AMERICAN REAL ESTATE PARTNERS L P
Form PREM14A
May 10, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

ý Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

AMERICAN REAL ESTATE PARTNERS, L.P.

(Name of Registrant as Specified in Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

ý Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Depositary Units Representing Limited Partnership Interests

(2) Aggregate number of securities to which transaction applies: 16,275,863

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): $28.00 per unit determined solely for the purpose of calculating the filing fee in accordance with Rule 0-11 under the Securities Exchange Act of 1934, based on the average of the high and low prices of the Registrant's Depositary Units as reported on the New York Stock

Exchange on May 3, 2005.

(4) Proposed maximum aggregate value of transaction: $455,724,164

(5) Total fee paid: $53,639

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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MAY , 2005

AMERICAN REAL ESTATE PARTNERS, L.P.
100 SOUTH BEDFORD ROAD
MT. KISCO, NEW YORK 10549

PROXY STATEMENT
ACTION TO BE TAKEN BY WRITTEN CONSENT

To the holders of Depositary Units of American Real Estate Partners, L.P.:

This proxy statement is being furnished by American Property Investors, which we refer to as API or the General Partner, to the holders of Depositary Units of American Real Estate Partners, L.P., or AREP, a Delaware limited partnership, in connection with the proposed approval of the following actions:

1. The issuance of up to 16,275,863 of AREP's Depositary Units representing limited partnership interests of AREP, or the Depositary Units, in connection with AREP's acquisitions from affiliates of Carl C. Icahn, the beneficial owner of approximately 86.5% of our Depositary Units, of:

- the managing membership interest in NEG Holding LLC, or NEG Holding, which constitutes all of the membership interest of NEG Holding other than the membership interest already owned by National Energy Group, Inc., or NEG, which is itself 50.01% owned by us;
- Panaco, Inc., or Panaco, pursuant to an agreement and plan of merger; and
- approximately 41.2% of the common stock of GB Holdings, Inc., or GB Holdings, and warrants to purchase, upon the occurrence of certain events, 11.3% of the fully diluted common stock of its subsidiary, Atlantic Coast Entertainment Holdings, Inc., or Atlantic Holdings, which owns 100% of ACE Gaming LLC, or ACE Gaming, the owner and operator of The Sands Hotel and Casino located in Atlantic City, New Jersey, or The Sands.

These transactions are referred to as the Acquisitions.

2. The amendment of our Amended and Restated Agreement of Limited Partnership, dated May 12, 1987, as amended on February 22, 1995, August 16, 1996 and May 9, 2002, or the Partnership Agreement, to provide for amendments to (i) Section 3.01 *Purposes and Business*; (ii) Section 4.05(c) *Additional Issuance of Units*; (iii) Section 6.18 *Other Matters Concerning General Partner*; (iv) Sections 5.03 *Distributions*; (v) Section 14.13 Action Without a Meeting; (vi) add new Section 4.13 Nevada Gaming Law Disposition; and (vii) other miscellaneous changes. We refer to this action as the LP Agreement Amendments.

3. The amendment of the Amended and Restated Agreement of Limited Partnership of American Real Estate Holdings Limited Partnership, or AREH, dated May 21, 1987, as amended August 16, 1996 and June 14, 2002 to provide for amendments to (i) Section 3.01 *Purpose and Business* and (ii) Section 5.03 *Distributions*. We refer to this action as the OLP Agreement Amendments.

4. The issuance to Keith A. Meister, Chief Executive Officer of our General Partner, of options to purchase an aggregate of 700,000 Depositary Units. We refer to this action as the Grant of the Meister Option.

In accordance with the rules of the New York Stock Exchange, on which the Depositary Units are listed, the issuance of Depositary Units to affiliates of Mr. Icahn in connection with the Acquisitions and the Grant of the Meister Option require the approval of holders of our Depositary Units.

Sincerely,

/s/ KEITH A. MEISTER

Keith A. Meister
Chief Executive Officer
of American Property Investors, Inc.,
the General Partner of American
Real Estate Partners, L.P.

This proxy statement and the accompanying Unitholder Written Consent Card, or Consent Card, are being furnished to you in connection with the solicitation of consents from holders of Depositary Units in lieu of a meeting of the holders of Depositary Units to approve the proposed matters. Only record owners of the Depositary Units at the close of business on the Record Date will be entitled to consent to the proposed matters. This proxy statement and the accompanying Unitholder Written Consent Card are being sent or given to the holders of Depositary Units commencing on or about , 2005.

Any holder of Depositary Units executing a Consent Card has the power to revoke it at any time before June , 2005 by delivering written notice of such revocation to the transfer agent, as indicated in the Consent Card.

TABLE OF CONTENTS TO SCHEDULE 14A PROXY STATEMENT

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

Statements included in this proxy statement which are not historical in nature, are intended to be, and are hereby identified as, "forward looking statements" for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and section 21(e) of the Securities Exchange Act of 1934, as amended by Public Law 104-67.

This proxy statement contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, many of which are beyond our ability to control or predict. Foward-looking statements may be identified by words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "will" or words of similar meaning and include, but are not limited to, statements about the expected future business and financial performance of AREP and its subsidiaries. Among these risks and uncertainties are changes in general economic conditions, the extent, duration and strength of any economic recovery, the extent of any tenant bankruptcies and insolvencies, our ability to maintain tenant occupancy at current levels, our ability to obtain, at reasonable costs, adequate insurance coverage, risks related to our hotel and casino operations, including the effect of regulation, substantial competition, rising operating costs and economic downturns, competition for investment properties, risks related to our oil and gas operations, including costs of drilling, completing and operating wells and the effects of regulation, and other risks and uncertainties detailed from time to time in our filings with the SEC. We undertake no obligation to publicly update or review any forward-looking information, whether as a result of new information, future developments or otherwise.

SUMMARY TERM SHEET

This summary term sheet highlights important information about the Acquisitions discussed in greater detail elsewhere in this proxy statement. This summary includes parenthetical references to pages in other portions of this proxy statement containing a more detailed description of the topics presented in this summary term sheet. This summary term sheet may not contain all of the information that is important to you. To more fully understand the Acquisitions discussed in this proxy statement, you should read carefully this entire document and the other documents to which we have referred you.

The Acquisitions (Page 36)	We are sending this proxy statement: To provide you with information about the Acquisitions, which are transactions with affiliates of Mr. Icahn, the beneficial owner of approximately 86.5% of our Depositary Units, pursuant to which we will acquire: The managing membership interest in NEG Holding which constitutes all of the membership interest other than the membership interest already owned by NEG, which is itself 50.01% owned by us; Panaco, pursuant to an agreement and plan of merger; and Approximately 41.2% of the common stock of GB Holdings and warrants to purchase, upon the occurrence of certain events, approximately 11.3% of the fully diluted common stock of its subsidiary, Atlantic Holdings. Atlantic Holdings owns 100% of ACE Gaming, the owner and operator of The Sands.
The Parties to the Acquisition Agreements (Pages 33-35)	The Acquisitions are structured and were negotiated as three separate transactions among us, certain of our wholly-owned subsidiaries and affiliates of Mr. Icahn. The parties to the NEG Holding purchase agreement are: American Real Estate Partners, L.P. (a Delaware master limited partnership) We are a diversified holding company engaged in a variety of businesses. Our primary business strategy is to continue to grow our core businesses, including real estate, gaming and entertainment, and oil and gas. In addition, we seek to acquire undervalued assets and companies that are distressed or in out of favor industries. Our businesses currently include rental real estate and real estate development; hotel and resort operations; hotel and casino operations; oil and gas exploration and production; and investments in equity and debt securities. We may also seek opportunities in other sectors, including energy, industrial manufacturing and insurance and asset management. Gascon Partners (a New York general partnership) Gascon Partners, or Gascon, is controlled by Mr. Icahn. Its only material asset is its managing membership interest in NEG Holding.

The parties to the Panaco merger agreement are:

- AREP;
- National Offshore LP (a Delaware limited partnership) National Offshore LP, or National Offshore, is an indirect wholly-owned subsidiary of AREP and was formed solely for the purpose of effecting the merger with Panaco;
- Highcrest Investors Corp. (a Delaware corporation) Highcrest Investors is controlled by Mr. Icahn and is a stockholder of Panaco;
- Arnos Corp. (a Nevada corporation) Arnos is controlled by Mr. Icahn and is a stockholder of Panaco; and
- Panaco, Inc. (a Delaware corporation) Panaco is wholly owned by Highcrest Investors and Arnos, entities controlled by Mr. Icahn and is engaged in the exploration and production of oil and gas, primarily in the Gulf of Mexico and the Gulf Coast Region and, at December 31, 2004, owned interests in 147 wells.

The parties to the purchase agreement for the securities of GB Holdings and Atlantic Holdings are:

- AREP;
- Cyprus, LLC (a Delaware limited liability company) Cyprus, LLC, or Cyprus is controlled by Mr. Icahn and owns approximately 41.2% of the outstanding common stock of GB Holdings and warrants to purchase, upon the occurrence of certain events, approximately 11.3% of the fully diluted common stock of Atlantic Holdings.

The address and phone number of our and our subsidiaries' principal executive offices are:

American Real Estate Partners, L.P.
100 South Bedford Rd.
Mt. Kisco, NY 10549
Telephone: (914) 242-7700

The address and phone number of the executive offices of affiliates of Mr. Icahn other than Panaco that are parties to the Acquisitions are:

c/o Icahn Associates Corp.
767 Fifth Avenue, Suite 4700
New York, NY 10153
Telephone: (212) 702-4300

The address and phone number of the executive offices of Panaco are:

1400 One Energy Square
4925 Greenville Avenue
Dallas, TX 75206
Telephone: (214) 692-9211

Consideration (Pages 33-35)	Upon the closing of the Acquisitions: AREP will acquire the managing membership interest of NEG Holding owned by Gascon in consideration for up to 11,344,828 Depositary Units with an aggregate valuation of up to $329.0 million, based on the closing market price of the Depositary Units, on January 19, 2005, of $29.00 per unit. NEG Holding owns NEG Operating LLC, which is engaged in the exploration and production of oil and gas, primarily in Arkansas, Louisiana, Texas and Oklahoma. Panaco will merge with and into National Offshore in consideration for up to 4,310,345 Depositary Units with an aggregate valuation of up to $125.0 million, based on the closing market price of the Depositary Units, on January 19, 2005, of $29.00 per unit. AREP will acquire approximately 41.2% of the outstanding common stock of GB Holdings and warrants to purchase, upon the occurrence of certain events, approximately 11.3% of the fully diluted common stock of Atlantic Holdings in consideration for 413,793 Depositary Units with an aggregate valuation of $12.0 million, based on the closing market price of the Depositary Units, on January 19, 2005, of $29.00 per unit, plus up to an additional 206,897 Depositary Units with an aggregate valuation of up to $6.0 million, based on the closing market price of the Depositary Units, on January 19, 2005, of $29.00 per unit, if Atlantic Holdings meets certain earnings targets during 2005 and 2006. GB Holdings owns Atlantic Holdings, which is the indirect owner of The Sands.
The Effects of the Acquisitions (Page 6)	As a result of the Acquisitions: We will own a managing membership interest in NEG Holding and NEG, of which we own 50.01% of the outstanding common stock, will continue to own the other membership interest in NEG Holding; We will own Panaco; and We will own approximately 77.5% of the common stock of GB Holdings and warrants to purchase, upon the occurrence of certain events, approximately 21.3% of the fully diluted common stock of Atlantic Holdings.
Determination of the Consideration (Page 33)	The number of Depositary Units to be issued in the Acquisitions was determined by reference to the closing market price of our Depositary Units on January 19, 2005, two days prior to the date on which we entered into the purchase agreements.
Reasons for the Acquisitions (Pages 10-12)	Among the matters considered by the Audit Committee of API, our General Partner, were the following material factors: The potential strategic benefits of the Acquisitions; The financial terms of the Acquisitions; and The terms and condition of the Acquisitions.

	the opinions of Morgan Joseph & Co., Inc., or Morgan Joseph, as to the fairness to AREP of the consideration to be paid by AREP, from a financial point of view.
United States Federal Income Tax Consequences (Page 37)	Each of the Acquisitions is intended to qualify as a non-recognition transaction.
Accounting Treatment of Acquisitions (Page 38)	The Acquisitions will be treated for accounting purposes in a manner similar to a pooling-of-interests due to the common control by Mr. Icahn of both us and each of the companies to be acquired.
Conditions to Closing (Page 33)	The consummation of each of the Acquisitions depends on the approval by Depositary Unit holder action as required by the New York Stock Exchange and, for the acquisition of the membership interest of NEG Holding and Panaco, the receipt of oil and gas reserve reports as of January 21, 2005 and the satisfaction or waiver of a number of customary conditions to closing described in greater detail in this document. The conditions that reserve reports be received have been satisfied. The condition to the acquisition of GB Holdings common stock and Atlantic Holdings warrants, that a bank pledge encumbering the GB Holdings common stock be removed has been satisfied.
Termination of the Acquisition Agreements (Pages 33-35)	Each of the purchase agreements may be terminated: By either us or the sellers if the respective transaction contemplated by such agreement is not consummated by September 30, 2005; or By either us or the sellers if there shall have been a material breach of any covenant, representation or warranty or other agreement of the other party which has not been remedied.
Financial Information (Pages A-i, F-i)	We have provided supplemental consolidated financial statements, selected financial data, and financial information included in Management's Discussion and Analysis of Financial Condition and Results of Operations to give effect to the acquisition by us in April 2005 of TransTexas Gas Corporation, or TransTexas, in a manner similar to a pooling-of-interest due to common control ownership. Upon consummation of the Acquisitions, we will restate our historical financial statements to account for the Acquisitions in a manner similar to a pooling-of-interest due to common control by Mr. Icahn of both us and each of the companies to be acquired. In addition, we have included, as Appendices to this Proxy Statement, historical financial statements for each of us, NEG Holding, Panaco and GB Holdings.

Consent Required (Page 6)	As required by the rules of the New York Stock Exchange, Item 1 must be approved by a majority-in-interest of AREP's outstanding Depositary Units. Carl C. Icahn, the Chairman of the Board of the Directors of API, beneficially owns approximately 86.5% of the outstanding Depositary Units as of the date of this proxy statement. The written consent of affiliates of Mr. Icahn, as record owners of more than a majority-in-interest of the Depositary Units is sufficient to approve the Acquisitions. Mr. Icahn currently intends to have consents executed and delivered to approve Item 1. Mr. Icahn also currently intends to have executed and delivered the appropriate consents to approve Items 2-4. Upon receipt by AREP of such completed Consent Cards consenting to the approval of each of the Acquisitions, the LP Agreement Amendments, the OLP Agreement Amendments and the Grant of the Meister Option, AREP will have received written consents sufficient to approve each of the Items.
Consent Card (Page 6)	The Board of Directors of the General Partner requests that each record owner of Depositary Units on the Record Date complete, date, sign and mail the enclosed Consent Card promptly to the address indicated therein. A postage paid return envelope is enclosed for your convenience.
Revocation of Consents (Page 6)	Any consent executed and delivered by a record owner of Depositary Units on the Record Date may be revoked at any time provided that a written, dated revocation is executed and delivered to the Partnership on or prior to the effective date. A revocation may be in any written form validly signed by a record owner of Depositary Units on the Record Date as long as it clearly states that the consent previously given is no longer effective. The revocation should be sent to the place fixed for receipt of the Consent Cards.
Appraisal Rights (Page 41)	Holders of our Depositary Units do not have appraisal rights in connection with the Acquisitions and issuance of Depositary Units in connection with the Acquisitions.

PROXY STATEMENT CONSENT

Voting Securities, Record Date and Outstanding Units

Under Delaware law and under AREP's Partnership Agreement, as amended, any action that may be taken at a meeting of holders of Depositary Units may be taken without a meeting, without prior notice and without a vote, if consents in writing, setting forth the action so taken, are signed by the holders of outstanding Depositary Units having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all Depositary Units entitled to vote thereon were present and voted.

On the Record Date, there were a total of Depositary Units outstanding, which were held by approximately 9,000 recordholders.

Required Vote

Items 1-4 each requires the approval of the recordholders of a majority of the outstanding Depositary Units as of the close of business on the Record Date.

Carl C. Icahn, the Chairman of the Board of the Directors of API beneficially owned approximately 86.5% of the outstanding Depositary Units as of the Record Date and currently intends to have a Consent Form executed and delivered that approves Items 1-4 with respect to all such Depositary Units. Upon receipt by AREP of completed Consent Cards from affiliates of Mr. Icahn, as record owners of more than a majority-in-interest of the Depositary Units, consenting to the approval of each of the Items, the Partnership will have received the written consents sufficient to approve of them.

The Board of Directors of the General Partner requests that each record owner of Depositary Units on the Record Date complete, date, sign and mail the enclosed Consent Card promptly to the address indicated therein. A postage paid return envelope is enclosed for your convenience.

Any consent executed and delivered by a record owner of Depositary Units on the Record Date may be revoked at any time provided that a written, dated revocation is executed and delivered to the Partnership on or prior to the effective date. A revocation may be in any written form validly signed by a record owner of Depositary Units on the Record Date as long as it clearly states that the consent previously given is no longer effective. The revocation should be sent to the place fixed for receipt of the Consent Cards.

Solicitation of Consents

The cost of soliciting consents will be borne by AREP. AREP has not engaged any entity or made any arrangements to assist it in the solicitation of consents.

ITEM 1: ACQUISITIONS

In accordance with the rules of the New York Stock Exchange, before we can issue Depositary Units to affiliates of Mr. Icahn in connection with the Acquisitions, we must obtain the approval of holders of our Depositary Units. Each of the Acquisitions described below was separately considered and approved by the Audit Committee of API, AREP's general partner, or the Audit Committee. The Audit Committee was advised as to each transaction by its own independent legal counsel and independent financial advisor.

The written consent of affiliates of Mr. Icahn, as record owners of more than a majority-in-interest of the Depositary Units, is sufficient to ensure approval of the Acquisitions. Mr. Icahn currently intends to have consents executed and delivered that approve the Acquisitions.

Background of the Acquisitions

As part of its primary business strategy to grow its core businesses, including real estate, gaming and entertainment, and oil and gas, the management of AREP continually reviews investment opportunities in these businesses with the objective of making acquisitions or investments which will increase value for holders of our Depositary Units. Mr. Icahn has, from time to time, proposed that AREP acquire one or more of his businesses. At such times, and pursuant to Section 6.13 of the Partnership Agreement, the Audit Committee considers the proposed transaction and, if in AREP's best interest, negotiates the proposed transaction with Mr. Icahn. The Audit Committee consists of independent directors, and they are assisted by their own independent legal counsel and financial advisor.

On October 15, 2004, Mr. Icahn sent a letter to Mr. Jack G. Wasserman, Chairman of the Audit Committee, which proposed that AREP (a) purchase the interest in NEG Holding held by Gascon, an entity owned by Mr. Icahn, and (b) purchase (1) 4,121,033 shares of GB Holdings common stock, (2) warrants, expiring July 22, 2011, to purchase an aggregate of 1,133,284 shares of common stock of Atlantic Holdings, and (3) $37,009,500 face value amount of 3% Notes due 2008 of Atlantic Holdings, which we refer to as the Atlantic Holdings Notes. Mr. Icahn's letter further proposed that in consideration of the forgoing, AREP issue to Mr. Icahn's entities a new class of convertible preferred units with a liquidation preference of $390.0 million, which would increase at a rate of 8% per annum, compounded semi-annually. Finally, Mr. Icahn's offer letter contemplated that AREP would make a capital contribution to NEG Holding and would receive an additional 1% ownership interest in NEG Holding.

In late October and early November, 2004, the Audit Committee had several telephone meetings to discuss Mr. Icahn's proposals. During this period, the Audit Committee also interviewed potential financial advisors.

In mid-November, 2004, Mr. Icahn and Mr. Wasserman had a telephone conversation during which Mr. Icahn proposed that AREP purchase from entities owned by Mr. Icahn (a) $38.0 million of the senior secured indebtedness of Panaco, and (b) $27.5 million face amount of 10% senior secured indebtedness of TransTexas. Panaco is and TransTexas was owned by entities owned by Mr. Icahn. At Mr. Wasserman's request, on November 18, 2004, Mr. Icahn sent a letter to Mr. Wasserman which confirmed this proposal. Mr. Wasserman circulated this letter to the other members of the Audit Committee and its counsel.

On November 22, 2004, the Audit Committee, together with an attorney from Debevoise & Plimpton LLP, or Debevoise, the Audit Committee's independent legal counsel, met to review in detail the terms of the various transactions proposed by Mr. Icahn's October 15 and November 18 letters. During this meeting, the Audit Committee approved the engagement of Morgan Joseph as financial advisor to the Audit Committee in connection with the proposed transactions.

During the week of November 22, 2004, representatives of Morgan Joseph conducted a site visit of The Sands, which is the primary asset of Atlantic Holdings and GB Holdings, during which it met with senior management. During this week, representatives of Morgan Joseph also held a financial due diligence conference call with members of senior management of NEG, the entity which manages NEG Holding, Panaco and TransTexas.

On November 30, 2004, the Audit Committee met at length with representatives of Morgan Joseph and Debevoise to continue the Audit Committee's consideration of the proposed transactions. Morgan Joseph updated the Audit Committee on the status of its business due diligence investigation and financial analyses of the proposed transactions.

During late-November and early-December, 2004, it became the understanding of the parties that the acquisitions of Panaco and TransTexas debt, as well as the proposed acquisitions of Atlantic Holdings Notes would be negotiated before the other transactions. During this period, counsel for Mr. Icahn and the Audit Committee negotiated the agreements with respect to these transactions on behalf of their respective clients.

On December 2nd and 3rd, 2004, a Debevoise attorney visited The Sands and performed a legal due diligence review of GB Holdings and Atlantic Holdings.

On December 3, 2004, the Audit Committee met with representatives of Morgan Joseph and Debevoise to continue the Audit Committee's consideration of the proposal by Mr. Icahn set forth in his November 18, 2004 letter to have AREP purchase debt securities of TransTexas and Panaco. Representatives of Morgan Joseph reviewed with the Audit Committee the financial terms of the proposed transactions, including the terms of the securities to be acquired, the structure of the proposed transaction, and the histories of TransTexas and Panaco. After extensive discussion, the Audit Committee determined that Mr. Wasserman, acting on behalf of the Audit Committee, should continue discussions with Mr. Icahn.

On December 6, 2004, the Audit Committee met to discuss (a) Mr. Icahn's proposal that AREP acquire interests in NEG Holding and GB Holdings, and (b) the acquisitions of the TransTexas and Panaco debt securities. At this meeting, Morgan Joseph delivered its opinions to the Audit Committee, with regard to the fairness of the proposed purchase price to be paid for the TransTexas and Panaco debt securities, from a financial point of view to AREP. The Audit Committee then approved those transactions and authorized the entering into of definitive agreements. Pursuant to the definitive agreements executed later that day, AREP (a) purchased $27.5 million aggregate principal amount of term notes issued by TransTexas for cash consideration of $28,245,890.41 from entities owned by Mr. Icahn, and (b) purchased all of the membership interests of Mid River LLC, or Mid River, for an aggregate purchase price of $38,125,998.63. The assets of Mid River consist of $38.0 million principal amount of term loans outstanding under the term loan and security agreement, dated as of November 16, 2004, among Panaco, as borrower, the lenders (as defined therein) and Mid River, as administrative agent, which we refer to as the Panaco Debt. Each of the sellers and Panaco is indirectly controlled by Mr. Icahn. We refer to these transactions as the December 2004 TransTexas and Panaco Debt Acquisitions.

On December 8, 2004, Mr. Icahn sent a letter to Mr. Wasserman proposing that AREP or a subsidiary of AREH acquire 100% of the issued and outstanding stock of Panaco and TransTexas from entities owned by Mr. Icahn for an aggregate purchase price equal to $500 million.

On December 9 and 10, 2004, representatives of Debevoise and Morgan Joseph visited the offices of NEG and performed a legal and financial due diligence review, respectively, with respect to proposed transactions by AREP involving NEG Holding, TransTexas and Panaco.

On December 13, 2004, the Audit Committee met to receive a preliminary report from Debevoise regarding its legal due diligence of NEG Holding, TransTexas and Panaco and to review the transactions in detail.

On December 20, 2004, the Audit Committee met extensively with representatives of Morgan Joseph and Debevoise. At this meeting, the Audit Committee reviewed the prospects of The Sands, as well as the gaming industry in general and the gaming industry market of Atlantic City in particular. Representatives of Morgan Joseph also discussed with the Audit Committee its preliminary valuation analysis with respect to the Atlantic Holdings Notes.

On December 27, 2004, the Audit Committee met to continue discussions of the transactions with Mr. Icahn. At this meeting, Morgan Joseph delivered its opinion to AREP, with regard to the fairness of the proposed purchase price to be paid for the Atlantic Holdings Notes, from a financial point of view. After extensive discussions, the Audit Committee authorized those transactions and authorized the entering into of a definitive agreement. Later that day, pursuant to a definitive agreement, AREP acquired $37,009,500 principal amount of Atlantic Holdings Notes for cash consideration of $36 million from entities owned by Mr. Icahn. We refer to this transaction as the December 2004 Atlantic Holdings Debt Acquisition.

On December 29, 2004, the Audit Committee met and reviewed and considered in detail the proposed acquisitions of interests in NEG Holding, TransTexas and Panaco.

During the week of January 3, 2005 representatives of Morgan Joseph again visited the offices of NEG and performed additional financial due diligence review with respect to proposed transactions by AREP involving NEG Holding, TransTexas and Panaco.

On January 11, 2005, the Audit Committee met and discussed with representatives of Morgan Joseph its valuation analyses of NEG Holding, TransTexas, Panaco and the securities of GB Holdings and Atlantic Holdings. The Audit Committee then discussed with representatives of Morgan Joseph the impact of the issuance of AREP securities as consideration in the various transactions under consideration. The Audit Committee also discussed the possibility of a purchase price adjustment for each of the oil and gas properties based on a reserve report prepared by independent engineers.

Following this meeting, Mr. Wasserman and Mr. Icahn continued negotiations regarding the various proposed transactions.

On January 12, 2005, the Audit Committee met with representatives of Morgan Joseph and Debevoise and discussed in detail the status of negotiations with Mr. Icahn. Mr. Wasserman reported that through their extensive negotiations, the sides had made progress on an agreement with respect to the prices of the various entities but remained without an agreement on TransTexas. The Audit Committee again discussed the possibility and parameters of a purchase price adjustment for each of the oil and gas properties based on a reserve report prepared by independent engineers. Mr. Wasserman indicated that during their negotiations, Mr. Icahn had tentatively agreed to such an adjustment. The Audit Committee then discussed in detail the valuation of TransTexas with representatives of Morgan Joseph, as well as the appropriate terms for the preferred securities of AREP to be used as consideration.

Over the course of the following week, Mr. Wasserman, on behalf of the Audit Committee, continued negotiations with Mr. Icahn, while Morgan Joseph refined its valuation analyses and Debevoise negotiated definitive purchase agreements on behalf of the Audit Committee with Mr. Icahn's legal representatives.

On January 19, 2005, the Audit Committee met with representatives of Morgan Joseph and Debevoise and discussed the status of negotiations with Mr. Icahn. At this meeting, representatives of Morgan Joseph also updated the Audit Committee on the status of its valuation analyses of Panaco, TransTexas, NEG Holding, and the securities of GB Holdings and Atlantic Holdings. The Audit Committee also discussed the status of negotiations with respect to the preferred securities of AREP to be used as acquisition currency, as well as other terms of the transactions. Later that day, Mr. Icahn and Mr. Wasserman agreed to an "earn out" mechanism with respect to the purchase price of the securities of GB Holdings and Atlantic Holdings whereby certain of the consideration would be contingent on the future earnings of GB Holdings. Mr. Icahn and Mr. Wasserman further agreed that the securities used as consideration in the transactions would be Depositary Units, rather than a new class of preferred securities.

On January 21, 2005, the Audit Committee met to discuss the transactions. At this meeting, representatives of Morgan Joseph delivered its opinions to AREP, with regard to the fairness to AREP of the proposed purchase price to be paid by AREP for the interests in NEG Holding, Panaco, TransTexas and the securities of GB Holdings and Atlantic Holdings, from a financial point of view. The Audit Committee then authorized these transactions and authorized the entering into of definitive agreements. Later that day, pursuant to definitive agreements, AREP and/or its wholly owned subsidiaries, agreed to acquire (a) Gascon's managing membership interest in NEG Holding for a purchase price of up to 11,344,828 of the Depositary Units with an aggregate valuation of up to $329.0 million, based on the closing market price of the Depositary Units on January 19, 2005 of $29.00 per unit, (b) TransTexas for a purchase price of up to $180.0 million in cash, (c) Panaco, Inc. for a purchase price of up to 4,310,345 of the Depositary Units with an aggregate valuation of up to $125.0 million based on the closing market price of the Depositary Units on January 19, 2005 of $29.00 per unit, and (d) 4,121,033 shares of common stock of GB Holdings and 4,121,033 warrants of Atlantic Holdings, which are exercisable for an aggregate of 1,133,284 shares of common stock of Atlantic Holdings, in each case from entities owned by Mr. Icahn, in consideration for 410,793 Depositary Units with an aggregate valuation of $12.0 million, based on the closing price of the Depositary Units, on January 19, 2005, plus up to an additional 206,897 Depositary Units, based on the closing price of the Depositary Units on January 19, 2005, if Atlantic Holdings meets certain earnings targets during 2005 and 2006.

The purchase agreements pursuant to which AREP agreed to acquire the interests in NEG Holding, Panaco, TransTexas, and the securities of GB Holdings and Atlantic Holdings were executed by the parties on January 21, 2005. Later that day, AREP issued a press release announcing the execution of the purchase agreements.

In March, 2005, the independent engineering reports with respect to TransTexas were received and Mr. Icahn submitted the required closing statement which calculated the purchase price. On April 4, 2005, the TransTexas acquisition closed for a purchase price of $180.0 million in cash. Subsequently, independent engineering reports with respect to NEG Holding and Panaco have been received.

The Audit Committee is composed of Mr. Wasserman, Mr. James L. Nelson and Mr. William A. Leidesdorf. The members of the Audit Committee each received a fee from AREP in connection with their work with respect to the Acquisitions and the other related transactions. Mr. Wasserman received a fee of $40,000, Mr. Nelson received a fee of $20,000, and Mr. Leidesdorf received a fee of $15,000.

Approval of the Audit Committee and its Reasons for the Acquisitions

At a meeting held on January 21, 2005, the Audit Committee determined that the Acquisitions and the purchase agreements to be executed in connection with the Acquisitions, or the Purchase Agreements, are fair to, and in the best interests of, AREP and its Depositary Unit holders, and approved the three Purchase Agreements and the Acquisitions. Among the matters considered by the Audit Committee in its deliberations were the following material factors:

The Panaco and NEG Holding Acquisitions

- The potential strategic benefits of the Panaco and NEG Holding Acquisitions, including:
  - the ability to expand and diversify our portfolio of oil and gas holdings;
  - the ability to expand our involvement with NEG Holding and Panaco from the day-to-day management provided by our 50.01% subsidiary NEG, to the control of the strategic direction of NEG Holding and Panaco;
  - the operating efficiencies and synergies expected to result from the transactions, including the operating efficiencies and synergies resulting from the consolidation of Panaco and NEG Holding under the same ownership control as NEG, the manager of each company;
  - the ability to build upon our significant management strength in the oil and gas industry;
  - the ability to better compete with other participants in the oil and gas industry;
- the financial terms of the Panaco and NEG Holding Acquisitions in light of:
  - information concerning the financial performance, financial condition, business and prospects of AREP, Panaco, and NEG Holding, as well as conditions in the oil and gas industry generally;
  - information concerning the historical Depositary Unit price performance of AREP;
  - the prices paid in comparable transactions involving other oil and gas companies, as well as the trading performance of the stock of other comparable companies in the industry;
- the terms and conditions in the relevant Purchase Agreements, including:

the mechanisms for an adjustment of the purchase prices based on independent reserve reports prepared by independent engineers which allow for a decrease in the purchase price, but not an increase;

the provisions restricting Mr. Icahn from effecting a short form merger of AREP or any successor entity after the close of the Acquisitions; and

the written opinions of Morgan Joseph, dated January 21, 2005, to the effect that, as of that date, and based upon and subject to the considerations, assumptions, qualifications and limitations described in its opinions and based upon such other matters as Morgan Joseph considered relevant, the consideration to be paid by AREP for the interest in NEG Holding and the acquisition of Panaco pursuant to the relevant Purchase Agreements were fair to AREP from a financial point of view.

The Audit Committee also considered the following factors, uncertainties and risks in its deliberations concerning the acquisitions of the interest in NEG Holding and Panaco. However, the Audit Committee concluded that these risks were outweighed by the potential benefits:

- the risk that the potential benefits sought in the transactions might not be fully realized;
- the possibility that the transactions might not be completed, or that completion might be unduly delayed, for reasons beyond AREP's control;
- the highly competitive nature of the oil and gas industry;
- the operational risks associated with the exploration for an production of oil and natural gas;
- the extensive state and federal environmental regulation associated with the oil and gas industry;
- the possibility of difficulty in the discovery and acquisition of additional reserves to compensate for depleted reserves;
- the volatility of oil and gas prices;
- the inherent uncertainty in estimates of reserves which may affect future cash flows;
- operating hazards and uninsured risks associated with oil and gas operations;
- the possibility that hedging arrangements could reduce our income;
- the government regulation associated with abandoning oil and gas facilities.

The GB Holdings and Atlantic Holdings Acquisition

the potential strategic benefits of the GB Holdings and Atlantic Holdings Acquisition, including:

- the ability to expand AREP's investment in The Sands and the gaming industry;
- the strong brand name recognition of "The Sands Hotel and Casino";
- the ability to obtain a majority of the outstanding shares of GB Holdings and Atlantic Holding warrants;
- the operating efficiencies and synergies expected to result from the consolidation of The Sands under the same ownership control as that of AREP's existing gaming properties;
- the improvements, additions and enhancements of The Sands' capital expenditure program;

the financial terms of the Acquisitions in light of:

- information concerning the financial performance, financial condition, business and prospects of AREP, GB Holdings and Atlantic Holdings, as well as conditions in the gaming industry generally;
- information concerning the historical Depositary Unit price performance of AREP;
- the prices paid in comparable transactions involving other gaming companies, as well as the trading performance of the stock of other comparable companies in the industry;

the terms and conditions in the relevant Purchase Agreement, including:

- the earn-out mechanism whereby a significant portion of the consideration is contingent on the future earnings of Atlantic Holdings;
- the provision restricting Mr. Icahn from effecting a short form merger of AREP or any successor entity after the close of the Acquisitions; and

the written opinion of Morgan Joseph dated January 21, 2005, to the effect that, as of that date, and based upon and subject to the considerations, assumptions, qualifications and limitations described in its opinion and based upon such other matters as Morgan Joseph considered relevant, the consideration to be paid by AREP for the securities of Atlantic Holdings and GB Holdings pursuant to the relevant Purchase Agreement was fair to AREP from a financial point of view.

The Audit Committee also considered the following factors, uncertainties and risks in its deliberations concerning the acquisitions of the securities of Atlantic Holdings and GB Holdings. However, the Audit Committee concluded that these risks were outweighed by the potential benefits:

- the risk that the potential benefits sought in the transaction might not be fully realized;
- the possibility that the transaction might not be completed, or that completion might be unduly delayed, for reasons beyond AREP control;
- the substantial competition in the gaming industry;
- the high level of regulation in the gaming industry;
- the potential for rising operating costs at The Sands;
- the possibility that The Sands may need to increase capital expenditures to compete effectively;
- the possibility of increased state taxation of gaming and hospitality revenues;
- the possibility that GB Holdings may not be able to pay the outstanding interest on its 11% notes due 2005 prior to maturity or the interest or principal on its notes at maturity;
- the seasonal nature of The Sands' operating results;
- the risks associated with The Sands' former use of Arthur Anderson LLP as its independent public accountant;
- the exposure to risks associated with the creditworthiness of the patrons of The Sands.

It was not practical to, and thus the Audit Committee did not, quantify, rank or otherwise assign relative weights to the wide variety of factors it considered in evaluating the Acquisitions and the Purchase Agreements, nor did the Audit Committee determine that any one factor was of particular importance in deciding that the Purchase Agreements and associated transactions were in the best interests of AREP and its Depositary Unit holders. This discussion of information and material factors considered by the Audit Committee is intended to be a summary rather than an exhaustive list. In considering these factors, individual members of the Audit Committee may have given different weight to different factors. The Audit Committee conducted an overall analysis of the factors described above, and overall considered the factors to support its decision in favor of the Acquisitions and the Purchase Agreements. The decision of each member of the Audit Committee was based upon his own judgment, in light of all of the information presented, regarding the overall effect of the Purchase Agreements and associated transactions on AREP Depositary Unit holders as compared to any potential alternative transactions or courses of action. After considering this information, the Audit Committee unanimously approved the Purchase Agreements and the transactions contemplated by the Purchase Agreements, including the Acquisitions.

Opinion of Financial Advisor

In connection with its review and analysis of the proposed acquisitions by AREP of (i) Gascon's 50% membership interest in NEG Holding for up to 11,344,828 Depositary Units, (ii) Panaco for up to 4,310,345 Depositary Units, as well as (iii) warrants to purchase 1,133,284 shares of common stock of Atlantic Holdings, or the Warrants, and 4,121,033 shares of common stock, or GB Shares, of GB Holdings for (a) 413,793 Depositary Units and (b) the contingent issuance of 206,897 Depositary Units upon achievement of certain thresholds in 2005 and 2006 related to earnings before interest, taxes, depreciation and amortization, or EBITDA, from entities controlled by Mr. Icahn, the Audit Committee engaged Morgan Joseph to advise the Audit Committee and render written opinions to the Audit Committee as to the fairness to AREP from a financial point of view of the consideration to be paid by AREP in connection with each of the proposed Acquisitions. AREP selected Morgan Joseph to render such opinions because it has substantial experience in transactions similar to the proposed Acquisitions. Morgan Joseph regularly engages in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, secondary distributions of listed and unlisted securities and private placements. Morgan Joseph assisted the Audit Committee and rendered opinions with regard to the fairness, from a financial point of view, to AREP in connection with the consideration paid pursuant to the December 2004 TransTexas and Panaco Debt Acquisitions, the December 2004 Atlantic Holdings Debt Acquisition and the acquisition of TransTexas, and received customary fees for those services.

At the meeting of the Audit Committee on January 21, 2005, Morgan Joseph rendered its opinions, or the Morgan Joseph Opinions, that, as of such date, and based upon the assumptions made, matters considered and limits of review set forth in its written opinions, the consideration to be paid by AREP in connection with each of the proposed Acquisitions was fair, from a financial point of view, to AREP.

The full text of the Morgan Joseph Opinions are attached to this document as Exhibits A through C. The description of those opinions set forth in this section is qualified in its entirety by reference to the full text of the Morgan Joseph Opinions set forth in Exhibits A through C. You are urged to read the Morgan Joseph Opinions in their entirety for a description of the procedures followed, assumptions made, matters considered and qualifications and limitations on the Morgan Joseph Opinions and the review undertaken by Morgan Joseph in rendering the Morgan Joseph Opinions.

In furnishing the Morgan Joseph Opinions, Morgan Joseph did not admit that it is an expert within the meaning of the term "expert" as used in the Securities Act of 1933, as amended, or the Securities Act, nor did it admit that any of the Morgan Joseph Opinions constitute a report or valuation within the meaning of the Securities Act.

THE MORGAN JOSEPH OPINIONS ARE DIRECTED TO THE AUDIT COMMITTEE AND ADDRESS ONLY THE FAIRNESS FROM A FINANCIAL POINT OF VIEW OF THE CONSIDERATION TO BE PAID BY AREP IN CONNECTION WITH EACH OF THE PROPOSED ACQUISITIONS. THEY DO NOT ADDRESS THE MERITS OF THE UNDERLYING BUSINESS DECISIONS OF AREP TO ENGAGE IN EACH OF THE PROPOSED ACQUISITIONS AND DO NOT CONSTITUTE A RECOMMENDATION TO ANY AREP UNITHOLDER AS TO HOW A UNITHOLDER SHOULD VOTE WITH RESPECT TO THE PROPOSED ACQUISITIONS OR ANY OTHER MATTER IN CONNECTION WITH THE PROPOSED ACQUISITIONS.

In connection with rendering the Morgan Joseph Opinions, Morgan Joseph reviewed and analyzed, among other things, the following:

(i) drafts of the Purchase Agreements;

(ii) that certain operating agreement for NEG Holding dated as of May 1, 2001, or the Operating Agreement;

(iii) that certain First Amended and Restated Agreement of Partnership of Gascon, the seller of the 50% membership interest in NEG Holding;

(iv) the Fifth Amended Joint Plan of Reorganization of Panaco dated August 25, 2004 and certain other documents related thereto;

(v) certain publicly available business and financial information concerning AREP, NEG (a publicly traded company which manages NEG Holding and Panaco and which owns the other 50%

membership interest in NEG Holding), NEG Holding, Panaco, Atlantic Holdings, GB Holdings and ACE Gaming (a wholly subsidiary of Atlantic Holdings) as well as the industries in which they each respectively operate;

(vi) a draft of the audited consolidated financial statements for Panaco for the twelve months ended December 31, 2003, unaudited financial information for Panaco for the ten months ended October 31, 2004, and an estimated pro forma balance sheet of Panaco as of October 31, 2004;

(vii) certain internal information and other data relating to each of NEG Holding, Panaco, Atlantic Holdings and ACE Gaming and their respective business and prospects, including their respective budgets and projections and in the cases of NEG Holding and Panaco, internal reserve reports which provide an evaluation of their respective oil and gas reserves as of December 31, 2004, or the Internal Reserve Reports, all prepared and provided by the respective managements of NEG, Atlantic Holdings and ACE Gaming to Morgan Joseph;

(viii) in the case of NEG Holding, reserve reports prepared by (a) Netherland, Sewell & Associates, Inc. dated February 19, 2004, (b) DeGolyer and MacNaughton dated February 17, 2004 and (c) Prator Bett, L.L.C. dated February 13, 2004, which provide an evaluation of NEG Holding's oil and natural gas reserves as of December 31, 2003, and in the case of Panaco, reserve reports prepared by (a) McCune Engineering dated January 22, 2004; (b) Netherland, Sewell & Associates, Inc. dated March 2, 2004, (c) W.D. Von Gonten & Co. dated February 9, 2004 and (d) Ryder Scott Company dated February 24, 2004, which provide an evaluation of Panaco's oil and gas reserves as of January 1, 2004, or, collectively, with the Internal Reserve Reports, the Reserve Reports;

(ix) certain publicly available information concerning certain other companies and the trading markets for certain of such other companies' securities;

(x) the financial terms of certain recent business transactions which Morgan Joseph believed to be relevant;

(xi) a draft dated as of January 13, 2005 of the Preliminary Offering Memorandum relating to AREP's anticipated issuance of Senior Notes due 2013; and

(xii) certain financial information regarding Barberry Corp., or Barberry, (an entity controlled by Mr. Icahn) as guarantor of the obligations of Cyprus (the seller of the GB Shares and the Warrants) under one of the Purchase Agreements.

Morgan Joseph also met and had discussions with certain of the officers and employees of NEG, Atlantic Holdings and ACE Gaming concerning each of their respective businesses and operations, assets, financial condition and prospects of NEG Holding, Panaco, Atlantic Holdings and ACE Gaming and undertook other studies, analyses and investigations that it deemed appropriate.

In performing its analyses, numerous assumptions were made with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Morgan Joseph, AREP, NEG, NEG Holding, Panaco, Atlantic Holdings and ACE Gaming. Any estimates contained in the analyses performed by Morgan Joseph are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by those analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which those businesses or securities might actually be sold. Accordingly, the analyses and estimates are inherently subject to substantial uncertainty.

In preparing the Morgan Joseph Opinions, Morgan Joseph assumed and relied upon the accuracy and completeness of all financial and other information and data used by it and did not attempt independently to verify such information, nor did Morgan Joseph assume any responsibility to do so. Morgan Joseph also assumed and relied upon the assurances of NEG, Atlantic Holdings, ACE Gaming, GB Holdings, Barberry, Cyprus and other affiliates of Icahn, that no relevant information had been omitted or remained undisclosed to Morgan Joseph, including, without limitation, with respect to the

Reserve Reports or the respective financial conditions of NEG Holding, Panaco, Atlantic Holdings, ACE Gaming, Cyprus or Barberry and did not attempt independently to verify any such information, nor did Morgan Joseph assume any responsibility to do so. Morgan Joseph also assumed that there existed no facts as of January 21, 2005 that would give rise to a claim by AREP against Cyprus under the related Purchase Agreement. Morgan Joseph assumed that forecasts and projections of NEG Holding, Panaco, Atlantic Holdings and ACE Gaming provided to or reviewed by it were reasonably prepared based on the best current estimates and judgments of the respective managements of such companies as to the future financial condition and results of operations of such companies. Morgan Joseph did not express an opinion related to the forecasts, the projections or the assumptions on which they were based. Morgan Joseph also assumed that there were no material changes in the assets, financial condition, results of operations, business or prospects of NEG Holding, Panaco, Atlantic Holdings and ACE Gaming since the date of the last financial statements made available to Morgan Joseph. Morgan Joseph made no independent investigation of any legal, accounting or tax matters affecting NEG Holding, Panaco, Atlantic Holdings, ACE Gaming, Cyprus, Barberry or the 3% notes due 2008 of Atlantic Holdings, or the Atlantic Holdings Notes, and Morgan Joseph assumed the completeness of all legal, accounting and tax advice given to AREP and the Audit Committee. Morgan Joseph did not conduct a comprehensive physical inspection of any of the properties and facilities related to the proposed acquisitions, nor did it make or obtain any independent evaluation or appraisal of such properties and facilities except for the Reserve Reports. The Morgan Joseph Opinions relate solely to the consideration and do not address any other terms or aspects of the Purchase Agreements or the Atlantic Holdings Notes, including without limitation, the perfection and priority of the security interest with respect to the New Notes. Morgan Joseph also assumed that the Atlantic Holdings Notes were validly issued and are enforceable in accordance with their terms. Morgan Joseph also took into account its assessment of general economic, market and financial conditions and its experience in transactions that, in whole or in part, it deemed to be relevant for purposes of its analyses, as well as its experience in securities valuation in general. In each case, Morgan Joseph made the assumptions in the Morgan Joseph Opinions with the permission of the Audit Committee.

The Morgan Joseph Opinions necessarily are based upon economic, market, financial and other conditions as they exist and can be evaluated on the date of those opinions and do not address the fairness of the proceeds proposed to be paid by AREP in connection with the proposed Acquisitions on any other date. Morgan Joseph expressed no opinion as to the price at which the Depositary Units or any other securities will trade at any future time.

In connection with rendering the Morgan Joseph Opinions, Morgan Joseph performed a variety of financial analyses, including those summarized below. These analyses were presented to the Audit Committee at a meeting held on January 21, 2005. The summary set forth below does not purport to be a complete description of the analyses performed by Morgan Joseph in this regard. The preparation of opinions regarding fairness involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of these methods to the particular circumstances, and, therefore, such opinions are not readily susceptible to a partial analysis or summary description. Accordingly, notwithstanding the separate analyses summarized below, Morgan Joseph believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors considered by it, without considering all of its analyses and factors, or attempting to ascribe relative weights to some or all of its analyses and factors, could create an incomplete view of the evaluation process underlying the Morgan Joseph Opinions.

The financial forecasts furnished to Morgan Joseph and used by it in some of its analyses were prepared respectively by the managements of NEG (which manages NEG Holding and Panaco), Atlantic Holdings and ACE Gaming. NEG, NEG Holding, Panaco, Atlantic Holdings and ACE Gaming do not publicly disclose financial forecasts of the type provided to Morgan Joseph in connection with its review of the proposed acquisitions, and, as a result, these financial forecasts were not prepared with a view towards public disclosure. The financial forecasts were based on numerous variables and assumptions which are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions, and, accordingly, actual results could vary significantly from those set forth in such financial forecasts.

No company or transaction used in the analyses described below is identical to AREP, Atlantic Holdings, ACE Gaming, GB Holdings, NEG, NEG Holding, Panaco or the proposed acquisitions. Accordingly, an analysis of the results thereof necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the proposed acquisitions or the public trading or other values of AREP, Atlantic Holdings, ACE Gaming, GB Holdings, NEG, NEG Holding, Panaco or companies to which they are being compared. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using selected acquisition or company data. In addition, in performing such analyses, Morgan Joseph relied on projections prepared by research analysts at established securities firms and on the Reserve Reports, any of which may or may not prove to be accurate.

The following is a summary of the material analyses performed by Morgan Joseph in connection with the Morgan Joseph Opinions.

Atlantic Holdings and GB Holdings

The Sands is wholly owned by ACE Gaming, a wholly owned direct subsidiary of Atlantic Holdings. On an undiluted basis (which assumes that the Atlantic Holdings Notes remain outstanding and are not converted and that none of the Atlantic Holdings warrants are exercised), Atlantic Holdings is wholly and directly owned by GB Holdings. The interest in Atlantic Holdings of GB Holdings is comprised of approximately 2.9 million shares of Atlantic Holdings common stock. Prior to the sale of the GB Shares by Cyprus to AREP, GB Holdings was owned approximately 41%, 36% and 23% by Cyprus, AREH (in which AREP owns a 99% limited partnership interest) and public stockholders, respectively. Prior to the sale of the Warrants by Cyprus to AREP, Cyprus, AREH and public stockholders of GB Holdings separately owned warrants to purchase approximately 1.1 million, 1.0 million and 0.6 million shares of common stock, respectively, of Atlantic Holdings. On a fully diluted basis (which assumes that the Atlantic Holdings Notes are converted and that all of the Atlantic Holdings warrants are exercised), GB Holdings would own approximately 29% of the common stock of Atlantic Holdings. In addition, after giving effect to the exercise of all of the Atlantic Holdings warrants and conversion of all of the Atlantic Holdings Notes, and prior to the sale of the GB Shares and the Warrants by Cyprus to AREP, Cyprus, AREH and public stockholders of GB Holdings would own approximately 11%, 52% and 8%, respectively, of the common stock of Atlantic Holdings in addition to their respective ownership interests in GB Holdings. The remaining 29% of the common stock of Atlantic Holdings would be owned by GB Holdings. The primary asset of GB Holdings is its ownership of approximately 2.9 million shares of Atlantic Holdings and GB Holdings has no revenues except for certain payments it is entitled to receive from Atlantic Holdings through September 2005. Atlantic Holdings is required to make payments to GB Holdings for the required interest payments of GB Holdings on approximately $43.7 million aggregate principal amount of 11% notes due September 2005, or the GB Notes, that were not exchanged in an exchange offer transaction of GB Holdings consummated on July 22, 2004. Given that any payment made by Atlantic Holdings to GB Holdings associated with principal payments on the GB Notes would be deemed restricted payments under the indenture pursuant to the New Notes and that the ability of GB Holdings to pay the principal amount of the GB Notes at maturity in September 2005 will depend upon its ability to refinance or restructure such notes, or to derive sufficient funds from the sale of its Atlantic Holdings common stock or from a borrowing, GB Holdings has disclosed that it may be required to seek bankruptcy protection unless the GB Notes are refinanced or restructured on or prior to their maturity. Accordingly, Morgan Joseph ascribed only nominal value to the GB Shares. As such, the valuation analysis set forth below relates solely to the Warrants.

Selected Acquisitions Analysis. Using publicly available information, Morgan Joseph reviewed the purchase prices and multiples paid in the following selected small to medium size mergers, acquisitions and restructurings of gaming facilities in Atlantic City that have closed since 2000, or the Selected Gaming Transactions, presented in Acquiror/Target format with date of announcement:

- Creditors/Trump Hotels & Casino Resorts, October 21, 2004;
- Colony Capital LLC/Bally's Tunica, Atlantic City Hilton, Harrah's Tunica and Harrah's East Chicago, September 27, 2004;
- Caesars Entertainment Inc./The Claridge Hotel & Casino Corp., May 21, 2001; and
- Colony Capital LLC/Resorts Casino Hotel, October 31, 2000.

Of the Selected Gaming Transactions, Morgan Joseph considered the acquisitions of the Claridge Hotel & Casino and the Resorts Casino Hotel to be the more relevant transactions because they both compete directly with The Sands in the Atlantic City market. The financial information reviewed by Morgan Joseph included the purchase prices and multiples paid by the acquiring company of the acquired company's financial results over the twelve months preceding the acquisition, or LTM, and the expected financial performance of the acquired company over the twelve months subsequent to the acquisition, or NTM. The table below summarizes the results of this analysis:

Median Multiples Observed in the Selected Gaming Transactions

Transaction Value/LTM Net Sales	0.6x
Transaction Value/LTM EBITDA	7.2x
Transaction Value/LTM EBIT	10.7x
Transaction Value/NTM Net Sales	NA
Transaction Value/NTM EBITDA	8.1x
Transaction Value/NTM EBIT	12.6x

Based on this analysis, Morgan Joseph derived a valuation range of 5.5x to 6.5x 2004 estimated EBITDA or 6.4x to 7.6x LTM EBITDA to arrive at an enterprise valuation for Atlantic Holdings. This enterprise valuation range implied a range of transaction values for the Warrants from approximately $9 million to approximately $13 million, assuming conversion of all of the Atlantic Holdings Notes, and approximately $12 million to $15 million, assuming no conversion of the Atlantic Holdings Notes.

Selected Publicly Traded Companies Analysis. Using publicly available information, Morgan Joseph reviewed the stock prices (as of January 19, 2005) and selected market trading multiples of the following companies, or the Selected Gaming Companies:

- Ameristar Casinos Inc.;
- Argosy Gaming Co.;
- Aztar Corp.;
- Boyd Gaming Corp.;
- Caesars Entertainment Inc.;
- Harrah's Entertainment Inc.;
- Isle of Capri Casinos Inc.;

Mandalay Resort Group;

MGM Mirage;

Monarch Casino & Resort Inc.;

Penn National Gaming Inc.;

Pinnacle Entertainment Inc.;

Riviera Holdings Corp.; and

Station Casinos Inc.

The financial information reviewed by Morgan Joseph included market trading multiples exhibited by the Selected Gaming Companies with respect to their LTM or 2004 estimated financial performance. The table below provides a summary of these comparisons:

Multiples Observed of the Selected Gaming Companies

	Median	Mean
Enterprise Value/LTM EBITDA	10.7x	11.3x
Enterprise Value/2004E EBITDA	10.5x	10.7x

Morgan Joseph gave little weight to this analysis because it determined that there were no publicly-traded companies that were reasonably comparable to Atlantic Holdings. Each of the Selected Gaming Companies, which it determined to be the most comparable in terms of line of business, are much larger companies with many facilities often in multiple gaming markets, while Atlantic Holdings has only one facility in the Atlantic City market.

NEG Holding

Present Value Approach to Valuing NEG Holding's Reserves. Morgan Joseph conducted a net asset valuation analysis to derive a range of values for Gascon's 50% membership interest in NEG Holding. Morgan Joseph performed its analysis based on a variety of data sources provided by the management of NEG. Using the Internal Reserve Reports, Morgan Joseph reviewed the present value of future cash flows associated with each category of proved reserves, probable reserves and possible reserves discounted at different discount rates in order to take into account the varying degrees of risk associated with the various classes of reserves as well as the rates of returns that could reasonably be expected in the acquisition of such reserves.

	Discount Rate Used in the Morgan Joseph Calculation of the Present Value of the Net Reserves' Cash Flows	
	Low Case	High Case
Proved Developed Producing Reserves	10%	10%
Proved Developed Non-Producing Reserves	15%	10%
Proved Undeveloped Reserves:		
- NEG other than Longfellow Ranch	20%	15%
- Longfellow Ranch	15%	15%
Probable Reserves:		
- NEG other than Longfellow Ranch	40%	25%
- Longfellow Ranch	25%	20%
Possible Reserves:		
- NEG other than Longfellow Ranch	60%	40%

	Discount Rate Used in the Morgan Joseph Calculation of the Present Value of the Net Reserves' Cash Flows	
- Longfellow Ranch	40%	40%

NEG estimated (i) the total quantity of reserves as of December 31, 2004, (ii) the future annual production of oil and gas from such reserves, (iii) the future oil and gas production (lifting) costs and other operating expenses, (iv) future production taxes, and (v) the capital expenditures necessary to develop the reserves. In its analysis of the present value of future cash flows from reserves, Morgan Joseph also reviewed recent "strip prices" of oil and gas futures prices for the period 2005-2007 plus, based on discussions with NEG management, estimated prices in 2008 and 2009 and all subsequent years which management used in the derivation of the estimated future cash flows in the Internal Reserve Reports. The strip prices approximate the prices at which NEG Holding could sell forward its oil and gas production in each year from 2005-2007 (based on the average of the monthly strip prices for each year).

	2005	2006	2007	2008	2009	After 2009
Oil ($/Bbl)	$ 44.36	$ 41.35	$ 39.57	$ 37.50	$ 35.00	$ 35.00
Gas ($/Mcf)	$ 6.18	$ 6.27	$ 5.92	$ 5.75	$ 5.50	$ 5.50

To derive the range of net asset values for NEG Holding, Morgan Joseph first calculated the sum of the discounted future cash flows for each category of proved reserves, probable reserves and possible reserves. The estimated values of the following items were then added to (+) or subtracted from (-) the above reserve valuation range:

+ the estimated value, based on discussions with NEG management, of NEG Holding's exploratory acreage;

+ the estimated value, based on discussions with NEG management, of NEG Holding's seismic data value;

+ the book value of NEG Holding's cash as of November 30, 2004;

+ the book value of NEG Holding's other net working capital as of November 30, 2004;

- the book value of NEG Holding's bank debt as of November 30, 2004;

- the estimated liability, according to NEG management, to plug and abandon certain of NEG Holding's wells, platforms and pipelines in accordance with guidelines established by regulatory authorities; and

- the estimated liability, as prepared by third party engineering consultants in connection with Panaco's bankruptcy, and discussed with NEG management, created by several oil and gas price hedging contracts to sell forward oil or gas reserves in 2005 or 2006 at certain prices subject to a floor and a ceiling. Morgan Joseph valued such hedges at the difference, if any, between the average selling price for oil or gas (used in the Internal Reserve Reports to calculate the net present value of future cash flows generated by the reserves), and the hedge prices.

Based on this analysis, Morgan Joseph estimated the net asset value of NEG Holding to range from approximately $491 million to $544 million.

Pursuant to the Operating Agreement, a Priority Amount (as defined in the Operating Agreement), which had a balance of $148.6 million as of September 30, 2004, is to be paid to NEG on or before November 6, 2006. The Priority Amount includes all outstanding debt owed to entities owned or controlled by Icahn, including the amount of NEG's 10.75% senior notes. In addition, Guaranteed Payments (as defined in the Operating Agreement) of interest are to be paid by NEG on the outstanding Priority Amount. An amount equal to the Priority Amount and all Guaranteed Payments paid to NEG, plus any additional capital contributions made by Gascon, less any distribution previously made by NEG Holding to Gascon, is to be paid to Gascon. Management of NEG estimated such amount due to Gascon, or the Gascon Amount, to be approximately $278 million as of January 15, 2005.

After the deduction of the above distributions to NEG and Gascon, one half of the remaining net asset value balance (the remaining amount attributable to Gascon based on its 50% membership interest in NEG Holding) was then added to the Gascon Amount to derive the range of values for Gascon's 50% membership interest in NEG Holding. The total amount attributable to Gascon was estimated to range from approximately $311 million to $337 million.

Additionally, Morgan Joseph reviewed a number of financial ratios including enterprise value to estimated 2004 earnings before interest and taxes, or EBIT, enterprise value to earnings before interest, taxes, depreciation, depletion and amortization, and exploration expenses, or EBITDAX, the implied market value of reserves, or IMVR, to the physical quantities of both proved and total reserves, and IMVR to pre-tax SEC PV-10 values. IMVR is calculated as enterprise value less the value of non-oil and gas assets. The ratio of IMVR to reserves is expressed on a $/mcfe basis. The term "mcfe" means thousand cubic feet equivalents. The SEC PV-10 value is an industry standard metric that represents the present value of estimated future revenues to be generated from the production of proved reserves calculated in accordance with Securities and Exchange Commission guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation, without giving effect to non-property related expenses such as general and administrative expenses, debt service, future income tax expense and depreciation, depletion and amortization, and discounted using an annual discount rate of 10%.

Selected Publicly Traded Companies Analysis. Using publicly available information, Morgan Joseph reviewed the stock prices (as of January 11, 2005) and selected market trading multiples of the following companies, or the Selected Oil & Gas Companies:

Brigham Exploration Co.;

Newfield Exploration Co.;

Comstock Resources Inc.;

Houston Exploration Co.;

Southwestern Energy Co.; and

Chesapeake Energy Corp.

The financial information reviewed by Morgan Joseph included market trading multiples exhibited by the Selected Oil & Gas Companies with respect to their LTM financial performance and reserve information.

Morgan Joseph compared the Selected Oil & Gas Companies' multiples to the multiples implied by the proposed acquisitions. The table below provides a summary of these comparisons:

Multiples Observed from the Selected Oil & Gas Companies

	25th Percentile	**50th Percentile**	**75th Percentile**
Multiple of Enterprise Value:			
/LTM EBIT	9.7 x	10.2 x	12.2 x
/LTM EBITDAX	5.2 x	5.9 x	7.3 x
Multiple of IMVR:			
/Proved Reserves ($/mcfe)	$ 2.37	$ 2.72	$ 3.34
/Pre-tax SEC PV-10	0.9 x	1.1 x	1.2 x

Multiples Implied by the Present Value Approach to Valuing NEG Holding Reserves

	Low	High
Multiple of Enterprise Value:		
/LTM EBIT	13.7 x	15.0 x
/LTM EBITDAX	9.0 x	9.9 x
Multiple of IMVR:		
/Proved Reserves ($/mcfe)	$ 2.27	$ 2.45
/Pre-tax SEC PV-10	0.8 x	0.9 x

Morgan Joseph compared the multiples implied by its present value approach of valuing NEG Holding's reserves to the multiples observed in the Selected Oil & Gas Companies taking into account a number of factors including, without limitation, the varying geographies, oil and gas mixes, and reserve lives of the Selected Oil & Gas Companies as compared to NEG Holding.

Selected Acquisitions Analysis. Using publicly available information, Morgan Joseph reviewed the purchase prices and multiples paid in selected mergers and acquisitions. Morgan Joseph reviewed the following acquisitions (in Target/Acquirer format, with date of announcement), or the Selected Oil & Gas Transactions:

Antero Resources Corp./XTO Barnett Inc., January 11, 2005;

BRG Petroleum Corp./Chesapeake Energy Corp., December 27, 2004;

Patina Oil & Gas Corp./Noble Energy Inc., December 16, 2004;

Pine Mountain Oil and Gas/Range Resources, November 23, 2004;

Wynn-Crosby Energy Corp./Petrohawk Energy Corp., October, 13, 2004;

Inland Resources Inc./Newfield Exploration Co., August 6, 2004;

Bravo, Legend, Tilford Pinson/Chesapeake Energy Corp., July 26, 2004;

Prima Energy Corp./Petro-Canada, June 9, 2004;

The Wiser Oil Co./Forest Oil Corp., May 23, 2004;

Greystone Petroleum LLC/Chesapeake Energy Corp., May 11, 2004;

Southwest Royalties Inc./Clayton Williams Energy Inc., May 4, 2004;

Evergreen Resources Inc./Pioneer Natural Resources Co., May 4, 2004;

Tom Brown, Inc./EnCana Corp., April 15, 2004;

Nuevo Energy Co./Plains Exploration, February 11, 2004; and

Equity Oil Co./Whiting Petroleum Corp., February 2, 2004

The financial information reviewed by Morgan Joseph included the purchase prices, IMVR and multiples paid by the acquiring company of the acquired company's financial results over the LTM. The operating statistics reviewed by Morgan Joseph included the quantity of reserves by category within the last fiscal year preceding the acquisition and the production of reserves for the last fiscal year preceding the acquisition. The table below summarizes the results of this analysis:

Multiples Observed from the Selected Oil & Gas Transactions

	25th Percentile	50th Percentile	75th Percentile
Multiple of IMVR of Proved Reserves:			
/Proved Reserves ($/mcfe)	$ 1.03	$ 1.31	$ 1.77
/Pre-tax SEC PV-10	0.7 x	0.8 x	1.0 x
Multiple of IMVR:			
/Proved Reserves ($/mcfe)	$ 1.18	$ 1.46	$ 1.93
/Total Reserves ($/mcfe)	$ 0.65	$ 0.87	$ 1.21
/Pre-tax SEC PV-10	0.7 x	0.9 x	1.0 x
Multiple of Enterprise Value:			
/LTM EBITDAX	6.3 x	8.1 x	9.4 x
/LTM EBIT	8.8 x	12.4 x	14.4 x

Multiples Implied by the Present Value Approach to Valuing NEG Holding Reserves

	Low	High
Multiple of IMVR of Proved Reserves:		
/Proved Reserves ($/mcfe)	$ 1.90	$ 1.95
/Pre-tax SEC PV-10	0.7x	0.7x
Multiple of IMVR:		
/Proved Reserves ($/mcfe)	$ 2.27	$ 2.45
/Total Reserves ($/mcfe)	$ 1.67	$ 1.80
/Pre-tax SEC PV-10	0.8 x	0.9 x
Multiple of Enterprise Value:		
/LTM EBITDAX	9.0 x	9.9 x
/LTM EBIT	13.7 x	15.0 x

Morgan Joseph compared the multiples implied by its present value approach to valuing NEG Holding's reserves to the multiples observed in the Selected Oil & Gas Transactions taking into account a number of factors including, without limitation, the varying geographies, oil and gas mixes, and reserve lives of the companies involved in the Selected Oil & Gas Transactions as compared to NEG Holding.

Selected Local Asset M&A Transactions Analysis. Using publicly available information, Morgan Joseph reviewed the purchase prices and multiples paid in selected 2004 acquisitions involving (i) oil and gas assets located at or around the geographic region of NEG Holding reserves or (ii) assets that produce a similar gas/oil ratio as that of NEG Holding. Morgan Joseph reviewed the following transactions (in Seller/Buyer format, with date of announcement), or the Selected Local Asset Transactions:

Hallwood Energy Corp./Chesapeake Energy, November 30, 2004;

Undisclosed/St. Mary Land & Exploration Co., October 20, 2004;

Undisclosed/Pogo Producing Co., October 19, 2004

Contango Oil & Gas Co./Edge Petroleum Corp., October 7, 2004;

Undisclosed/Magnum Hunter Resources Inc., August 30, 2004;

Delta Petroleum Corp./Whiting Petroleum Corp., August 5, 2004;

Dale Operating Co./Encore Acquisition Co., April 27, 2004;

Undisclosed/XTO Energy Inc., February 23, 2004;

Undisclosed/XTO Energy Inc., February 23, 2004; and

Total SA, JMI Energy Inc., Classic Petroleum/XTO Energy Inc., January 8, 2004

The table below summarizes the results of this analysis:

Multiples Observed from the Selected Local Asset Transactions

	25th Percentile	**50th Percentile**	**75th Percentile**
Multiple of IMVR:			
/Proved Reserves ($/mcfe)	$ 1.38	$ 1.52	$ 1.87

Multiples Implied by the Present Value Approach to Valuing NEG Holding Reserves

	Low	**High**
Multiple of IMVR:		
/Proved Reserves ($/mcfe)	$ 2.27	$ 2.45

Morgan Joseph compared the multiples implied by its present value approach to valuing NEG Holding's reserves to the multiples observed in the Selected Local Asset Transactions taking into account a number of factors including, without limitation, the varying geographies, oil and gas mixes, and reserve lives of the assets involved in the Selected Local Asset Transactions as compared to NEG Holding.

Panaco

Present Value Approach to Valuing Panaco's Reserves. Morgan Joseph conducted a net asset valuation analysis to derive a range of values for Panaco. Morgan Joseph performed its analysis based on a variety of data sources provided by the management of NEG. Using the Internal Reserve Reports, Morgan Joseph reviewed the present value of future cash flows associated with each category of proved reserves, probable reserves and possible reserves discounted at different discount rates in order to take into account the varying degrees of risk associated with the various classes of reserves as well as the rates of returns that could reasonably be expected in the acquisition of such reserves.

	Discount Rate Used in the Morgan Joseph Calculation of the Present Value of the Net Reserves' Cash Flows	
	Low Case	**High Case**
Proved Developed Producing Reserves	10%	10%
Proved Developed Non-Producing Reserves	15%	10%
Proved Undeveloped Reserves	20%	15%
Probable Reserves	50%	40%
Possible Reserves:	NA(1)	NA(1)

(1) Morgan Joseph did not assign any value to Panaco's Possible Reserves.

NEG management estimated (i) the total quantity of reserves as of December 31, 2004, (ii) the future annual production of oil and gas from such reserves, (iii) the future oil and gas production (lifting) costs and other operating expenses, (iv) future production taxes, and (v) the capital expenditures necessary to develop the reserves. In its analysis of the present value of future cash flows from reserves, Morgan Joseph also reviewed recent "strip prices" of oil and gas futures prices for the period 2005-2007 plus, based on discussions with NEG management, estimated prices in 2008 and 2009 and all subsequent years which management used in the derivation of the estimated future cash flows in the Internal Reserve Reports. The strip prices approximate the prices at which Panaco could sell forward its oil and gas production in each year from 2005-2007 (based on the average of the monthly strip prices for each year).

	2005	2006	2007	2008	2009	After 2009
Oil ($/Bbl)	$ 44.36	$ 41.35	$ 39.57	$ 37.50	$ 35.00	$ 35.00
Gas ($/Mcf)	$ 6.18	$ 6.27	$ 5.92	$ 5.75	$ 5.50	$ 5.50

To derive the range of net asset values for Panaco, Morgan Joseph first calculated the sum of the discounted future cash flows for each category of proved reserves, probable reserves and possible reserves. The estimated values of the following items were then added to (+) or subtracted from (-) the above reserve valuation range:

+ the estimated value, based on discussions with NEG management, of Panaco's exploratory acreage;

+ the estimated value, based on discussions with NEG management, of Panaco's seismic data value;

+ the book value of Panaco's cash as of October 31, 2004;

+ the book value of Panaco's other net working capital as of October 31, 2004;

- the book value of Panaco's funded indebtedness as of October 31, 2004; and

- the estimated liability, presumed by third party engineering consultants in connection with Panaco's bankruptcy to plug and abandon certain of Panaco's wells, platforms and pipelines in accordance with guidelines established by regulatory authorities, net of certain cash held in escrow for such purpose.

Based on this analysis, Morgan Joseph estimated the net asset value of Panaco to range from approximately $117 million to $139 million.

Additionally, Morgan Joseph reviewed a number of financial ratios including enterprise value to estimated 2004 EBIT, enterprise value to EBITDAX, IMVR to the physical quantities of both proved and total reserves, and IMVR to pre-tax SEC PV-10 values.

Selected Publicly Traded Companies Analysis. Using publicly available information, Morgan Joseph reviewed the stock prices (as of January 11, 2005) and selected market trading multiples of the following companies, or the Other Selected Oil & Gas Companies:

Energy Partners;

Spinnaker Exploration Co.;

Stone Energy Corp.;

Remington Oil & Gas Corp.; and

PetroQuest Energy Inc.

The financial information reviewed by Morgan Joseph included market trading multiples exhibited by the Other Selected Oil & Gas Companies with respect to their LTM financial performance and reserve information.

Morgan Joseph compared the Other Selected Oil & Gas Companies' multiples to the multiples implied by the proposed acquisitions. The table below provides a summary of these comparisons:

Multiples Observed from by the Other Selected Oil & Gas Companies

	25th Percentile	50th Percentile	75th Percentile
Multiple of Enterprise Value:			
/LTM EBIT	7.6x	9.5x	10.1x
/LTM EBITDAX	3.7x	3.8x	4.0x
Multiple of IMVR:			
/Proved Reserves ($/mcfe)	$ 2.40	$ 2.75	$ 3.26
/Pre-tax SEC PV-10	1.0x	1.1x	1.1x

Multiples Implied by the Present Value Approach to Valuing Panaco Reserves

	Low	High
Multiple of Enterprise Value:		
/LTM EBIT	9.2x	10.7x
/LTM EBITDAX	4.1x	4.7x
Multiple of IMVR:		
/Proved Reserves ($/mcfe)	$ 2.64	$ 3.04
/Pre-tax SEC PV-10	0.8x	0.9x

Morgan Joseph compared the multiples implied by its present value approach of valuing Panaco's reserves to the multiples observed in the Other Selected Oil & Gas Companies taking into account a number of factors including, without limitation, the varying geographies, oil and gas mixes, and reserve lives of the Other Selected Oil & Gas Companies as compared to Panaco.

Selected Acquisitions Analysis. Using publicly available information, Morgan Joseph reviewed the purchase prices and multiples paid in the Selected Oil & Gas Transactions. The financial information reviewed by Morgan Joseph included the purchase prices, IMVR and multiples paid by the acquiring company of the acquired company's financial results over the LTM. The operating statistics reviewed by Morgan Joseph included the quantity of reserves by category (proved developed, proved undeveloped, estimated probable and possible) within the last fiscal year preceding the acquisition and the production of reserves for the last fiscal year preceding the acquisition. The table below summarizes the results of this analysis:

Multiples Implied by the Present Value Approach to Valuing Panaco Reserves

	Low	High
Multiple of IMVR of Proved Reserves:		
/Proved Reserves ($/mcfe)	$ 2.07	$ 2.28
/Pre-tax SEC PV-10	0.6x	0.7x
Multiple of IMVR:		
/Proved Reserves ($/mcfe)	$ 2.64	$ 3.04
/Total Reserves ($/mcfe)	$ 1.38	$ 1.59
/Pre-tax SEC PV-10	0.8x	0.9x
Multiple of Enterprise Value:		
/LTM EBITDAX	4.1x	4.7x
/LTM EBIT	9.2x	10.7x

Morgan Joseph compared the multiples implied by its present value approach to valuing Panaco's reserves to the multiples observed in the Selected Oil & Gas Transactions taking into account a number of factors including, without limitation, the varying geographies, oil and gas mixes, and reserve lives of the companies involved in the Selected Oil & Gas Transactions as compared to Panaco.

Selected Local Asset M&A Transactions Analysis. Using publicly available information, Morgan Joseph reviewed the purchase prices and multiples paid in selected mergers and acquisitions involving (i) oil and gas assets located at or around the geographic region of Panaco reserves (offshore Gulf of Mexico) or (ii) assets that produce a similar percentage of gas/oil as those of Panaco. Morgan Joseph reviewed the following transactions (in Seller/Buyer format, with date of announcement), or the Other Selected Local Asset Transactions:

Anadarko Petroleum Corp./Apache Corp., August 20, 2004;

ConocoPhillips/W&T Offshore Inc., December 31, 2003;

Unocal Corp./Forest Oil Corp., September 21, 2003;

Transworld Exploration and Production Inc./The Houston Exploration Co., September 15, 2003;

Shell Exploration and Production Co./Apache Corp., July 3, 2003;

Amerada Hess Corp./Anadarko Petroleum Corp., June 9, 2003;

BP plc, BP Exploration and Production Inc./Nexen Inc., March 27, 2003; and

BP plc/Apache Corp., January 13, 2003

The table below summarizes the results of this analysis:

Multiples Observed from the Other Selected Local Asset Transactions

	25th Percentile	50th Percentile	75th Percentile
Multiple of IMVR:			
/Proved Reserves ($/mcfe)	$ 1.33	$ 1.43	$ 1.50

Multiples Implied by the Present Value Approach to Valuing Panaco Reserves

	Low	High
Multiple of IMVR:		
/Proved Reserves ($/mcfe)	$ 2.64	$ 3.04

Morgan Joseph compared the multiples implied by its present value approach to valuing Panaco's reserves to the multiples observed in the Other Selected Local Asset Transactions taking into account a number of factors including, without limitation, the varying geographies, oil and gas mixes, and reserve lives of the assets involved in the Other Selected Local Asset Transactions as compared to Panaco.

AREP and Morgan Joseph entered into letter agreements dated October 22, 2004, December 6, 2004, December 6, 2004, December 27, 2004 and December 29, 2004 relating to the services to be provided by Morgan Joseph in connection with the December 2004 TransTexas and Panaco Debt Acquisitions, the December 2004 Atlantic Holdings Debt Acquisition, the acquisition of TransTexas, and the proposed Acquisitions. AREP paid Morgan Joseph a customary fee following the delivery of the Morgan Joseph Opinions. AREP also agreed to reimburse Morgan Joseph for its reasonable out-of-pocket expenses incurred in connection with its engagement, including certain fees and disbursements of its legal counsel. Under a separate letter agreement, AREP agreed to indemnify Morgan Joseph against liabilities relating to or arising out of its engagements, including liabilities under the securities laws.

Oil and Gas Reserve Reports

The following summarizes reports with respect to oil and gas reserves that were prepared in connection with the proposed acquisitions of NEG Operating and Panaco.

NEG Operating LLC

In recommending the proposed purchase of the interest in NEG Holding from Cyprus and determining the consideration to be paid, the Audit Committee considered reports prepared by the engineering firms, Prator Bett, L.L.C., DeGolyer and MacNaughton and Netherland, Sewell & Associates, Inc.

Prator Bett, L.L.C.

Prator Bett is comprised of experienced engineers familiar with the subject properties. Prator Bett was selected to prepare the January 31, 2005 reserve report because of its expertise and NEG Holding's satisfaction with prior services provided to NEG Operating. During the past two years, NEG Operating paid approximately $57,000 to the firm as consideration for annual reserve reports. We intend to obtain future reports and evaluations from Prator Bett. Except for the provision of professional services on a fee basis, Prator Bett has no commercial arrangement with NEG Operating or any other person or company involved in the interests which are the subject of the report.

The report provides an assessment of the Proved, Probable and Possible reserves of certain oil and gas properties owned by NEG Operating, as of January 31, 2005. The report was prepared as an independent assessment in connection with our purchase of the remaining interest in NEG Holding from Cyprus. Pursuant to the NEG Holding purchase agreement, the number of our Depositary Units to be issued in connection with the acquisition of the interest in NEG Holding was subject to reduction based in part on the results of the report.

Since December 31, 2000, Prator Bett has prepared annual reports for NEG Operating covering Proved and Probable reserves and future net revenue of the properties reviewed in the January 31, 2005 report. The most recent report prepared by Prator Bett was as of December 31, 2004. The reserve estimate parameters used in the December 31, 2004 report are identical to those used in the January 31, 2005 report. Possible reserves were not considered in the December 31, 2004 report, but are included in the January 31, 2005 report.

Prator Bett was instructed to generate a report as of January 31, 2005 of NEG Operating's reserves to enable Prator Bett to present the estimated value of NEG Operating's reserves. The scope of instructions for the January 31, 2005 report was not limited or varied as compared to the annual reports, except to request the inclusion of Possible reserves.

In preparing the reserve report, Prator Bett projected production rates and timing of development expenditures and analyzed available geological, production and engineering data. Estimates of natural gas and oil reserves are inherently imprecise. The process requires various assumptions, including natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes, and availability of funds. Actual future production, natural gas and oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and oil reserves most likely will vary from estimates. Any significant variance could materially affect the estimated quantities and net present value of reserves.

Extrapolation of performance history (production, water-cut, and/or pressure) was utilized for producing properties where sufficient history was available to suggest decline trends. Reserves assigned to the remaining producing properties, the nonproducing zones and the undeveloped locations were necessarily estimated utilizing volumetric calculations and analogy to nearby production. Estimates such as these are inherently subject to more variation than are estimates which are based on established decline trends.

The Prator Bett reserve report concluded that NEG Operating's estimated net Proved and Unproved natural gas and oil reserves and the pre-tax net present value of its reserves at January 31, 2005 were as set forth in the following table. The pre-tax present value is not intended to represent the current market value of the estimated natural gas and oil reserves that NEG Operating owns. The pre-tax net present value of future cash flows attributable to its reserves was based upon specific oil and gas pricing schedules provided by AREP. These prices represent a specific five-year schedule of the Henry Hub cash price for gas and the Koch WTI posted price for oil. Adjustments were made to these pricing levels based on historical data on a property-by-property basis for items such as transportation, basis differentials, marketing, the quality and gravity of the crude oil, and the heating value of the gas. The Henry Hub cash price and Koch WTI posted price were forecasted to be $6.18 per Mcf of gas and $44.36 per barrel of oil in 2005. The cash pricing levels for the year 2009 of $35.00 per barrel and $5.50 per MMBtu were held constant throughout the remaining life of the properties.

	Total Proved Reserves as of January 31, 2005			
	Developed			
	Producing	**Nonproducing**	**Undeveloped**	**Total Proved**
Natural Gas (MMcf)	4,723.3	1,567.0	1,083.4	7,373.7
Oil and condensate (bbls)	167,413	67,306	40,314	275,033
Total proved reserves (MMcfe)	5,727.8	1,970.8	1,325.3	9,023.9
Pre-tax net present value, Disc. at 10% ($)	13,366,507	3,787,811	2,736,602	19,890,920

	Total Unproved Reserves as of January 31, 2005	
	Probable	**Possible**
Natural Gas (MMcf)	2,672.4	640.9
Oil and condensate (bbls)	95,452	7,496
Total proved reserves (MMcfe)	3,245.1	685.9
Pre-tax net present value, Disc. at 10% ($)	5,088,559	457,426

DeGolyer and MacNaughton

DeGolyer and MacNaughton is a leading international petroleum reservoir consultant and is familiar with the subject properties. DeGolyer and MacNaughton was selected to prepare the January 31, 2005 reserve report because of its expertise and NEG Operating's satisfaction with its prior services. During the past two years, NEG Operating paid approximately $96,173 to the firm as consideration for annual reserve reports. We intend to obtain future reports and evaluations from DeGolyer and MacNaughton. Except for the provision of professional services on a fee basis, DeGolyer and MacNaughton has no commercial arrangement with NEG Operating or any other person or company involved in the interests which are the subject of this report.

The report provides an assessment of the Proved, Probable, and Possible reserves of certain oil and gas properties owned by NEG Operating as of January 31, 2005. The report was prepared as an independent assessment in connection with the purchase of the interest in NEG Holding from Cyprus. Pursuant to the NEG Holding purchase agreement, the number of our Depositary Units to be issued in connection with the acquisition of the interest in NEG Holding is subject to reduction based in part on the results of the reserve report.

Since August 12, 2003, DeGolyer and MacNaughton has prepared semiannual and annual reserve reports, SEC compliant reserve evaluations and property appraisals for NEG Operating. The most recent annual report prepared by DeGolyer and MacNaughton is dated as of December 31, 2004. The reserve estimate parameters used in the December 31, 2004 report are identical to those used in the January 31, 2005 report. Possible reserves were not considered in the December 31, 2004 annual report, but are included in the January 31, 2005 report.

DeGolyer and MacNaughton was instructed to generate a report as of January 31, 2005 of NEG Operating's reserves to enable DeGolyer and MacNaughton to present the estimated value of NEG Operating's reserves. The scope of the instructions for the January 31, 2005 report was not limited or varied as compared to the semiannual and annual reports, except to request the inclusion of Possible reserves.

In preparing this reserve report, DeGolyer and MacNaughton projected production rates and timing of development expenditures and analyzed available geological, production and engineering data. The estimates for Proved Reserves used initial prices and costs and future price and cost assumptions specified by NEG Operating. Estimates of natural gas and oil reserves are inherently imprecise. The process requires various assumptions, including natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes, and availability of funds. Actual future production, natural gas and oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and oil reserves most likely will vary from estimates. Any significant variance could materially affect the estimated quantities and net present value of reserves.

The DeGolyer and MacNaughton reserve report concluded that NEG Operating's estimated net Proved, Probable and Possible natural gas and oil reserves at January 31, 2005 were as set forth in the following table. Values for Proved and Probable reserves were based on projections of estimated future production and revenue prepared for these properties with no risk adjustment applied to the Probable reserves. Probable reserves involve substantially higher risks than Proved reserves. Revenue values for Probable reserves have not been adjusted to account for such risks.

	Net Reserves	
	Oil and Condensate (Mbbl)	**Sales Gas (MMcf)**
Proved		
Developed Producing	32	31,074
Developed Nonproducing	47	12,528
Total Developed	**79**	**43,602**
Undeveloped	539	83,890
Total Proved	**618**	**127,492**
Probable (Not Risk Adjusted)	570	32,011
Possible (Not Risk Adjusted)	1,513	100,918

In the preparation of these reserves estimates, interest reversions indicated by NEG Operating were taken into account.

Netherland, Sewell & Associates, Inc.

Netherland, Sewell is a leading international petroleum reservoir consultant and is familiar with the subject properties. Netherland, Sewell was selected to prepare the February 1, 2005 reserve report because of its expertise and NEG Operating's satisfaction with its prior services. During the past two years, NEG Operating paid approximately $166,053 to the firm as consideration for annual reserve reports. We intend to obtain future reports and evaluations from Netherland, Sewell. Except for the provision of professional services on a fee basis, Netherland, Sewell has no commercial arrangement with NEG Operating or any other person or company involved in the interests which are the subject of this report.

The report provides an assessment of the Proved, Probable, and Possible reserves of certain oil and gas properties owned by NEG Operating as of February 1, 2005. The report was prepared as an independent assessment in connection with our purchase of an interest in NEG Holding from Cyprus. Pursuant to the NEG Holding purchase agreement, the number of our Depositary Units to be issued in connection with the acquisition of the interest in NEG Holding was subject to reduction based in part on the results of the reserve report.

Since 2001, Netherland, Sewell has prepared annual reserve reports, SEC compliant reserve evaluations and property appraisals for NEG Operating. The most recent annual report prepared by Netherland, Sewell was as of December 31, 2004. The reserve estimate parameters used in the December 31, 2004 report are identical to those used in the February 1, 2005 report. Possible reserves were not considered in the December 31, 2004 report, but are included in the February 1, 2005 report.

Netherland, Sewell was instructed to generate a report of NEG Operating's reserves to enable Netherland, Sewell to present the estimated value of NEG Operating's reserves. The scope of the instructions for the February 1, 2005 report was not varied or limited as compared to the semiannual and annual reports, except to request the inclusion of Possible reserves.

In preparing this reserve report, Netherland, Sewell projected production rates and timing of development expenditures and analyzed available geological, production and engineering data. The estimates for proved reserves used initial prices and costs and future price and cost assumptions specified by NEG Operating. Oil prices are based on NYMEX West Texas Intermediate process, and gas prices are based on NYMEX Henry Hub prices. Oil prices are adjusted by lease for quality, transportation fees, and regional price differentials. Gas prices are adjusted by lease for energy content, transportation fees, and regional price differentials. Estimates of natural gas and oil reserves are inherently imprecise. The process requires various assumptions, including natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes, and availability of funds. Actual future production, natural gas and oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and oil reserves most likely will vary from estimates. Any significant variance could materially affect the estimated quantities and net present value of reserves.

The Netherland, Sewell reserve report concluded that NEG Operating's estimated net Proved natural gas and oil reserves and future net revenue of NEG Operating's reserves at January 31, 2005 was as set forth in the following table. The oil reserves shown include crude oil and condensate. Oil volumes are expressed in barrels that are equivalent to 42 United States gallons. Gas volumes are expressed in thousands of standard cubic feet (MCF) at the contract temperature and pressure bases. Oil prices are adjusted for quality, transportation fees and regional price differentials. Gas prices are adjusted by lease for energy content, transportation fees and regional price differentials.

The estimated reserves and future revenue shown are for Proved developed producing, Proved developed non-producing, Proved undeveloped, Probable, and Possible reserves. Any value which could be attributed to interests in undeveloped acreage beyond those tracts for which undeveloped reserves have been estimated was not included.

	Net Reserves		Future Net Revenue ($)	
Category	**Oil (Barrels)**	**Gas (MCF)**	**Total**	**Present Worth At 10%**
Proved Developed				
Producing	3,040,278	54,826,203	304,542,500	188,680,500
Non-Producing	296,040	4,654,101	28,368,400	9,052,700
Proved Undeveloped	548,434	19,291,373	71,546,400	28,580,700
Total Proved	3,884,752	78,771,677	404,457,300	226,313,900
Probable(1)	168,082	13,498,858	50,159,700	22,390,900
Possible(1)	434,928	10,186,215	66,020,500	38,085,400

(1) These reserves and future revenue are not risk-weighted. Probable reserves are those reserves which geological and engineering data demonstrate to be potentially recoverable, but where some element of risk or insufficient data prevent classification as proved. Possible reserves are those speculative reserves estimated beyond proved and probable reserves where geologic and engineering data suggest the presence of additional reserves, but where the risk is relatively high.

Panaco

Netherland, Sewell was selected to prepare the February 1, 2005 reserve report because of its expertise and Panaco's satisfaction with its prior services. During the past two years, Panaco paid approximately $29,759 to the firm as consideration for annual reserve reports. We intend to obtain future reports and evaluations from Netherland, Sewell. Except for the provision of professional services on a fee basis, Netherland, Sewell has no commercial arrangement with Panaco or any other person or company involved in the interests which are the subject of this report.

The report provides an assessment of the Proved, Probable, and Possible reserves of certain oil and gas properties owned by Panaco, as of February 1, 2005. The report was prepared as an independent assessment in connection with the purchase of Panaco. Pursuant to the Panaco purchase agreement, the number of our Depositary Units to be issued in connection with our acquisition of Panaco is subject to reduction based in part on the results of the reserve report.

Since 2004, Netherland, Sewell has prepared annual reserve reports, SEC compliant reserve evaluations and property appraisals for Panaco. The most recent annual report prepared by Netherland, Sewell was as of December 31, 2004. The reserve estimate parameters used in the December 31, 2004 report are identical to those used in the February 1, 2005 report. Probable and Possible reserves were not considered in the December 31, 2004 report, but are included in the February 1, 2005 report.

Netherland, Sewell was instructed to generate a report of Panaco's reserves to enable us to present the estimated value of our reserves. The scope of the instructions for the February 1, 2005 report was not varied or limited as compared to the annual reports, except to request the inclusion of Probable and Possible reserves.

In preparing this reserve report, Netherland, Sewell projected production rates and timing of development expenditures and analyzed available geological, production and engineering data. The estimates for Proved reserves used initial prices and costs and future price and cost assumptions that were specified by Panaco. Estimates of natural gas and oil reserves are inherently imprecise. The process requires various assumptions, including natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes, and availability of funds. Actual future production, natural gas and oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and oil reserves most likely will vary from estimates. Any significant variance could materially affect the estimated quantities and net present value of reserves.

The Netherland, Sewell reserve report concluded that Panaco's estimated net Proved natural gas and oil reserves and the future net revenue of Panaco's reserves at February 1, 2005 were as set forth in the following table. The report was prepared using oil and gas price parameters specified by Panaco. The oil reserves shown include crude oil and condensate. Oil volumes are expressed in barrels that are equivalent to 42 United States gallons. Gas volumes are expressed in thousands of standard cubic feet (MCF) at the contract temperature and pressure bases. Oil prices are adjusted by lease for quality, transportation fees, and regional price differentials. Gas prices are adjusted by lease for energy content, transportation fees, and regional price differentials.

The estimated reserves and future revenue shown are for proved developed producing, Proved developed non-producing, Proved undeveloped, Probable, and Possible reserves. Any value which could be attributed to interests in undeveloped acreage beyond those tracts for which undeveloped reserves have been estimated was not included.

		Net Reserves	Future Net Revenue ($)	
Category	**Oil (Barrels)**	**Gas (MCF)**	**Total**	**Present Worth At 10%**
Proved Developed				