dismissed.

3. STUPAK will execute and deliver to the Escrow Agent a quitclaim deed, transferring in fee simple, and free and clear of any and all deeds of trust, liens (except taxes not yet due and payable) and/or mortgages to STRATOSPHERE that real property in the County of Clark, State of Nevada, commonly identified as the property upon which the "Chester Stupak Center," is located (legally described in Exhibit E attached hereto) along with all appurtenances, fixtures and improvements thereon. DEBTORS hereby agree that so long as DEBTORS own the Chester Stupak Center, DEBTORS shall permit the City of Las

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Vegas to continue to use the Chester Stupak Center without payment of rent consistent with prior and current uses.

4. In partial consideration of the release by STUPAK to DEBTORS of the stock on deposit with Bank of New York, as well as other consideration provided by STUPAK, DEBTORS and DEBTORS INDIVIDUALS to each other, DEBTORS, DEBTORS INDIVIDUALS and STUPAK will execute and enter into, and deliver to the Escrow Agent, a mutual release attached hereto as Exhibit E ("STUPAK/DEBTORS RELEASE") of any and all claims any of these parties may have against each other, or against any of their current or former affiliates, officers, directors, agents and employees individually or in their corporate capacity, whether related to the ACTIONS, or otherwise, any adversarial claims, pending or contemplated or arising out of the ACTIONS or conduct, occurring prior to the date of this SETTLEMENT AGREEMENT. The failure of any individual to sign this release shall have no effect on its enforceability and validity with regard to the release as to all other signing parties. In addition to other considerations set forth in this agreement, the DEBTORS INDIVIDUALS release of STUPAK shall be deemed adequate consideration for STUPAK'S release of the DEBTORS INDIVIDUALS.

5. DEBTORS will prepare and file a motion to approve this SETTLEMENT AGREEMENT with the BANKRUPTCY COURT pursuant to Bankruptcy Rule 9019.

B. STUPAK and DEBTORS agree that upon the Effective Date as defined in Article III, Paragraph 5 (unless waived by DEBTORS) the following will take place:

1. The four individual proofs of claims filed by STUPAK in the BANKRUPTCY PROCEEDINGS for unsecured claims in the amount of One Hundred and Twelve Million

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Dollars (\$112,000,000), Three Hundred Thousand Dollars (\$300,000), Three Hundred and Fifty Thousand Dollars (\$350,000), and Fifteen Million Dollars (\$15,000,000), totaling \$127,650,000 (One Hundred Twenty Seven Million, Six Hundred Fifty Thousand Dollars), will be deemed withdrawn with prejudice and of no further force and effect.

2. In partial consideration of receipt of the cash on deposit with the Bank of New York, and all other considerations set forth in this SETTLEMENT AGREEMENT, DEBTORS and/or their successors-in-interest, affiliates, or assigns, jointly and severally, will be obligated to provide the ROOM NIGHTS, ELEVATIONS, and DRINK portions of the settlement as set forth in Article IV of this SETTLEMENT AGREEMENT;

3. The Escrow Agent shall: (i) record and deliver to STRATOSPHERE the grant deed transferring the STUPAK CENTER to STRATOSPHERE; (ii) deliver to DEBTORS the INTERPLEADER Order; and (iii) deliver to DEBTORS, DEBTORS INDIVIDUALLY AND STUPAK the DEBTOR/STUPAK RELEASE; and

4. The TURNOVER ACTION shall be dismissed with prejudice and the COMPEL MOTION ORDER deemed of no further force and effect and all moneys and other assets on deposit in the BANKRUPTCY COURT registry shall be released to DEBTORS with the exception of the \$700,000 to be paid directly to the Shirinian & Roitman Class Action Trust Account.

C. The parties to the SETTLEMENT AGREEMENT agree that the following conditions precedent must be satisfied for the settlement set forth in Article IV, hereof to be effective:

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Within five days of execution of this SETTLEMENT AGREEMENT, GRAND and STUPAK and certain individuals will execute and deliver to the Escrow Agent, a mutual release in the form attached hereto as Exhibit F of any and all claims any party may have against each other, or any of their current or former affiliates, officers, directors, agents and employees individually or in their corporate capacity whether related to the ACTIONS, or otherwise (the "GRAND/STUPAK RELEASE"). The GRAND/STUPAK RELEASE will become fully effective once the STATE APPROVAL ORDER becomes a final non-appealable order as described in Article IV, Paragraph 4 above. The failure of any individual to sign this release shall have no effect on its enforceability and validity with regard to the release as to all other signing parties.



2. Within five days of execution of this SETTLEMENT AGREEMENT, GRAND, STUPAK, certain other individuals and certain of the DEBTORS INDIVIDUALS will execute and enter into a Joint Defense Agreement (the "JOINT DEFENSE AGREEMENT") related to the certain securities litigation commonly referred to as Master File No. CV-S-96-00708PMP (PLH) in a form acceptable to the parties thereto. The JOINT DEFENSE AGREEMENT will be effective upon its execution. Notwithstanding the foregoing, the parties to this SETTLEMENT AGREEMENT understand that a breach of the Joint Defense Agreement shall not effect the obligations of the Parties under this SETTLEMENT AGREEMENT.

It is understood by the parties that this is a compromised settlement of disputed claims, and that current and contemporaneous value has been given to each other by all parties to this SETTLEMENT AGREEMENT. It is further understood that the above-mentioned

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## ARTICLE 5

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 27 1998
PERIOD END	JUN 28 1998
CASH	22,911,697
SECURITIES	0
RECEIVABLES	2,998,569
ALLOWANCES	(486,336)
INVENTORY	2,721,478
CURRENT ASSETS	5,987,030
PP&E	141,400,107
DEPRECIATION	22,571,444
TOTAL ASSETS	154,392,349
CURRENT LIABILITIES	16,960,189
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	583,931
OTHER SE	(157,884,065)
TOTAL LIABILITY AND EQUITY	154,392,349
SALES	67,144,187
TOTAL REVENUES	73,439,877
CGS	8,566,525
TOTAL COSTS	48,826,160
OTHER EXPENSES	12,681,474
LOSS PROVISION	0
INTEREST EXPENSE	845,494
INCOME PRETAX	(300,747)
INCOME TAX	0
INCOME CONTINUING	4,749,488
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(300,747)
EPS PRIMARY	(0.01)

EPS DILUTED