AMERICAN REAL ESTATE PARTNERS L P
Form DEFM14A
June 06, 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:

o Preliminary Proxy Statement

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

ý 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.

o 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:

(2) Aggregate number of securities to which transaction applies:

(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):

(4)

Proposed maximum aggregate value of transaction:

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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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JUNE 3, 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, Inc., 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 50% 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 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) add new Section 4.13 Nevada Gaming Law Disposition; and (vi) 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 on 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.

In accordance with our Partnership Agreement, the LP Agreement Amendments and OLP Agreement Amendments require the approval of record holders of a majority of the outstanding 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 May 10, 2005, the Record Date, are 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 June 8, 2005.

The Consent Solicitation will expire at, and your Consent Card must be received by, 5:00 p.m. eastern time on June 28, 2005, or the Expiration Date. Any holder of Depositary Units executing a Consent Card has the power to revoke it at any time before the Expiration Date by delivering written notice of such revocation to the transfer agent, as indicated in the Consent Card.

AMERICAN REAL ESTATE PARTNERS, L.P.

100 South Bedford Road
Mt. Kisco, NY 10549

PROXY STATEMENT
ACTION TO BE TAKEN BY WRITTEN CONSENT

This Proxy Statement is being furnished to the holders of Depositary Units of American Real Estate Partners, L.P., or AREP, as of the close of business on May 10, 2005, the Record Date, in connection with the solicitation of consents of the holders of Depositary Units of AREP, to approve the following actions, as defined and discussed within the Proxy Statement:

1. The Acquisitions;

2. The LP Agreement Amendments;

3. The OLP Agreement Amendments; and

4. The Grant of the Meister Option.

This Proxy Statement and the enclosed Unitholder Written Consent Card are being mailed to Unitholders on or about June 8, 2005. Only Unitholders of record at the close of business on the Record Date are entitled to vote.

The enclosed proxy is being solicited by and on behalf of the Board of Directors of American Property Investors, Inc., or API, the general partner of AREP.

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

Each of the Items proposed for approval has been approved unanimously by the Board of Directors of the General Partner.

This Solicitation will expire at, and your consent must be received by, 5:00 p.m., eastern time, on June 28, 2005, or the Expiration Date. You may revoke your consent at any time before the Expiration Date by delivering written notice of such revocation to the transfer agent.

This Proxy Statement is dated June 3, 2005.

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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 (Pages 6-10)

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 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; and
  - 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 March 31, 2005, owned interests in 123 wells.

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

- AREP; and
- 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 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 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 (Pages 33-36)

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 approximately 63.4% 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;
- The terms and condition of the Acquisitions; and

	The opinions of Morgan Joseph & Co. Inc., or Morgan Joseph, as to the fairness to AREP of the consideration to be paid by AREP in the Acquisitions, from a financial point of view.
United States Federal Income Tax Consequences (Page 37)	Each of the Acquisitions is intended to qualify as a transaction in which AREP does not recognize a gain or loss.
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 (Pages 33-35)	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 condition that the Panaco reserve reports be received has been satisfied. The condition to the acquisition of GB Holdings common stock and Atlantic Holdings securities, 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 Supplemental 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)	In accordance with the rules of the New York Stock Exchange, Items 1 and 4 each requires the approval of the recordholders of a majority of the votes cast, provided that the total votes cast represents more than 50% in interest of the Depositary Units. In accordance with our Partnership Agreement, Items 2 and 3 require the approval of a majority of the outstanding Depositary Units. Mr. 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 Transfer Agent on or prior to the Expiration 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 and Preemptive Rights (Page 44)	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 46,098,284 Depositary Units outstanding, which were held by approximately 9,000 recordholders.

Required Vote

In accordance with the rules of the New York Stock Exchange, Items 1 and 4 each requires the approval of the recordholders of a majority of the votes cast, provided that the total votes cast represents more than 50% in interest of the Depositary Units. In accordance with AREP's Partnership Agreement, Items 2 and 3 require the approval of a majority of the outstanding Depositary Units.

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

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 Expiration 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 principal 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 foregoing, 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 legal 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. Representatives of 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 acquisition of Atlantic Holdings Notes would be negotiated before the other transactions. During this period, legal 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 by AREP, 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 6, 2005, the TransTexas acquisition closed for a purchase price of $180.0 million in cash. Subsequently, independent engineering reports with respect to 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 by AREP 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.

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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

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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

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 Gascon. 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 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 Gascon. 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 Gascon. 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 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 $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				
Producing	1,719,398	4,896,807	57,509,400	50,523,400
Non-Producing	634,910	8,320,946	43,444,300	31,111,600
Proved Undeveloped	2,273,942	11,614,761	78,124,300	45,835,900
Total Proved	4,628,250	24,832,514	179,078,000	127,470,900
Probable(1)	4,355,739	14,241,397	183,919,500	112,849,100
Possible(1)	19,225,750	19,640,851	701,345,500	334,742,700

(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.

The Purchase Agreements

The following describes the terms of the Acquisitions. None of the pending Acquisitions is conditioned upon the closing of the others. We may not complete all or any of the pending Acquisitions.

NEG Holding LLC

On January 21, 2005, we entered into a purchase agreement with Gascon Partners, Cigas Corp. and Astral Gas Corp., the general partner of Gascon, or the NEG Agreement, pursuant to which we will purchase Gascon's managing membership interest in NEG Holding for a purchase price of 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. The number of Depositary Units to be issued is subject to reduction based upon NEG Holding's oil and gas reserve reports as of January 31, 2005, prepared by an independent reserve engineering firm. However, if the "Adjusted Purchase Amount" pursuant to the Panaco Agreement, described below, exceeds $125.0 million and/or the "Adjusted Purchase Amount" pursuant to our agreement to purchase TransTexas exceeds $180.0 million, the amounts of such excess will be applied to any reduction of the number of Depositary Units to be issued under the NEG Agreement. Upon the closing of the NEG Agreement, AREP will contribute the NEG Holding membership interest to American Real Estate Holdings Limited Partnership, or AREH, and AREH will contribute the membership interest to AREP Oil & Gas LLC, a recently formed wholly-owned subsidiary. The other member of NEG Holding is NEG. The purchase agreement contains customary representations and warranties, indemnification provisions, covenants regarding the conduct of business prior to closing and conditions to closing.

The closing of the NEG Agreement is subject to the satisfaction or waiver of certain conditions, including, for each of the parties, no action or proceeding by any governmental authority or other person shall have been instituted or threatened which (1) might have a material adverse effect on NEG Holding or (2) could enjoin, restrain or prohibit, or could result in substantial damages in respect of, any provision of the NEG Agreement or the consummation of the transactions contemplated by it. The closing of the NEG Agreement is also subject to the approval by all Depositary Unit holder action required by the NYSE.

For AREP, the closing of the NEG Agreement is also subject to (1) the satisfaction or waiver of the condition that no material adverse change with respect to NEG Holding shall have occurred and no event shall have occurred which, in the reasonable judgment of AREP, is reasonably likely to have a material adverse effect and (2) the receipt of NEG Holding's oil and gas reserve reports. Affiliates of Mr. Icahn have agreed to indemnify AREP against, and agreed to hold it harmless from, any and all losses it incurs associated with any breach of, or any inaccuracy in, any representation or warranty made by Gascon in the purchase agreement, or any breach of or failure by Gascon to perform any of its respective covenants or obligations set out or contemplated in the NEG Agreement.

The NEG Agreement may be terminated if the transaction 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 party which has not been remedied.

The foregoing summary description of the NEG Agreement is subject in its entirety to the terms of the NEG Agreement, a copy of which is attached hereto as Exhibit D.

Panaco, Inc.

On January 21, 2005, we and National Offshore LP, the 1% general partnership interest of which and the 99% limited partnership interest of which are owned, respectively, by two limited liability companies, each of which is a wholly-owned subsidiary of AREP, entered into an agreement and plan of merger with Highcrest, Arnos and Panaco, or the Panaco Agreement, pursuant to which Panaco will merge with and into National Offshore and all of the common stock of Panaco will be canceled and cease to exist in exchange 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. The number of Depositary Units to be issued is subject to reduction based upon Panaco's oil and gas reserve reports as of February 1, 2005, prepared by an independent reserve engineering firm. However, if the "Adjusted Purchase Amount," as defined, pursuant to the NEG Agreement exceeds $329.0 million and/or the "Adjusted Purchase Amount," pursuant to our agreement to purchase TransTexas exceeds $180.0 million, the amounts of such excess will be applied to reduce the reduction of the number of Depositary Units to be issued under the Panaco Agreement. Immediately following the merger, AREP will contribute each of the general partner and limited partner of National Offshore to AREH and AREH will contribute each of these limited liability companies to AREP Oil & Gas. The Panaco Agreement contains customary representations and warranties, indemnification provisions, covenants regarding the conduct of business prior to closing and conditions to closing.

The closing of the merger is subject to the satisfaction or waiver of certain conditions, including, for each of the parties, no action or proceeding by any governmental authority or other person shall have been instituted or threatened which (1) might have a material adverse effect on Panaco or (2) could enjoin, restrain or prohibit, or could result in substantial damages in respect of, any provision of the Panaco Agreement or the consummation of the transactions contemplated by the Panaco Agreement. The closing of the Panaco Agreement is also subject to the approval by all Depositary Unit holder action required by the NYSE.

For National Offshore, the closing of the merger is also subject to (1) the satisfaction or waiver of the condition that no material adverse change with respect to Panaco shall have occurred and no event shall have occurred which, in the reasonable judgment of National Offshore, is reasonably likely to have a material adverse effect and (2) the receipt of Panaco's oil and gas reserve reports. The condition that Panaco's oil and gas reserve reports be received has been satisfied. Highcrest and Arnos have agreed to indemnify National Offshore against, and agreed to hold it harmless from, any and all losses it incurs associated with any breach of or any inaccuracy in any representation or warranty made by Highcrest and Arnos in the Panaco Agreement, or any breach of or failure by Highcrest and Arnos to perform any of their covenants or obligations set out or contemplated in the merger agreement.

The Panaco Agreement may be terminated if the transaction is not consummated by September 30, 2005 or by either us or the other parties to the agreement 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.

The foregoing summary description of the Panaco Agreement is subject in its entirety to the terms of the Panaco Agreement, a copy of which is attached hereto as Exhibit E.

GB Holdings, Inc. and Atlantic Coast Entertainment Holdings, Inc. (The Sands)

On January 21, 2005, we entered into a purchase agreement with Cyprus, or The Sands Agreement, pursuant to which we will purchase 4,121,033 shares of common stock of GB Holdings and approximately 1,133,284 shares of common stock of Atlantic Holdings. On May 23, 2005, we entered into Amendment No. 1 to the Sands Agreement. Amendment No. 1 amends Annex A to the Sands Agreement to include in the listing of securities owned by Cyprus, shares of Atlantic Holdings Common Stock owned by Cyprus as a result of the exercise of the Atlantic Holdings warrants. Upon the closing of this transaction, we will transfer all of these securities to AREP Sands Holding LLC, a recently formed wholly-owned subsidiary of AREH.

The purchase price for these securities is 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 $6.0 million based on the closing market price of the Depositary Units, on January 19, 2005, of $29.00 per unit, if for each of fiscal 2005 and 2006 the EBITDA for Atlantic Holdings is equal to or greater than $24 million.

EBITDA means, for any period, as certified by Atlantic Holdings' independent registered public accounting firm and its Chief Financial Officer, Consolidated Net Income for the period plus the following to the extent deducted in calculating such Consolidated Net Income: (1) Consolidated Interest Expense, (2) provision for all taxes based on income, profits or capital and (3) depreciation and amortization (including, but not limited to, amortization of goodwill and intangibles).

For purposes of determining EBITDA, allocations of expenses will be made on a basis consistent with past practice. Consolidated Net Income means, for any period, the net income (loss) of Atlantic Holdings and its subsidiaries, determined on a consolidated basis in accordance with generally accepted accounting principles; *provided* that there will not be included in Consolidated Net Income: (1) any net income (loss) of any person acquired by Atlantic Holdings or a subsidiary in a transaction accounted for in a manner similar to a pooling of interests for any period prior to the date of such acquisition; (2) any gain or loss realized upon the sale or other disposition of any asset of Atlantic Holdings or any subsidiary (including pursuant to any sale/leaseback transaction) that is not sold or otherwise disposed of in the ordinary course of business; (3) any item classified as an extraordinary, unusual or nonrecurring gain, loss or charge; (4) the cumulative effect of a change in accounting principles; (5) any unrealized gains or losses in respect of any foreign exchange contract, currency swap agreement or other similar agreement or arrangement (including derivative agreements or arrangements); and (6) any unrealized foreign currency translation gains or losses in respect of indebtedness denominated in a currency other than the functional currency of such debtor.

Consolidated Interest Expense means, for any period, the total interest expense of Atlantic Holdings and its subsidiaries to the extent deducted in calculating Consolidated Net Income, net of any interest income of Atlantic Holdings and its subsidiaries, including, but not limited to, any such interest expense consisting of (a) interest expense attributable to an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with GAAP; (b) amortization of debt discount; (c) the interest portion of any deferred payment obligation; and (d) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing, as determined on a consolidated basis in accordance with GAAP; *provided* that gross interest expense shall be determined after giving effect to any net payments made or received by Atlantic Holdings and its subsidiaries with respect to any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement (including derivative agreements or arrangements), and *further provided* that to avoid double counting, amortization of any item shall not be included in the calculation of Consolidated Interest Expense if it is already to be included in the calculation of EBITDA.

The Sands Agreement contains customary representations and warranties, indemnification provisions, covenants regarding the conduct of business prior to closing and conditions to closing. The closing of the Sands Agreement is subject to the satisfaction or waiver of certain conditions, including, for each of the parties, no action or proceeding by any governmental authority or other person shall have been instituted or threatened which (1) might have a material adverse effect on GB Holdings or Atlantic Holdings or (2) could enjoin, restrain or prohibit, or could result in substantial damages in respect of, any provision of the purchase agreement or the consummation of the transactions contemplated by the purchase agreement. The closing of the Sands Agreement is also subject to the approval by all Depositary Unit holder action required by the New York Stock Exchange.

For AREP, the closing of the Sands Agreement is also subject to the satisfaction or waiver of the condition (1) that no material adverse change with respect to GB Holdings or Atlantic Holdings shall have occurred and no event shall have occurred which, in the reasonable judgment of AREP, is reasonably likely to have a material adverse effect and (2) that the GB Holdings and Atlantic Holdings securities are released from a bank pledge. The condition that the bank pledge encumbering the GB Holdings common stock be removed has been satisfied. Cyprus has agreed to indemnify us against, and

agreed to hold us harmless from, any and all losses we incur associated with any breach of or any inaccuracy in any representation or warranty made by Cyprus in the Sands Agreement, or any breach of or failure by Cyprus to perform any of its covenants or obligations set out or contemplated in the Sands Agreement.

The Sands Agreement may be terminated if the transaction is not consummated by September 30, 2005 or by either us or the seller 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.

The foregoing summary descriptions of the Sands Agreement and Amendment No. 1 to the Sands Agreement are subject in their entirety to the terms of the Sands Agreement and Amendment No. 1 to the Sands Agreement, copies of which are attached hereto as Exhibit F.

Additional Provisions applicable to the NEG Holding, Panaco and Sands Agreements

The Panaco Agreement, the NEG Agreement and Sands Agreement each requires that AREP's Partnership Agreement be amended (1) as necessary to consummate the Acquisitions (including without limitation, modification of Section 4.5(c) of the Partnership Agreement to render such section inapplicable to any transactions approved by the Audit Committee of AREP), and (2) such that the general partner and the limited partners, as defined in the Partnership Agreement, may not cause AREP, or any successor entity of AREP, whether in its current form as a limited partnership or as converted to or succeeded by a corporation or other form of business association, to effect a merger or other business combination of AREP or such successor, in each case pursuant to Section 253 of the General Corporation Law of Delaware, or any successor statute, or any similar short-form merger statute under the laws of Delaware or any other jurisdiction.

Registration Rights Agreement

Upon the consummation of the Acquisitions, we will enter into a registration rights agreement with Highcrest, Arnos, Cyprus and Gascon, each a Holder, and collectively the Holders, of Depositary Units.

Pursuant to the registration rights agreement, we are required to notify in writing the Holders of our determination to register any of our equity securities or warrants to purchase equity securities, other than a registration statement on Form S-8 or on Form S-4 relating to Depositary Units to be issued solely in connection with any acquisition of any entity or business, and to use reasonable efforts to include, at our expense, in such registration statement all or any part of the Depositary Units any such Holder requests to be included in the registration statement. Our obligations to include Depositary Units in a registration statement with respect to an underwritten offering are subject to such limitations as are imposed by the managing underwriters of such offering.

A Holder or Holders of at least a majority, determined by capital account balance, of the Depositary Units held by all Holders, upon written request, may cause us to use best efforts to file two registration statements, at our expense, as expeditiously as possible with the Securities and Exchange Commission to register the public sale of Depositary Units held by such Holders, provided that the request is with respect to at least 20% of the Depositary Units owned by all Holders. In addition, if the registration of Depositary Units can be effected on Form S-3, then, upon the request of Holders for the registration of at least 20% of the units held by all Holders, we will use our best efforts to, as expeditiously as possible, effect such registration.

Pursuant to the registration rights agreement, we are required to use our best efforts to maintain the effectiveness of the registration statement for up to 90 days (or such shorter period of time as the underwriters, if any, of any offering need to complete the distribution of the registered offering), or one year in the case of a "shelf" registration on Form S-3, pursuant to which any of the Depositary Units are being offered. We have agreed to indemnify and hold harmless each Holder and each underwriter of Depositary Units from and against any and all losses, claims, damages, expenses or liabilities, joint or several, to which they or any of them become subject under the Securities Act, applicable state securities laws or under any other statute or at common law and agreed to reimburse

them for any legal or other expenses reasonably incurred by them or any of them in connection with investigating or defending such actions, subject to certain limitations described in the registration rights agreement.

Information about AREP, NEG Holding, Panaco and GB Holdings

Appendices A, B, C and D set forth descriptions of our business and the businesses of each of NEG Holding, Panaco and GB Holdings. The Appendices also include "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for each of AREP, NEG Holding, Panaco and GB Holdings.

Pro Forma Financial Data

Appendix E sets forth unaudited pro forma condensed consolidated financial statements presented to reflect the pro forma effects of the Acquisitions and the issuance of 16,068,966 Depositary Units with an aggregate valuation of $466.0 million, based on the closing market price of the Depositary Units, on January 19, 2005, of $29.00 per unit and our issuance in February 2005 of $480.0 million principal amount of senior notes due 2013 with an interest rate of $7^{1}/_{8}\%$ per annum.

Financial Statements

Financial information for each of us, on a historical and supplemental basis to give effect to the acquisition of TransTexas, American Property Investors, Inc., our general partner, NEG Holding, Panaco and GB Holdings are set forth in pages F-1 to F-226.

Regulation

We are not required to obtain the consent or approval of any regulatory authority with respect to the Acquisitions.

Certain U.S. Federal Income Tax Consequences

The following general discussion summarizes certain material United States federal income tax consequences of the Acquisitions. This summary does not consider state, local or foreign tax laws. This summary is based on the Internal Revenue Code of 1986, as amended, or the Code, and applicable Treasury Regulations, rulings, administrative pronouncements and decisions as of the date hereof, all of which are subject to change or differing interpretations at any time with possible retroactive effect. We have not sought and will not seek any rulings from the Internal Revenue Service with respect to the statements made and the conclusions reached in this summary, and there can be no assurance that the Internal Revenue Service will agree with such statements and conclusions. Each holder of Depositary Units is advised to consult the holder's tax advisor regarding specific federal, state, local and foreign income and other tax considerations in respect of the Acquisitions.

The Acquisitions generally should not result in the recognition of gain or loss to AREP, the holders of Depositary Units, or the transferors of property acquired by AREP. AREP's initial tax basis in property acquired in an Acquisition should equal the transferor's adjusted tax basis in the property immediately prior to the Acquisition.

In general, where property is acquired in an Acquisition with built-in gain or built-in loss (i.e., difference, if any, between the fair market value and adjusted tax basis of such property at the time of the Acquisition), such built-in gain or loss generally will be allocated to the transferor in accordance with section 704(c) of the Code when it is recognized. Where such built-in gain or loss property gives rise to depreciation, depletion or other cost-recovery deductions (as may be the case for property acquired in the merger of Panaco with and into National Offshore LP), the recognition of such built-in gain or built-in loss may effectively be accelerated. This is because the distributive share of such cost-recovery deductions allocated to the transferor may be required to be reduced in the case of built-in gain property or increased in the case of built-in loss property in accordance with section 704(c)

of the Code. The result to the other holders of Depositary Units is that they may be allocated more deductions than the transferor if there is built-in gain property or less deductions if there is built-in loss property.

Further, in the case of the Acquisition of interests in NEG Holding, to the extent that Gascon previously contributed property to NEG Holding with built-in gain or loss, which built-in gain or loss has not been fully recognized by Gascon, any remaining amount of such built-in gain or loss will be allocated by NEG Holding under the above allocation rules to AREP as it would have been allocated to Gascon. Allocations by AREP of its distributive share of tax items allocated from NEG Holding with respect to such property will again be subject to the same allocation rules described in the above paragraph, with the result that such remaining amount of built-in gain or loss generally is allocated to Gascon.

The character of the gross income that is likely to result from the property acquired in the Acquisitions should not adversely affect AREP's ability to continue to qualify as a partnership for tax purposes (and not be subject to tax as a corporation).

Accounting Treatment

The Acquisitions will be treated for accounting purposes in a manner similar to a pooling-of-interest due to common control ownership.

The Depositary Units

The following is a brief description of our Depositary Units which are proposed to be issued in the Acquisitions and certain provisions of the depositary agreement, as amended, or the Depositary Agreement, pursuant to which the Depositary Units have been issued, entered into among us, the Registrar and Transfer Company, as Depositary, and the Unitholders.

General

The Depositary Units represent limited partner interests in AREP. The percentage interest in AREP represented by a Depositary Unit is equal to the ratio it bears at the time of such determination to the total number of Depositary Units in AREP (including any undeposited Depositary Units) outstanding, multiplied by 99%, which is the aggregate percentage interest in AREP of all holders of Depositary Units. Subject to the rights and preferences of any preferred units, each Depositary Unit evidences entitlement to a portion of AREP's distributions and an allocation of AREP's net income and net loss, as determined in accordance with our partnership agreement.

Depositary Units are evidenced by depositary receipts issued by the Depositary. We are authorized to issue additional Depositary Units or other securities, including, without limitation preferred units from time to time to unitholders or additional investors without the consent or approval of Unitholders. There is no limit to the number of Depositary Units or additional classes of units that may be issued. The Board of Directors of API, our General Partner has the power, without any further action by the unitholders, to issue units with such designations, preferences and relative, participating or other special rights, powers and duties, including rights, powers and duties senior to existing classes of Depositary Units or preferred units. The Depositary Units have no preemptive rights.

Transfer of Depositary Units

Until a Depositary Unit has been transferred on the books of the Depositary, we and the Depositary will treat the record holder thereof as the absolute owner for all purposes. A transfer of Depositary Units will not be recognized by the Depositary or us unless and until the transferee of the Depositary Units, or a Subsequent Transferee, executes and delivers a transfer application to the Depositary. Transfer applications appear on the back of each depositary receipt and also will be furnished at no charge by the Depositary upon receipt of a request for the transfer application.

By executing and delivering a Transfer Application to the Depositary, a Subsequent Transferee automatically requests admission as a substituted unitholder in the Partnership, agrees to be bound by the terms and conditions of our partnership agreement and grants a power of attorney to our general partner. On a monthly basis, the Depositary will, on behalf of Subsequent Transferees who have submitted Transfer Applications, request the general partner to admit the Subsequent Transferees as substituted limited partners of AREP. If our general partner consents to a substitution, a Subsequent Transferee will be admitted to the partnership as a substituted limited partner upon the recordation of the Subsequent Transferee's name in our books and records. Upon admission, which is in the sole discretion of our general partner, the Subsequent Transferee will be entitled to all of the rights of a limited partner under the Delaware Revised Uniform Limited Partnership Act, or the Delaware Act, and pursuant to our partnership agreement.

A Subsequent Transferee will, after submitting a Transfer Application to the Depositary but before being admitted to AREP as a substituted unitholder of record, have the rights of an assignee under the Delaware Act and our partnership agreement, including the right to receive his pro rata share of distributions. Subsequent Transferee who does not execute and deliver a Transfer Application to the Depositary will not be recognized as the record holder of Depositary Units and will only have the right to transfer or assign his Depositary Units to a purchaser or other transferee. Therefore, such Subsequent Transferee will not receive distributions from the partnership and will not be entitled to vote on partnership matters or any other rights to which record holders of Depositary Units are entitled under the Delaware Act or pursuant to our partnership agreement. Distributions made in respect of the Depositary Units held by such Subsequent Transferees will continue to be paid to the transferor of such Depositary Units.

A Subsequent Transferee will be deemed to be a party to the Depositary Agreement and to be bound by its terms and conditions whether or not such Subsequent Transferee executes and delivers a Transfer Application to the Depositary. A transferor will have no duty to ensure the execution of a Transfer Application by a Subsequent Transferee and will have no liability or responsibility if such Subsequent Transferee neglects or chooses not to execute and deliver the Transfer Application to the Depositary.

Whenever Depositary Units are transferred, the Transfer Application requires that a Subsequent Transferee answer a series of questions. The required information is designed to provide us with the information necessary to prepare our tax information return. If the Subsequent Transferee does not furnish the required information, we will make certain assumptions concerning this information, which may result in the transferee receiving a lesser amount of consideration.

Withdrawal of Depositary Units from Deposit

A unitholder may withdraw from the Depositary the Depositary Units represented by his depositary receipts, upon written request and surrender of the depositary receipts evidencing the Depositary Units, and receive, in exchange, a certificate issued by us evidencing the same number of Depositary Units. A Subsequent Transferee is required to become a unitholder of record before being entitled to withdraw Depositary Units from the Depositary. Depositary Units which have been withdrawn from the Depositary, and are therefore not evidenced by depositary receipts, are not transferable except upon death, by operation of law, by transfer to us or redeposit with the Depositary. A holder of Depositary Units withdrawn from deposit will continue to receive his respective share of distributions and allocations of net income and losses pursuant to our Partnership Agreement. In order to transfer Depositary Units withdrawn from the Depositary other than upon death, by operation of law or to the partnership, a unitholder must redeposit the certificate evidencing the withdrawn Depositary Units with the Depositary and request issuance of depositary receipts representing such Depositary Units, which depositary receipts then may be transferred. Any redeposit of the withdrawn Depositary Units with the Depositary requires 60 days advance written notice and payment to the

Depositary of a redeposit fee initially $5.00 per 100 Depositary Units or portion thereof, and will be subject to the satisfaction of certain other procedural requirements under the Depositary Agreement.

Replacement of Lost Depositary Receipts and Certificates

A unitholder or Subsequent Transferee who loses or has his or her certificate for Depositary Units or depositary receipts stolen or destroyed may obtain a replacement certificate or depositary receipt by furnishing an indemnity bond and by satisfying certain other procedural requirements under the Depositary Agreement.

Amendment of Depositary Agreement

Subject to the restrictions described below, any provision of the Depositary Agreement, including the form of depositary receipt, may at any time and from time to time be amended by the mutual agreement of us and the Depositary in any respect deemed necessary or appropriate by them, without the approval of the holders of Depositary Units. No amendment to the Depositary Agreement, however, may impair the right of a holder of Depositary Units to surrender a depositary receipt and to withdraw any or all of the deposited Depositary Units evidenced thereby or to redeposit Depositary Units pursuant to the Depositary Agreement and receive a depositary receipt evidencing such redeposited Depositary Units.

The Depositary will furnish notice to each record holder of a Depositary Unit, and to each securities exchange on which Depositary Units are listed for trading, of any material amendment made to the Depositary Agreement. Each record holder of a Depositary Unit at the time any amendment of the Depositary Agreement becomes effective will be deemed, by continuing to hold such Depositary Unit, to consent and agree to the amendment and to be bound by the Depositary Agreement as so amended. The Depositary will give notice of the imposition of any fee or charge, other than fees and charges provided for in the Depositary Agreement, or change thereto, upon record holders of Depositary Units to any securities exchange on which the Depositary Units are listed for trading and to all record holders of Depositary Units. The imposition of any such fee or charge, or change thereto, will not be effective until the expiration of 30 days after the date of such notice, unless it becomes effective in the form of an amendment to the Depositary Agreement effected by us and the Depositary.

Termination of Depositary Agreement

We may not terminate the Depositary Agreement unless the termination is (1) in connection with us entering into a similar agreement with a new depositary selected by the general partner, (2) as a result of our receipt of an opinion of counsel to the effect that the termination is necessary for us to avoid being treated as an "association" taxable as a corporation for federal income tax purposes or to avoid being in violation of any applicable federal or state securities laws or (3) in connection with our dissolution. The Depositary will terminate the Depositary Agreement, when directed to do so by us, by mailing notice of such termination to the record holders of Depositary Units then outstanding at least 60 days before the date fixed for the termination in such notice. Termination will be effective on the date fixed in the notice, which date must be at least 60 days after it is mailed. Upon termination of the Depositary Agreement, the Depositary will discontinue the transfer of Depositary Units, suspend the distribution of reports, notices and disbursements and cease to perform any other acts under the Depositary Agreement, except in the event the Depositary Agreement is not being terminated in connection with us entering into a similar agreement with a new depositary, the Depositary will assist in the facilitation of the withdrawal of Depositary Units by holders who desire to surrender their depositary receipts.

Resignation or Removal of Depositary

The Depositary may resign as Depositary and may be removed by us at any time upon 60 days' written notice. The resignation or removal of the Depositary becomes effective upon the appointment of a successor Depositary by us and written acceptance by the successor Depositary of such

appointment. In the event a successor Depositary is not appointed within 75 days of notification of such resignation or removal, the general partner will act as Depositary until a successor Depositary is appointed. Any corporation into or with which the Depositary may be merged or consolidated will be the successor Depositary without the execution or filing of any document or any further act.

Description of Certain Provisions of the AREP Partnership Agreement

The rights of a limited partner of the partnership are set forth in our Partnership Agreement. The following is a summary of certain provisions of our Partnership Agreement.

Distributions

The General Partner has the power and authority to retain or use partnership assets or revenues as, in the sole and absolute discretion of the General Partner, may be required to satisfy the anticipated present and future cash needs of the partnership, whether for operations, expansion, improvements, acquisitions or otherwise.

Distributions from Operations

The Partnership Agreement provides that net cash flow of AREP for each fiscal year or portion of any fiscal year may be distributed quarterly, or at any other time to the extent deemed appropriate by the general partner, in its sole and absolute discretion, to the holders of depositary units and the general partner in accordance with their respective percentage interests in the partnership. The holders of the currently outstanding cumulative pay-in-kind preferred units are not entitled to distributions of net cash flow of the partnership.

Distributions from Capital Transactions

Capital transaction proceeds may be distributed or retained by AREP for reinvestment or other partnership purposes in the discretion of the General Partner. The amount and timing of distributions of capital transaction proceeds, if any, will be in the sole discretion of the General Partner. To the extent that capital transaction proceeds are distributed, the capital transaction proceeds will be distributed by AREP to the holders of Depositary Units and to the General Partner in accordance with their respective percentage interests in the partnership.

Generally, distributions resulting from a liquidation or dissolution of AREP will be made in the same manner as distributions of cash flow and capital transaction proceeds, subject to the overall requirement that distributions be made to partners in accordance with their positive capital account balances and the rights of the holders of preferred units, if any, to their liquidation preference.

Allocations of Income and Loss

The Partnership Agreement provides, in general, that, after allocation to the holders of our cumulative pay-in-kind preferred units of an amount of income or gain equal to the 5% accrued distribution rate for the year, all items of income, gain, loss and deduction are allocated to the General Partner and to the holders of Depositary Units in accordance with their respective percentage ownership in the Partnership. Items allocated to the holders of Depositary Units are further allocated among them pro rata in accordance with the respective number of Depositary Units owned by each of them. The Partnership's income gain, and loss and deduction, for federal income tax purposes, will be computed on an annual basis and apportioned equally among the calendar monthly among the General Partner and record holders of Depositary Units in accordance with their percentage interests as of the close of business on the second to last day of the month in which taxable income or losses are apportioned. The Partnership's gains and losses from capital transactions generally will be allocated among the General Partner and record holders of Depositary Units in proportion to their percentage interests as of the close of business on the last day of the month in which such gains and losses occurred. However, if gain from a capital transaction is recognized by the Partnership over more than

one calendar year, gain recognized by the Partnership in years subsequent to the year in which the capital transaction occurred shall be allocated in the same manner as income of the Partnership is allocated.

Amendment of the Partnership Agreement

Amendments to the Partnership Agreement may be proposed by the General Partner or by holders of Depositary Units owning at least 10% of the total number of Depositary Units outstanding then owned by all unitholders. Any proposed amendment (other than those described below) must be approved by the General Partner in writing and, subject to limitations on the exercise by unitholders of voting rights, by at least a majority interest in order to be adopted. Unless approved by the General Partner in writing and, subject to limitations on the exercise by unitholders of voting rights, by all of the holders of Depositary Units, no amendment may be made to the Partnership Agreement if the amendment, in the opinion of counsel would result in the loss of the limited liability of unitholders or AREP as the sole limited partner of AREH or would cause AREP or AREH to be treated as an association taxable as a corporation for federal income tax purposes. In addition, no amendment to the Partnership Agreement may be made which would:

enlarge the obligations of the General Partner or any unitholder or convert the interest of any unitholder into the interest of a General Partner;

modify the expense reimbursement payable to the General Partner and its affiliates pursuant to the Partnership Agreement or the fees and compensation payable to the General Partner and its affiliates pursuant to the Partnership Agreement of AREH;

modify the order and method for allocations of net income and net loss or distributions of net cash flow from operations without the consent of the General Partner or the unitholders adversely affected; or

amend sections of the Partnership Agreement concerning amendments of the agreement without the consent of unitholders owning more than 95% of the total number of Depositary Units outstanding then held by all unitholders.

Notwithstanding the foregoing, the General Partner may make amendments to the Partnership Agreement without the consent of the unitholders, if such amendments are necessary or appropriate:

to reflect a change in the name or location of the principal office of the Partnership;

to reflect the admission, substitution, termination, or withdrawal of unitholders in accordance with the Partnership Agreement;

to qualify AREP as a limited partnership or to ensure that AREP will not be treated as an association taxable as a corporation for federal income tax purposes;

in connection with or as a result of the General Partner's determination that AREP does not or no longer will qualify as a partnership for federal income tax purposes, including, without limitation, an amendment reflecting the reorganization of AREP into a qualified "real estate investment trust";

to reflect a change that is of an inconsequential nature and does not adversely affect the unitholders in any material respect, or to cure any ambiguity, correct or supplement any provision in the partnership agreement not inconsistent with law or with other provisions, or make other changes with respect to matters arising under the partnership agreement that will not be inconsistent with law or with the provisions of the Partnership Agreement;

to satisfy any requirements, conditions, or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law;

to facilitate the trading of the Depositary Units or comply with any requirement or guideline of any securities exchange on which the Depositary Units are or will be listed for trading;

to make any change required or contemplated by the Partnership Agreement;

to amend any provisions requiring any action by the General Partner if applicable provisions of the Delaware Act related to AREP or AREH are amended or changed so that such action is no longer necessary; or

to authorize AREP to issue units (or other securities) in one or more additional classes, or one or more series of classes, with any designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior to existing classes of Depositary Units or preferred units, as shall be fixed by the General Partner.

Issuance of Additional Securities

The Partnership is authorized to issue additional Depositary Units or other securities from time to time to unitholders or additional investors without the consent or approval of unitholders. There is no limit to the number of Depositary Units or additional classes that may be issued. The board of directors of the General Partner has the power, without any further action by the unitholders, to issue securities with such designations, preferences and relative, participating or other special rights, powers and duties, including rights, powers and duties senior to existing classes of Depositary Units or preferred units.

Meetings; Voting Rights of Unitholders

Any action that is required or permitted to be taken by unitholders may be taken either at a meeting of the holders of Depositary Units or without a meeting if consents in writing setting forth the action so taken are signed by holders of Depositary Units owning not less than the minimum number of depositary units or preferred units that would be necessary to authorize or take such action at a meeting. Meetings of the holders of Depositary Units may be called by the General Partner or by unitholders owning at least 10% of the total Depositary Units outstanding then owned by all such unitholders. Holders of Depositary Units may vote either in person or by proxy at meetings.

Matters submitted to the unitholders for their consent will be determined by the affirmative vote, in person or by proxy, of a majority interest, except that a higher vote will be required for certain amendments described above, the removal of the General Partner and the continuation of AREP after certain events that would otherwise cause dissolution.

Each unitholder will have one vote for each Depositary Unit as to which the unitholder has been admitted as a unitholder. A subsequent transferee of depositary units who has not been admitted as a unitholder of record with respect to the Depositary Units will have no voting rights with respect to the Depositary Units, even if such subsequent transferee holds other Depositary Units as to which it has been admitted as a unitholder. The voting rights of a unitholder who transfers a Depositary Unit will terminate with respect to that Depositary Unit upon its transfer, whether or not the subsequent transferee is admitted as a unitholder of record with respect thereto. The Partnership Agreement does not provide for annual meetings of the unitholders.

Liability of General Partner and Unitholders

The General Partner will be liable for all general obligations of the Partnership to the extent not paid by the Partnership. The General Partner will not, however, be liable for the nonrecourse obligations of the Partnership. Assuming that a unitholder does not take part in the control of the business of AREP and otherwise acts in conformity with the provisions of the Partnership Agreement, the liability of the unitholder will, under the Delaware Act, be limited, subject to certain possible exceptions, generally to the amount contributed by the unitholder or the unitholder's predecessor in interest to the capital of the partnership, plus the unitholder's share of any undistributed partnership income, profits or property. However, under the Delaware Act, a unitholder who receives a distribution from AREP that is made in violation of the Delaware Act and who knew at the time of the distribution that the distribution was improper, is liable to AREP for the amount of the distribution. Such liability

or liability under other applicable Delaware law (such as the law of fraudulent conveyances) ceases after expiration of three years from the date of the applicable distribution.

Under the Delaware Act, a partnership is prohibited from making a distribution to a partner to the extent that at the time of the distribution, after giving effect to the distribution, all liabilities of the partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specified property of the partnership, exceed the fair value of the assets of the partnership (except that fair value of property that is subject to a liability for which the recourse of creditors is limited is included in the assets of the partnership only to the extent that the fair value of the property exceeds that liability). An assignee of a limited partner who becomes a substituted limited partner does not, under the Delaware Act, become liable for any obligation of the assignor to restore prior distributions.

Termination, Dissolution and Liquidation

The partnership will continue until December 31, 2085, unless sooner dissolved or terminated and its assets liquidated upon the occurrence of the earliest of:

the withdrawal, removal or bankruptcy of the General Partner (subject to the right of the unitholders to reconstitute and continue the business of AREP by written agreement of a majority interest and designation by them of a successor general partner within 90 days);

the written consent or affirmative vote of a majority interest, with the approval of the General Partner, to dissolve and terminate the partnership;

the sale or other disposition of all or substantially all of the assets of the partnership;

the partnership's insolvency or bankruptcy; or

any other event causing or requiring a dissolution under the Delaware Act.

The unitholders' right to continue AREP described above is subject to the receipt of an opinion of counsel to the effect that the continuation and the selection of a successor general partner will not result in the loss of limited liability of the unitholders and will not cause AREP to be treated as an association taxable as a corporation for federal income tax purposes. Upon dissolution, the General Partner or other entity or person authorized to wind up the affairs of AREP will proceed to liquidate the assets of AREP and apply the proceeds of liquidation in the order of priority set forth in the partnership agreement.

Appraisal and Preemptive Rights

Under Delaware law, no dissenter's rights, or rights of non-consenting security holders to exchange interests in us for payment of their fair value, are available to any holder of Depositary Units regardless of whether the holder has consented to any significant transactions or other actions. Further, the Partnership Agreement does not provide appraisal rights with respect to any of the partnership actions and therefore the holders of Depositary Units dissenting from significant actions passed by at least a majority-in-interest of Depositary Units would not be entitled to appraisal rights.

Neither Delaware law nor our Partnership Agreement provide preemptive rights to holders of Depositary Units.

ITEM 2: AMENDMENT TO AREP'S LIMITED PARTNERSHIP AGREEMENT

The purpose of this proposal is to amend our Amended and Restated Agreement of Limited Partnership, as amended, as set forth in Amendment No. 4 to the Partnership Agreement. These include changes to: (1) Section 3.01 *Purposes and Business*; (2) Section 4.05(c) *Additional Issuance of Units*; (3) Section 6.18 *Other Matters Concerning the General Partner*; (4) Section 5.03 *Distributions* (prior to the Amendment, *Distributions of Cash Flow and Capital Proceeds*); and (5) add new Section 4.13 *Nevada Gaming Law Disposition*. We also propose to make other miscellaneous changes,

as described below. All such amendments will be considered as a single proposal. The full text of Amendment No. 4 to the Partnership Agreement is attached as Exhibit G to this proxy statement.

Pursuant to Article XIV of the Partnership Agreement, the approval, including by written consent, by Record Holders, as defined, owning at least a majority of the outstanding Depositary Units is sufficient for the adoption of an amendment to the Partnership Agreement, with certain exceptions (none of which is applicable to the amendment). The written consent of affiliates of Mr. Icahn, as record owners of more than a majority of the Depositary Units, is sufficient to ensure approval of this Amendment. Mr. Icahn currently intends to have consents executed and delivered that approve the Amendment.

Under applicable law, no dissenter's rights (i.e. rights of non-consenting security holders to exchange interests in the Partnership for payment of fair value) are available to any holder of Depositary Units, regardless of whether such holder of Depositary Units has consented to the adoption of the Amendment.

Reasons and Effects of the Amendment

Section 3.01 Purposes and Business

In 1996, the Partnership Agreement was amended to permit investments in companies that were not necessarily engaged as one of their principal activities in the ownership, development or management of real estate. As permitted by that amendment, we have developed into a diversified holding company engaged in a variety of businesses. Our current businesses include rental real estate; real estate development; hotel and resort operations; hotel and casino operations; oil and gas exploration and production; and investments in equity and debt securities. Our primary business strategy is to continue to grow our core businesses. In addition, we seek to acquire undervalued assets that are distressed or in out of favor industries.

We believe that Section 3.01, as proposed to be amended, provides us with added flexibility to pursue our strategy.

The Partnership will continue to conduct its investment activities in such a manner so as not to be deemed an investment company under the Investment Company Act of 1940. Generally, this means that the Partnership does not intend to enter the business of investing in securities and that no more than 40% of the Partnership's total assets will be invested in securities. While the Partnership intends to operate so as to not be treated as an investment company under the 1940 Act, if it did not meet the exclusions under the 1940 Act, the Partnership would be required to register as an investment company under the 1940 Act and would be subject to the reporting requirements and regulatory constraints of the 1940 Act.

The Partnership intends to structure its investments so as to continue to be taxed as a partnership rather than as a corporation under the publicly-traded partnership rules of Section 7704 of the Internal Revenue Code. Under those rules, a publicly traded partnership is generally taxable as a corporation unless 90% or more of its gross income is "qualifying" income, which includes interest, dividends, real property rents, gains from the sale of other disposition of real property, gain from the sale or other disposition of capital assets held for the production of interest or dividends, and certain other items. While the Partnership intends to continue to structure its diversified business in a manner such that at least 90% of its gross income will constitute qualifying income, if less than 90% of the Partnership's gross income constitutes qualifying income, the Partnership may be subject to corporate tax on its net income at regular corporate tax rates.

Section 5.03.

Section 5.03(a) currently provides for distributions in the discretion of the General Partner, from Cash Flow, as defined. Section 5.03(b) currently provides for distributions from Capital Transactions. Cash flow is defined as "Net Cash Flow" as defined in the registration statement filed by the Partnership in connection with its formation in 1987. "Net Cash Flow" was defined as consisting of "operating revenues (excluding proceeds from sales and refinancings) less (i) operating expense (excluding non-cash expenses such as depreciation and amortization but including any management, reinvestment incentive and other fees payable to the General Partner and its affiliates), (ii) debt service, (iii) provisions for such reserves from operating revenues as the General Partner, in its sole discretion, deems appropriate, and (iv) capital transactions to the extent not made out of established revenues. Capital Transactions means "any (1) incurring of indebtedness secured by Partnership Assets, (2) refinancing of any indebtedness secured by Partnership Assets, (3) sale or exchange, liquidation or other disposition of any Partnership Assets, (4) net condemnation award or casualty loss recovery with respect to any Partnership Assets, (5) elimination of any funded reserve or (6) liquidation or dissolution of the Partnership."

We believe that the proposed amendment to this provision will permit the Board of Directors greater flexibility in considering whether to make distributions from Partnership assets or otherwise, subject to the limitations under any of our debt or equity securities. The Board of Directors has commenced a review of the Partnership's distribution policy, and it is uncertain when the Board will conclude its review or whether the Board will authorize distributions.

We also propose to change the definition of "Record Date" to conform to the changes to Section 5.04 and simplify the definition.

Section 4.05(c) Additional Issuance of Units; Insurance of Securities. Section 6.18 Other Matters Concerning General Partner.

In connection with the Acquisitions, our Audit Committee required that the Partnership Agreement be amended to restrict certain short-form merger transactions of AREP, or any successor of AREP, whether in its current form as a limited partnership or as converted to or succeeded by a corporation or other form of business combination of AREP or such successor, in each case pursuant to Section 253 of the Delaware General Corporation Law, or any successor statute, or any similar short-form merger statute under the laws of Delaware or any other jurisdiction. Section 253 of the Delaware General Corporation Law generally allows a holder of 90% or more of the voting securities of a corporation to cause that corporation to merge with another corporation without approval of the minority stockholder or the board of directors. This allows for the minority stockholders to be squeezed out in a cash out merger. There is no similar provision in the Delaware Revised Uniform Limited Partnership Act.

We propose to add a new subsection 6.18(c)(iii) to effect these restrictions. Section 6.18(c)(iii) also will require the unanimous vote of Record Holders to amend the proposed subsection 6.18(c)(iii), unless that amendment is approved by the Audit Committee.

The amendment to Section 4.05(c) allows for the determination of the number of Depositary Units to be issued in exchange for property without the restrictions imposed by that section, including the issuance of the Units in the Acquisitions, if the consideration is approved by our Audit Committee. See "Item 1 The Acquisitions" for a description of the determinations of the consideration to be issued in the Acquisitions.

Section 4.13 Nevada Gaming Law Disposition

We propose to add a provision applicable to any Limited Partner that is required to be licensed, qualified or found suitable under any Nevada Gaming Law and fails to apply for any license, qualification or finding of suitability within 30 days of being so required by an applicable Nevada Gaming Authority or is denied a license or qualification or not found suitable. The Partnership would have the right to require the Limited Partner to dispose of its interest or to redeem the interest. Upon a determination that a Limited Partner is not suitable or will not be licensed or qualified, the Limited Partner would not have the right to exercise any rights to which Limited Partners are entitled or to receive distributions. We also propose to add definitions related to this provision

If the Nevada Gaming Commission determines that a person is unsuitable to own any of our securities, then pursuant to the Nevada Gaming Control Act, we can be sanctioned, including the loss of our approvals for our Nevada hotels and casinos. The Partnership Agreement already contains similar provisions with respect to New Jersey regulation of casinos.

ITEM 3: AMENDMENT TO AREH'S LIMITED PARTNERSHIP AGREEMENT

The purpose of this proposal is to amend the Amended and Restated Agreement of Limited Partnership of AREH or the OLP Agreement: (1) Section 3.01 *Purposes and Business* and (2) Section 5.03 *Distributions*. The amendments to the OLP Agreement is to conform these sections to the corresponding sections in the Partnership Agreement, as proposed to be amended in accordance with Item 3. The full text of Amendment No. 3 to the OLP Agreement is set forth as Exhibit H. The amendments will be considered as a single proposal.

Section 6.08(b) of the Partnership Agreement provides that the General Partner of AREP shall have no authority to cause AREP, in its capacity as sole limited partnership AREH, to consent to any proposal submitted for the approval of the limited partners of AREH unless AREP's limited partners vote to approve the proposal in the same percentage as is required by the OLP Agreement for the approval of such proposal by the limited partners of AREH.

Pursuant to Article XIV of the Partnership Agreement, the approval, including by written consent, by Record Holders, as defined, to an amendment to the OLP Partnership Agreement owning at least a majority-in-interest of the outstanding Depositary Units is sufficient for the adoption of an amendment to the OLP Agreement. 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 this amendment. Mr. Icahn currently intends to have consents executed and delivered that approve the OLP Agreement Amendments.

ITEM 4: GRANT OF OPTIONS TO KEITH MEISTER

AREP proposes granting to Keith Meister, Chief Executive Officer of API, the General Partner, nonqualified unit options, which we refer to as the Options, pursuant to an option grant agreement, which we refer to as the Option Agreement. AREP would be providing these Options outside of an adopted equity incentive plan. The Options would be an inducement for the continuation of Mr. Meister's employment with the General Partner. In accordance with the rules of the New York Stock Exchange, before we can issue the Options to Mr. Meister, we must obtain the approval of holders of our Depositary Units. The written consent of affiliates of Mr. Icahn, as record owners of more than a majority of the Depositary Units, is sufficient to ensure approval of the Options. Mr. Icahn currently intends to have consents executed and delivered that approve the Options. The following is a summary of the Option Agreement as proposed. The full text of the Option Agreement is set forth as Exhibit I.

Number of Units, Consideration, Vesting and Expiration. The Options would permit Mr. Meister to purchase up to 700,000 Depositary Units, or Units, at an exercise price of $35.00 per Unit. Mr. Meister must pay the exercise price for the Units by (i) money order or other cash equivalent or (ii) a broker-assisted cashless exercise. The market value of the Depositary Units as of June 1, 2005 was $27.85.

The Options would vest at a rate of 100,000 Units on the first seven anniversaries of the date on which the Options are granted, which we refer to as the Grant Date, such that the Options will become fully vested by the seventh anniversary of the Grant Date.

The Options would vest sooner upon the occurrence of two events: (a) a change of control, as defined, in the Option Agreement or (b) if Mr. Meister is terminated by AREP or the General Partner without "cause" as defined in the Option Agreement.

The Options would expire as to 600,000 of the vested Units on the last business day preceding the seventh anniversary of the Grant Date. The Options for the remaining 100,000 vested Units would expire after the last business day prior to the eighth anniversary of the Grant Date.

All unvested Options would terminate immediately if Mr. Meister otherwise ceases being employed by AREP or the General Partner.

Exercise of Options After Termination. With regard to vested Options which have not expired, Mr. Meister would have 180 days after termination of his employment to exercise the vested Options.

Adjustments to Options. The Options and the terms of the Option Agreement may be adjusted for certain transactions and other events as described in the Option Agreement.

Federal Income Tax Consequences to Mr. Meister and AREP. Mr. Meister would not recognize any taxable income at the time he is granted the Options. Upon exercise, Mr. Meister would recognize taxable ordinary income generally equal to the excess of the fair market value of the Units at exercise over the exercise price. Any gain or loss recognized upon disposition of the Units in excess of the amount treated as ordinary income is treated as long-term or short-term capital gain or loss, depending on the holding period. Upon Mr. Meister's exercise of the Options, AREP may have to adjust or create capital accounts to reflect Mr. Meister's investment in AREP. In addition, AREP may recognize a deduction for the amount of ordinary income recognized by Mr. Meister.

Amendments. The Option Agreement may be amended from time to time in writing by the parties to the Option Agreement.

Executive Compensation

The following table sets forth information in respect of the compensation of the Chief Executive Officer and each of the four most highly compensated other executive officers of AREP and its subsidiaries as of December 31, 2004 for services in all capacities to AREP for the fiscal years ended December 31, 2004, 2003 and 2002.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation(1) Salary($)	Bonus($)	All Other Compensation($)(3)
Keith A. Meister(2) President and Chief Executive Officer	2004 2003 2002	227,308 73,150		
Martin L. Hirsch(2)(3) Executive Vice President and Director of Acquisitions and Development	2004 2003 2002	295,000 269,923 231,000	200,000 50,000 24,500	4,000 4,000 3,667
John P. Saldarelli(2)(3) Vice President, Chief Financial Officer, Secretary and Treasurer	2004 2003 2002	191,100 182,200 182,000	22,932 18,200 8,400	3,819 4,000 3,666
Richard P. Brown President and Chief Executive Officer, American Casino & Entertainment Properties LLC	2004 2003 2002	461,155 316,154 274,988	250,000 20,000 20,000	8,335 8,315 6,459
Bob Alexander President and Chief Executive Officer, National Energy Group, Inc.	2004 2003 2002	300,000 300,000 300,000	175,000 150,000	

(1) Pursuant to applicable regulations, certain columns of the Summary Compensation Table and each of the remaining tables required by such regulations have been omitted, as there has been no compensation awarded to, earned by or paid to any of the named executive officers by us, or by API, which was subsequently reimbursed by us, required to be reported in those columns or tables, excepted as noted below.

(2) On August 18, 2003, Keith A. Meister was elected President and Chief Executive Officer. Mr. Meister devotes approximately 50% of his time to the performance of services for AREP and its subsidiaries. Messrs. Saldarelli and Hirsch devote all of their time to the performance of services for AREP and its subsidiaries.

(3) Represent matching contributions under AREP's 401(k) plan. In 2004, AREP made a matching contribution to the employee's individual plan account in the amount of one-third of the first six (6%) percent of gross salary contributed by the employee.

Each of our executive officers may perform services for our affiliates which are reimbursed to us. However, Mr. Meister devotes approximately 50% of his time, to services for our businesses. He is compensated by affiliates of Mr. Icahn for the services he provides in connection with their businesses. His compensation from such affiliates includes a base salary and additional compensation, including incentive compensation.

Employment Agreements

ACEP and Richard P. Brown, its President and Chief Executive Officer, entered into a two-year employment agreement effective April 1, 2004, or the Brown Agreement. The Brown agreement provides that Mr. Brown will be paid a base annual compensation of $500,000. The agreement also provides that Mr. Brown will receive an annual bonus of up to 50% of base compensation. The Brown Agreement further provides that if Mr. Brown is terminated without "Cause" (as defined in the Brown Agreement) or there is a "Change of Control" as defined in the Brown Agreement), then Mr. Brown will receive an immediate severance payment in the amount equal to the then current Base Salary. Mr. Brown was paid a bonus in 2004 for the year ended December 31, 2003 and a $250,000 bonus in 2005 for the year ended December 31, 2004.

Director Compensation

Each executive officer and director will hold office until his successor is elected and qualified. Directors who are also audit committee members received quarterly fees of $7,500 in 2004 and may receive additional compensation for special committee assignments. In 2004, Messrs. Wasserman, Nelson and Leidesdorf received audit and special committee fees of $50,030, $41,217 and $41,020, respectively. Mr. Icahn does not receive director's fees or other fees or compensation from us.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of May 1, 2005, affiliates of Mr. Icahn, including High Coast Limited Partnership, a Delaware limited partnership, owned 39,896,836 Depositary Units, or approximately 86.5% of the outstanding Depositary Units, and 9,346,038 preferred units, or approximately 86.5% of the outstanding preferred units.

The affirmative vote of unitholders holding more than 75% of the total number of all Depositary Units then outstanding, including Depositary Units held by API and its affiliates, is required to remove API as the general partner. Thus, since Mr. Icahn, through affiliates, holds approximately 86.5% of the Depositary Units outstanding, API will not be able to be removed pursuant to the terms of our partnership agreement without Mr. Icahn's consent. Moreover, under the partnership agreement, the affirmative vote of API and unitholders owning more than 50% of the total number of all outstanding Depositary Units then held by unitholders, including affiliates of Mr. Icahn, is required to approve, among other things, selling or otherwise disposing of all or substantially all of our assets in a single sale or in a related series of multiple sales, our dissolution or electing to continue our partnership in certain instances, electing a successor general partner, making certain amendments to the partnership agreement or causing us, in our capacity as sole limited partner of AREH, to consent to certain proposals submitted for the approval of the limited partners of AREH. Accordingly, as affiliates of Mr. Icahn hold in excess of 50% of the Depositary Units outstanding, Mr. Icahn, through affiliates, has effective control over such approval rights.

The following table provides information, as of May 1, 2005, as to the beneficial ownership of our Depositary Units and preferred units for (1) each person known to us to be the beneficial owner of more than 5% of either our Depositary Units and preferred units, (2) each director of API, (3) each of our named executive oficers and (4) all directors and executive officers of API as a group.

NAME OF BENEFICIAL OWNER	BENEFICIAL OWNERSHIP OF DEPOSITARY UNITS	PERCENT OF CLASS	BENEFICIAL OWNERSHIP OF PREFERRED UNITS(2)	PERCENT OF CLASS
Carl C. Icahn(1)	39,896,836	86.5%	9,346,038	86.5%
William A. Leidesdorf				
James L. Nelson				
Jack G. Wasserman				
Keith A. Meister				
Jon F. Weber				
Martin L. Hirsch				
John P. Saldarelli				
Bob Alexander				
Richard P. Brown				
All directors and executive officers as a group (ten persons)	39,896,836	86.5%	9,346,038	86.5%

(1) Carl C. Icahn, through affiliates, is the beneficial owner of the 39,896,836 Depositary Units set forth above and may also be deemed to be the beneficial owner of the 700 Depositary Units owned of record by API Nominee Corp., which in accordance with state law are in the process of

being turned over to the relevant state authorities as unclaimed property; however, Mr. Icahn disclaims such beneficial ownership. The foregoing is exclusive of a 1.99% ownership interest which API holds by virtue of its 1% general partner interest in each of us and AREH. Furthermore, pursuant to a registration rights agreement entered into by affiliates of Mr. Icahn, we have agreed to pay any expenses incurred in connection with two demand and unlimited piggy-back registrations requested by affiliates of Mr. Icahn.

(2)

Upon the closing of the Acquisitions, AREP will issue an aggregate of up to 16,068,966 Depositary Units to affiliates of Mr. Icahn in consideration for the acquisition of the managing membership interest of NEG Holding, Panaco's equity and the securities of GB Holdings and Atlantic Holdings. The number of Depositary Units to be issued does not include up to an additional 206,897 Depositary Units that may be issued to affiliates of Mr. Icahn if Atlantic Holdings meets certain earnings targets during 2005 and 2006, as described above. Giving effect to the issuance of an additional 16,068,966 Depositary Units, Mr. Icahn would beneficially own approximately 90.1% of our Depositary Units.

INTERESTS OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON AND CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As discussed above, affiliates of Mr. Icahn currently own approximately 86.5% of our Depositary Units and preferred units and, as a result of the Acquisitions, they will increase their holdings in us to up to approximately 90.1% of our Depositary Units. Please see above for more information about the current and post-Acquisitions holdings by affiliates of Mr. Icahn.

Related Transactions with our General Partner and its Affiliates

Preferred and Depositary Units

Mr. Icahn, in his capacity as majority unitholder, will not receive any additional benefit with respect to distributions and allocations of profits and losses not shared on a pro rata basis by all other unitholders. In addition, Mr. Icahn has confirmed to us that neither he nor any of his affiliates will receive any fees from us in consideration for services rendered in connection with non-real estate related investments by us. We may determine to make investments in which Mr. Icahn or his affiliates have independent investments in such assets. We may enter into other transactions with API and its affiliates, including, without limitation, buying and selling assets from or to API or its affiliates and participating in joint venture investments in assets with API or its affiliates, whether real estate or non-real estate related, provided the terms of all such transactions are fair and reasonable to us. Furthermore, it should be noted that our partnership agreement provides that API and its affiliates are permitted to have other business interests and may engage in other business ventures of any nature whatsoever, and may compete directly or indirectly with our business. Mr. Icahn and his affiliates currently invest in and perform investment management services with respect to assets that may be similar to those we may invest in and intend to continue to do so; pursuant to the partnership agreement, however, we shall not have any right to participate therein or receive or share in any income or profits derived therefrom. Pursuant to a registration rights agreement, Mr. Icahn has certain registration rights with regard to the preferred units.

For the years ended December 31, 2004 and 2003, we made no payments with respect to the Depositary Units owned by API. However, in 2004 and 2003, API was allocated approximately $3.3 million and approximately $1.2 million, respectively, of our net earnings (exclusive of the earnings of NEG, TransTexas Gas Corporation, or TransTexas, and Arizona Charlie's Decatur and Arizona Charlie's Boulder, or the Arizona Charlie's entities, allocated to API prior to the acquisitions of NEG, TransTexas and the Arizona Charlie's entities) as a result of its combined 1.99% general partner interests in us and AREH.

On March 31, 2004, Mr. Icahn received 423,856 preferred units as part of our scheduled annual preferred unit distribution and received 445,043 preferred units on March 31, 2005 as part of our scheduled annual preferred unit distribution.

Pursuant to a registration rights agreement, Mr. Icahn has certain registration rights with regard to the Depositary Units.

Oil and Gas

Purchases of Debt

On December 6, 2004, AREP Oil & Gas, which is our indirect subsidiary, pursuant to a purchase agreement and related assignment and assumption agreement, each dated as of that date, with Thornwood, purchased $27.5 million aggregate principal amount of the TransTexas Notes. The purchase price for the TransTexas Notes was $28.2 million, which equaled the principal amount of the TransTexas Notes plus accrued but unpaid interest. The TransTexas Notes are payable in five annual installments, the first four of which are of $5 million, with the final installment of the unpaid principal payable on August 28, 2008. Interest is payable semi-annually on March 1 and September 1, at the rate of 10% per annum. The TransTexas Notes are secured by a first priority lien on all of TransTexas' assets. Thornwood and TransTexas each is controlled by Mr. Icahn.

On December 6, 2004, AREP Oil & Gas, pursuant to a membership interest purchase agreement and related assignment and assumption agreement, each dated as of that date, by and among AREP Oil & Gas, as purchaser, and Arnos, High River and Hopper Investments, as sellers, purchased all of the membership interests of Mid River for an aggregate purchase price of $38.1 million. The assets of Mid River consisted of $38.0 million principal amount of the Panaco Debt. The purchase price for the membership interests in Mid River equaled the outstanding principal amount of the Panaco Debt, plus accrued but unpaid interest. The principal is payable in 27 equal quarterly installments of $1.4 million commencing on March 15, 2005, through and including September 15, 2011. Interest is payable quarterly at a rate per annum equal to the LIBOR daily floating rate plus four percent. The term loan is secured by first priority liens on all of Panaco's assets. Each of the sellers and Panaco is controlled by Mr. Icahn.

Each of the purchases described above was separately approved by our Audit Committee. Our Audit Committee was advised as to each transaction by its independent financial advisor and legal counsel. Our Audit Committee received an opinion as to the fairness to AREP of the consideration, from a financial point of view.

NEG Holding Ownership

NEG owns a membership interest in NEG Holding. The other membership interest in NEG Holding is held by Gascon. Gascon is the managing member of NEG Holding. NEG Holding owns NEG Operating which is engaged in the business of oil and gas exploration and production with properties located on-shore in Texas, Louisiana, Oklahoma and Arkansas. NEG Operating owns interests in wells managed by NEG. Under the Operating Agreement, NEG is to receive guaranteed payments of approximately $32.0 million and a priority distribution of approximately $148.6 million before Gascon receives any distributions. The Operating Agreement contains a provision that allows Gascon, or its successor, at any time, in its sole discretion, to redeem NEG's membership interest in NEG Holding at a price equal to the fair market value of the interest determined as if NEG Holding had sold all of its assets for fair market value and liquidated. A determination of the fair market value of such assets will be made by an independent third party jointly engaged by Gascon and NEG.

Management Agreements

The management and operation of each of NEG Operating, TransTexas and Panaco is undertaken by NEG pursuant to a separate management agreement with each. In 2004, NEG recorded management fees of $6.2 million, $4.7 million and $0.7 million from NEG Operating, TransTexas and Panaco, respectively.

Purchase Agreements

For a description of the purchase agreements, see Item 1 The Acquisitions, above.

Hotel and Casino Operations

On January 5, 2004, ACEP, our wholly-owned subsidiary, entered into an agreement to acquire two Las Vegas hotels and casinos, Arizona Charlie's Decatur and Arizona Charlie's Boulder from Mr. Icahn and an entity affiliated with Mr. Icahn, for aggregate consideration of $125.9 million. The closing of the acquisition occurred on May 26, 2004. The terms of the acquisition were approved by the Audit Committee, which received an opinion from its financial advisor as to the fairness of the consideration to be paid from a financial point of view.

As of May 26, 2004, we have entered into an intercompany services arrangement with Atlantic Coast Entertainment Holdings, Inc., the owner of The Sands Hotel and Casino in Atlantic City, New Jersey, which is controlled by affiliates of Mr. Icahn. We are compensated based upon an allocation of salaries plus an overhead charge of 15% of the salary allocation, and reimbursement of reasonable out-of-pocket expenses. During 2004, we billed for services provided in an amount equal to approximately $387,500.

As of December 31, 2004, we were owed approximately $388,000 for reimbursable expenses from related parties.

On December 27, 2004, AREP Sands, pursuant to a note purchase agreement, dated as of that date, with Barberry and Cyprus, purchased $37.0 million principal amount of 3% Notes due 2008 issued by Atlantic Holdings for cash consideration of $36.0 million. Interest on the notes is payable in kind, accreting annually at a rate of 3%. The notes are convertible, under certain circumstances, into 65.909 shares of common stock of Atlantic Holdings for each $1,000 of principal amount of such notes and are secured by all existing and future assets of Atlantic Holdings and ACE Gaming. Each of Cyprus and Barberry is controlled by Mr. Icahn.

The purchase described above was approved by the Audit Committee. The Audit Committee received advice from its independent financial advisor and legal counsel. Our Audit Committee received an opinion from its financial advisor as to the fairness of the consideration to be paid by AREP Sands for the notes from a financial point of view.

Partnership Provisions Concerning Property Management

API and its affiliates may receive fees in connection with the acquisition, sale, financing, development, construction, marketing and management of new properties acquired by us. As development and other new properties are acquired, developed, constructed, operated, leased and financed, API or its affiliates may perform acquisition functions, including the review, verification and analysis of data and documentation with respect to potential acquisitions, and perform development and construction oversight and other land development services, property management and leasing services, either on a day-to-day basis or on an asset management basis, and may perform other services and be entitled to fees and reimbursement of expenses relating thereto, provided the terms of such transactions are fair and reasonable to us in accordance with our partnership agreement and customary

to the industry. It is not possible to state precisely what role, if any, API or any of its affiliates may have in the acquisition, development or management of any new investments. Consequently, it is not possible to state the amount of the income, fees or commissions API or its affiliates might be paid in connection therewith since the amount thereof is dependent upon the specific circumstances of each investment, including the nature of the services provided, the location of the investment and the amount customarily paid in such locality for such services. Subject to the specific circumstances surrounding each transaction and the overall fairness and reasonableness thereof to us, the fees charged by API and its affiliates for the services described below generally will be within the ranges set forth below:

Property Management and Asset Management Services. To the extent that we acquire any properties requiring active management (e.g., operating properties that are not net-leased) or asset management services, including on site services, we may enter into management or other arrangements with API or its affiliates. Generally, it is contemplated that under property management arrangements, the entity managing the property would receive a property management fee (generally 3% to 6% of gross rentals for direct management, depending upon the location) and under asset management arrangements, the entity managing the asset would receive an asset management fee (generally .5% to 1% of the appraised value of the asset for asset management services, depending upon the location) in payment for its services and reimbursement for costs incurred.

Brokerage and Leasing Commissions. We also may pay affiliates of API real estate brokerage and leasing commissions (which generally may range from 2% to 6% of the purchase price or rentals depending on location; this range may be somewhat higher for problem properties or lesser-valued properties).

Lending Arrangements. API or its affiliates may lend money to, or arrange loans for, us. Fees payable to API or its affiliates in connection with such activities include mortgage brokerage fees (generally .5% to 3% of the loan amount), mortgage origination fees (generally .5% to 1.5% of the loan amount) and loan servicing fees (generally .10% to .12% of the loan amount), as well as interest on any amounts loaned by API or its affiliates to us.

Development and Construction Services. API or its affiliates may also receive fees for development services, generally 1% to 4% of development costs, and general contracting services or construction management services, generally 4% to 6% of construction costs.

There were not any fees paid under these provisions during 2004, 2003 or 2002.

Other Related Transactions

As of December, 2004, we owned approximately 443,000 shares, or 4.4%, of common stock of Philip Services Corporation and $0.1 million principal amount of unsecured, subordinated payment-in-kind debt. The debt matures December 31, 2010 and bears interest at 3.6% per annum. Philip is an affiliate of Mr. Icahn.

For the years ended December 31, 2004 and 2003, we paid approximately $325,000 and $273,000, respectively, to an affiliate, XO Communications, Inc. of API for telecommunication services.

In 1997, we entered into a license agreement for a portion of office space from an affiliate of API. Pursuant to the license agreement, we have the non-exclusive use of approximately 2,275 square feet for which we pay monthly rent of $11,185 plus 10.77% of certain "additional rent." The agreement which expired in May 2004, has been extended on a month-to-month basis. For the year ended December 31, 2004, we paid an affiliate of API approximately $162,000, of rent in connection with this

licensing agreement. The terms of such license agreement were reviewed and approved by our Audit Committee.

We may also enter into other transactions with API and its affiliates, including, without limitation, buying and selling properties and borrowing and lending funds from or to API or its affiliates, joint venture developments and issuing securities to API or its affiliates in exchange for, among other things, assets that they now own or may acquire in the future, provided the terms of such transactions are fair and reasonable to us. API is also entitled to reimbursement by us for all allocable direct and indirect overhead expenses, including, but not limited to, salaries and rent, incurred in connection with the conduct of our business.

In addition, our employees may, from time to time, provide services to affiliates of API, with us being reimbursed therefor. Reimbursement to us by such affiliates in respect of such services is subject to review and approval by our Audit Committee. For the year ended December 31, 2004, we received approximately $80,000 for such services. Also, an affiliate of API provided certain administrative services to us for the amount of approximately $82,000 in the year ended December 31, 2004.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act. The Exchange Act file number for our SEC filings is 1-9516. You may read any document we file at the SEC's public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC toll free at 1-800-SEC-0330 for information about its public reference rooms. We file information electronically with the SEC. Our SEC filings are available from the SEC's Internet site at *http: //www.sec.gov*.

Our internet address is *http://www.areplp.com*. The information contained on our website is not part of this proxy statement and is not incorporated by reference in this proxy statement.

DELIVERY OF DOCUMENTS TO SECURITY HOLDERS SHARING AN ADDRESS

Only one copy of this proxy statement is being delivered to multiple unitholders sharing an address unless we have received contrary instructions from one or more of the unitholders. Upon written or oral request, we will promptly deliver a separate copy of the proxy statement to a unitholder at a shared address to which a single copy of the documents was delivered. If you share an address and are now receiving multiple copies of our mailings to unitholders and would prefer to receive one copy, or, if you are receiving a single copy for several persons and wish to receive your own copy, please contact us by telephone at (914) 242-7700 or write to American Real Estate Partners, L.P., 100 South Bedford Road, Mount Kisco, NY 10549, attention: John P. Saldarelli.

June 3, 2005

BY ORDER OF THE BOARD OF DIRECTORS
/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.

INDEX TO APPENDICES

APPENDIX A: AMERICAN REAL ESTATE PARTNERS, L.P.

OUR COMPANY

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; 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.

In continuation of our strategy to grow our core businesses, we have recently acquired, and have entered into agreements to acquire, additional gaming and entertainment and oil and gas assets from affiliates of Mr. Icahn.

NEG Holding LLC. We currently own 50.01% of the outstanding common stock of National Energy Group, Inc., or NEG, and all of its approximately $148.6 million aggregate principal amount of notes. NEG owns a membership interest in NEG Holding LLC. NEG Holding owns 100% of NEG Operating LLC, an oil and gas exploration and production company. We have entered into an agreement to acquire the membership interest in NEG Holding not owned by NEG for an aggregate of up to 11,344,828 depositary units, with an aggregate valuation of up to $329.0 million, based on the closing market price of AREP's Depositary Units as of January 19, 2005 of $29.00 per unit subject to reduction under certain circumstances.

TransTexas Gas Corporation. On December 6, 2004, we purchased $27.5 million aggregate principal amount of term notes issued by TransTexas, which constitutes 100% of the outstanding term notes of TransTexas. On April 6, 2005, we acquired 100% of the equity of TransTexas, an oil and gas exploration and production company, for a purchase price of $180.0 million in cash.

Panaco, Inc. On December 6, 2004, we purchased $38.0 million aggregate principal amount of term loans issued by Panaco, which constitutes 100% of the outstanding term loans of Panaco, or the Panaco Debt. We have entered into an agreement to acquire 100% of the common stock of Panaco, an oil and gas exploration and production company, for up to 4,310,345 depositary units with an aggregate of up to $125.0 million, based on the closing market price of AREP's Depositary Units as of January 19, 2005 of $29.00 per unit subject to reduction under certain circumstances.

GB Holdings, Inc. As of March 31, 2005, we own approximately 36.3% of the outstanding common stock of GB Holdings. On December 27, 2004, we purchased $37.0 million principal amount of the convertible debt issued by GB Holdings' subsidiary, Atlantic Coast Entertainment Holdings, Inc., or Atlantic Holdings, bringing our ownership of that debt to approximately $63.9 million principal amount ($28.8 million of which has been converted into shares of common stock of Atlantic Holdings), or approximately 96.4% of the principal amount outstanding. Atlantic Holdings owns 100% of ACE Gaming LLC, the owner and operator of The Sands Hotel and Casino located in Atlantic City, New Jersey. We have entered into an agreement to acquire an additional approximate 41.2% of the outstanding common stock of GB Holdings and approximately 11.3% of the fully diluted common stock of Atlantic Holdings for an aggregate of $12.0 million of Depositary Units, plus an aggregate of up to $6.0 million of Depositary Units, if GB Holdings meets certain earnings targets during 2005 and 2006. Upon completion of the Acquisitions, we will own approximately 77.5% of the outstanding GB Holdings common stock and approximately 63.4% of the fully diluted common stock of Atlantic Holdings.

Rental Real Estate. Our rental real estate operations consist primarily of retail, office and industrial properties leased to single corporate tenants. To capitalize on favorable real estate market conditions and the mature nature of our commercial real estate portfolio, we have offered for sale our rental real estate portfolio. During the year ended December 31, 2004, we sold 57 rental real estate properties for approximately $245.4 million. These properties were encumbered by mortgage debt of approximately $93.8 million that we repaid from the sale proceeds. As of December 31, 2004, we owned 71 rental real estate properties with a book value of approximately $196.3 million, individually encumbered by mortgage debt which aggregated approximately $91.9 million. In the three months ended March 31, 2005, we sold four rental real estate properties and a golf resort for approximately $51.9 million which were encumbered by mortgage debt of approximately $10.7 million repaid from the sale proceeds.

Of the five properties, we sold one financing lease property for approximately $8.4 million encumbered by mortgage debt of approximately $3.8 million. The carrying value of this property was approximately $8.2 million; therefore, we recognized a gain on sale of approximately $0.2 million in the three months ended March 31, 2005, which is included in income from continuing operations. We sold four operating properties for approximately $43.5 million encumbered by mortgage debt of approximately $6.9 million. The carrying value of these properties was approximately $24.8 million. We recognized a gain on sale of approximately $18.7 million in the three months ended March 31, 2005, which is included in income from discontinued operations.

At March 31, 2005, we had 11 properties under contract or as to which letters had been executed by potential purchasers, all of which contracts or letters of intent are subject to purchaser's due diligence and other closing conditions. Selling prices for the properties covered by the contracts or letters of intent would total approximately $45.5 million. These properties are encumbered by mortgage debt of approximately $25.3 million. At March 31, 2005, the carrying value of these properties is approximately $29.1 million.

Real Estate Development. Our real estate development operations focus primarily on the acquisition, development, construction and sale of single-family homes, custom-built homes, multi-family homes and lots in subdivisions and planned communities. We currently are developing seven residential subdivisions. Two subdivisions are in Westchester County, New York, one subdivision is in Putnam County, New York and one subdivision is in Naples, Florida. In addition, we are pursuing the development of our New Seabury property, a luxury second-home waterfront community in Cape Cod, Massachusetts, and Grand Harbor and Oak Harbor, waterfront communities in Vero Beach, Florida, which we acquired in July 2004 for approximately $75.0 million.

Hotel and Resort Operations. Our hotel and resort operations primarily consist of our New Seabury resort located in Cape Cod, Massachusetts. The property currently includes a golf club with two 18 hole championship golf courses, the Popponesset Inn, which is a casual waterfront dining and wedding facility, a private beach club, a fitness center and a 16 court tennis facility.

Hotel and Casino Operations. Our hotel and casino operations currently consist of the Stratosphere Casino Hotel & Tower, Arizona Charlie's Decatur and Arizona Charlie's Boulder, all in Las Vegas, Nevada. In addition, we own approximately 36.3% of the common stock of GB Holdings and approximately $63.9 million principal amount of the convertible debt of Atlantic Holdings ($28.8 million of which has been converted into shares of common stock of Atlantic Holdings), or approximately 96.4% of the principal amount outstanding. GB Holdings indirectly owns The Sands Hotel and Casino in Atlantic City, New Jersey. We have entered into an agreement with affiliates of Mr. Icahn to acquire an additional approximate 41.2% of the outstanding common stock of GB Holdings and an additional approximate 11.3% of the fully diluted common stock of Atlantic Holdings. See "The Acquisitions."

Oil and Gas. Our oil and gas operations involve the exploration, development and acquisition of oil and gas properties and the production and sale of oil and gas. In addition to owning 50.01% of the

outstanding common stock of NEG, we own all of its approximately $148.6 million principal amount of 10¾% senior notes due 2006, or the NEG Notes. NEG owns a 50% a membership interest in NEG Holding which owns 100% of NEG Operating. NEG Operating is engaged in the exploration and production of oil and gas and, at March 31, 2005, owned interests in approximately 700 wells located in Arkansas, Louisiana, Oklahoma and Texas. We have entered into agreements with affiliates of Mr. Icahn to acquire the other membership interest in NEG Holding and 100% of the common stock of Panaco. Panaco is engaged in the exploration and production of oil and gas, primarily on the Gulf of Mexico and the Gulf Coast Region, and, at March 31, 2005, owned interests in 123 wells. On April 6, 2005, we acquired 100% of the equity of TransTexas. TransTexas is engaged in the exploration, production and transmission of oil and gas, primarily in South Texas, and, at March 31, 2005, owned interests in 48 wells. NEG manages the operations of NEG Operating, TransTexas and Panaco. See "The Acquisitions."

Investments. We seek to purchase undervalued securities to maximize our returns. Undervalued securities are those which we believe may have greater inherent value than indicated by their then current trading price and may present the opportunity for "activist" bondholders or shareholders to act as catalysts to realize value. During 2004, our significant investment activity included:

- the purchase for approximately $205.8 million of an aggregate of approximately $278.1 million principal amount of secured bank debt of WestPoint Stevens, Inc. Approximately $193.6 million principal amount is secured by a first priority lien of certain assets of WestPoint, and approximately $84.5 million principal amount is secured by a second priority lien. WestPoint is currently operating as a debtor-in-possession under Chapter 11 of the U.S. Bankruptcy Code;

- the purchase of an aggregate of approximately $71.8 million of secured bank debt of Union Power Partners L.P. and Panda Gila River L.P., independent power producers, for a purchase price of approximately $39.3 million;

- the sale, for $82.3 million, of approximately $86.9 million principal amount of corporate debt securities, which we purchased for approximately $45.1 million, resulting in a gain of $37.2 million; and

- the short sale of approximately 2.5 million shares of common stock of a company in bankruptcy.

In the three months ended March 31, 2005, we purchased approximately $66.5 million of equity securities. Such securities are treated as available for sale. In the three months ended March 31, 2005, we recorded in Partners' Equity approximately $2.4 million of unrealized losses on such securities.

Additionally, we engage in real estate lending, including making second mortgage or secured mezzanine loans to developers for the purpose of developing single-family homes, luxury garden apartments or commercial properties.

Business Strategy

We believe that we have developed significant management strength, industry relationships and expertise in our core real estate, gaming and entertainment and oil and gas businesses. The Acquisitions will increase our focus on our gaming and entertainment and gas businesses.

We also believe that our core strengths include:

- identifying and acquiring undervalued assets and businesses, often through the purchase of distressed securities;

- increasing value through management, financial or other operational changes; and

managing complex legal, regulatory or financial issues which may include bankruptcy or insolvency, environmental, zoning, permitting and licensing issues.

The key elements of our business strategy include the following.

Continue to Invest In and Grow Our Existing Operating Businesses. We believe that we have developed a strong portfolio of businesses with experienced management teams. We may expand our existing businesses if appropriate opportunities are identified, as well as use our established businesses as a platform for additional Acquisitions in the same or other areas.

Seek to Acquire Undervalued Assets. We intend to continue to make investments in real estate and in companies or their securities which are undervalued. These may be undervalued due to market inefficiencies, may relate to opportunities in which economic or market trends have not been identified and reflected in market value, or may include investments in complex or not readily followed businesses or securities. Market inefficiencies and undervalued situations may arise from disappointing financial results, liquidity or capital needs, lowered credit ratings, revised industry forecasts or legal complications. We may acquire businesses or assets directly or we may establish an ownership position through the purchase of debt or equity securities of troubled entities and may then negotiate for the ownership or effective control of their assets.

Actively Manage Our Businesses. We believe that we can leverage off of our core businesses to better assess and increase the value of our Acquisitions. For instance, our homebuilding expertise allows us to appropriately assess the risks of a real estate development prior to making a mezzanine loan and also to complete a development if it is necessary or profitable to do so.

Deploy Operating and Transaction Structuring Expertise of Existing Management Team into Related Fields. Our management team has extensive experience in acquiring, developing and operating real estate, hotel and casino and oil and gas businesses and in identifying and acquiring undervalued assets. We believe there is significant opportunity to use this experience by acquiring or starting businesses in asset-intensive sectors, including other real estate development activities, industrial manufacturing, energy and insurance and asset management, in which we have had no or limited experience to date, but which may be undervalued and have potential for growth.

Reasons for the Acquisitions

The Panaco and NEG Holding Acquisitions

The potential strategic benefits of the Panaco and NEG Holding Acquisitions, including:

the ability to expand and diversify AREP's 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 as NEG, the manager of each company;

the ability to build upon our significant management strength in the oil and gas industry;

the ability of the company to better compete with other participants in the oil and gas industry;

The GB Holdings and Atlantic Holdings Acquisition

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

the ability to expand AREP's investment in the Sands Hotel and Casino 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 Hotel and Casino under the same ownership as that of AREP's existing gaming properties;

the improvements, additions and enhancements of The Sands' capital expenditure program;

Completed Acquisitions

On December 6, 2004, AREP Oil & Gas LLC, pursuant to a membership interest purchase agreement and related assignment and assumption agreement with Arnos Corp., High River Limited Partnership and Hopper Investments LLC, purchased all of the membership interests of Mid River LLC for an aggregate purchase price of $38.1 million, which equaled the principal amount of the Panaco Debt plus accrued but unpaid interest. The assets of Mid River consisted of $38.0 million principal amount of the Panaco Debt. Arnos, High River and Hopper Investments are controlled by Mr. Icahn.

On December 27, 2004, AREP Sands Holding LLC, our indirect subsidiary, pursuant to a note purchase agreement with Barberry Corp. and Cyprus, LLC, purchased $37.0 million principal amount of 3% notes due 2008 issued by Atlantic Holdings, or the Atlantic Holdings Notes. The purchase price was $36.0 million. The Atlantic Holdings notes are convertible, under certain circumstances, into 65.909 shares of common stock of Atlantic Holdings for each $1,000 of principal amount of such notes and are secured by all existing and future assets of Atlantic Holdings and ACE Gaming. Cyprus and Barberry are controlled by Mr. Icahn.

On April 6, 2005, the merger of TransTexas Gas Corporation with and into National Onshore LP, an indirect wholly-owned subsidiary of AREP, closed at a price of $180 million in cash.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table summarizes certain selected historical consolidated financial data of AREP, which you should read in conjunction with its financial statements and the related notes contained in this proxy statement and "Management's Discussion and Analysis of Supplemental Financial Condition and Results of Operations." The selected historical consolidated financial data as of December 31, 2004 and 2003, and for the years ended December 31, 2004, 2003 and 2002, have each been derived from our audited consolidated financial statements at those dates and for those periods, contained elsewhere in this proxy statement. The selected historical consolidated financial data as of December 31, 2002 and 2001 and for the year ended December 31, 2001 have each been derived from our audited consolidated financial statements at that date and for that period, not contained in this proxy statement. The selected historical consolidated financial data as of and for the year ended December 31, 2000 has been derived from our consolidated financial statements (unaudited) at that date and for that period. The selected historical consolidated financial data as of March 31, 2005 and for the three months ended March 31, 2005 and 2004 are unaudited. For the three month periods ended March 31, 2005 and 2004, all adjustments, consisting only of normal recurring adjustments, which are, in our opinion, necessary for a fair presentation of the interim consolidated financial statements, have been included. Results for the three months ended March 31, 2005 and 2004 are not necessarily indicative of the results for the full year.

	Three Months Ended March 31,		Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
	(in $000's, except per unit amounts)						
Total revenues	$ 130,623	$ 102,219	$ 452,012	$ 368,946	$ 434,652	$ 414,545	$ 378,179
Operating income	$ 25,670	$ 24,142	$ 88,837	$ 68,979	$ 79,387	$ 63,938	$ 66,356
Other gains (losses):							
Gain on sale of marketable equity and debt securities		28,857	40,159	2,607		6,749	
Unrealized gains (losses) on securities sold short	21,704		(23,619)				
Impairment loss on equity interest in GB Holdings, Inc.			(15,600)				
(Loss) gain on sale of other assets	(180)	(4)		(1,503)	(353)	27	
Gain on sales and disposition of real estate	186	6,047	5,262	7,121	8,990	1,737	6,763
Write-down of marketable equity and debt securities and other investments				(19,759)	(8,476)		
(Loss) gain on limited partnership interests					(3,750)		3,461
Minority interest					(1,943)	(450)	(2,747)
Income from continuing operations before income taxes	47,380	59,042	95,039	57,445	73,855	72,001	73,833
Income tax (expense) benefit	(7,650)	(6,169)	(16,763)	1,573	(10,096)	25,664	379
Income from continuing operations	39,730	52,873	78,276	59,018	63,759	97,655	74,212
Discontinued operations:							
Income from discontinued operations	957	3,218	7,500	7,653	6,937	7,944	6,260
Gain on sales and disposition of real estate	18,723	6,929	75,197	3,353			
Total income from discontinued operations	19,680	10,147	82,697	11,006	6,937	7,944	6,260
Net earnings	$ 59,410	$ 63,020	$ 160,973	$ 70,024	$ 70,696	$ 105,609	$ 80,472

	Three Months Ended March 31,		Year Ended December 31,				
Net Earnings Attributable to:							
Limited partners	$ 58,228	$ 57,608	$ 152,507	$ 59,360	$ 63,168	$ 66,190	$ 72,225
General partner	1,182	5,412	8,466	10,664	7,528	39,419	8,247
Net earnings	$ 59,410	$ 63,020	$ 160,973	$ 70,024	$ 70,696	$ 105,609	$ 80,472

	Three Months Ended March 31,		Year Ended December 31,				
	2005	2004	2004	2003	2002(1)	2001(1)	2000(1)
	(in $000's except per unit amounts)						
Net earnings per limited partnership unit:							
Basic earnings:							
Income from continuing operations	$ 0.84	$ 1.03	$ 1.55	$ 1.00	$ 1.12	$ 1.17	$ 1.35
Income from discontinued operations	0.42	0.22	1.76	0.24	0.15	0.17	0.13
Basic earnings per LP Unit	$ 1.26	$ 1.25	$ 3.31	$ 1.24	$ 1.27	$ 1.34	$ 1.48
Weighted average limited partnership units outstanding	46,098,284	46,098,284	46,098,284	46,098,284	46,098,284	46,098,284	46,098,284
Diluted earnings:							
Income from continuing operations	$ 0.81	$ 0.93	$ 1.48	$ 0.94	$ 1.00	$ 1.05	$ 1.18
Income from discontinued operations	0.39	0.19	1.57	0.19	0.12	0.14	0.11
Diluted earnings per LP Unit	$ 1.20	$ 1.12	$ 3.05	$ 1.13	$ 1.12	$ 1.19	$ 1.29
Weighted average limited partnership units and equivalent partnership units outstanding	49,857,622	52,499,303	51,542,312	54,489,943	56,466,698	55,599,112	56,157,079
Other financial data:							
Capital expenditures (excluding property acquisitions)	$ 4,781	$ 1,658	$ 16,221	$ 33,324	$ 21,896	$ 68,199	$ 52,598

	At March 31, 2005	At December 31,				
		2004	2003	2002(1)	2001(1)	2000(1)
		(in $000's)				
Balance Sheet Data:						
Cash and cash equivalents	$ 1,245,762	$ 762,708	$ 487,498	$ 79,540	$ 83,975	$ 172,621
Hotel, casino and resort operating properties	334,931	339,492	340,229	335,121	339,201	264,566
	5,533	102,331	61,573	336,051	313,641	475,267

		At December 31,					
Investment in U.S. Government and Agency obligations							
Other investments		244,602	245,948	50,328	54,216	10,529	4,289
Total assets		2,775,685	2,263,057	1,646,606	1,706,031	1,721,100	1,566,597
Mortgages payable		4,205	91,896	180,989	171,848	166,808	182,049
Senior secured notes payable	7.85%	215,000	215,000				
Senior unsecured notes payable	8⅜%	830,679	350,598				
Senior unsecured notes payable	7⅞%	480,000					
Liability for preferred limited partnership units(1)		108,006	106,731	101,649			
Partners' equity		$ 1,360,142	$ 1,303,126	$ 1,270,214	$ 1,245,437	$ 1,136,452	$ 1,154,400

(1) On July 1, 2003, we adopted Statement of Financial Accounting Standards No. 150 (SFAS 150), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 requires that a financial instrument, which is an unconditional obligation, be classified as a liability. Previous guidance required an entity to include in equity financial instruments that the entity could redeem in either cash or stock. Pursuant to SFAS 150, our preferred units, which are an unconditional obligation, have been reclassified from "Partners' equity" to a liability account in the consolidated balance sheets and the preferred pay-in-kind distribution for the period from July 1, 2003 to December 31, 2003 of $2.4 million and all future distributions have been and will be recorded as "Interest expense" in the consolidated statements of earnings.

AMERICAN REAL ESTATE PARTNERS, L.P.
SELECTED SUPPLEMENTAL AND PRO FORMA CONSOLIDATED FINANCIAL DATA

The following table summarizes certain historical and unaudited pro forma consolidated financial data for AREP, to give effect to the acquisition of TransTexas accounted for in a manner similar to a pooling of interests, which you should read in conjunction with AREP's supplemental financial statements and the related notes contained in this proxy statement and "Management's Discussion and Analysis of Supplemental Financial Condition and Results of Operations." The selected historical supplemental consolidated financial data as of December 31, 2004 and 2003, and for the years ended December 31, 2004 and 2003, have each been derived from our audited supplemental consolidated financial statements at those dates and for those periods, contained elsewhere in this proxy statement. The selected historical supplemental consolidated financial data as of March 31, 2005 and for the three months ended March 31, 2005 and 2004 have each been derived for our unaudited supplemental consolidated financial statements contained elsewhere in this proxy statement. For the three months ended March 31, 2005 and 2004, all adjustments consisting only of normal recurring adjustments, which are, in our opinion, necessary for a fair presentation of the interim supplemental consolidated financial statements have been included. Results for the three months ended March 31, 2005 and 2004 are not necessarily indicative of the results for the full year. The selected unaudited pro forma consolidated financial data as of March 31, 2005 (unaudited) and December 31, 2004 and 2003 and for the three months ended March 31, 2005 (unaudited) and the years ended December 31, 2004, 2003 and 2002 should be read in conjunction with the pro forma consolidated financial statements and related notes contained in this proxy statement.

(in $000's, except per unit amounts)

	Three Months Ended March 31,			Year Ended December 31,				
	2005	2004	2005	2004	2004	2003	2003	2002
	(Supplemental)	(Supplemental)	(Pro Forma)	(Supplemental)	(Pro Forma)	(Supplemental)	(Pro Forma)	(Pro Forma)
Total revenues	$ 144,226	$ 116,452	$ 210,874	$ 506,196	$ 768,079	$ 388,666	$ 601,647	$ 622,108
Operating income	$ 27,290	$ 22,533	$ 24,854	$ 87,159	$ 39,718	$ 61,948	$ 57,332	$ 52,589
Other gains (losses):								
Gain on sale of marketable equity and debt securities		28,857		40,159	40,159	2,607	1,653	8,712
Unrealized losses on securities sold short	21,704		21,704	(23,619)	(23,619)			(347)
Change in fair market value of derivative contract	(9,813)		(38,769)					
Impairment loss on equity interest in GB Holdings, Inc.				(15,600)	(15,600)			
Gain (loss) on sale of other assets	(180)	(4)	(180)	1,680	1,680	(1,503)	(1,531)	(538)
Gain on sales and disposition of real estate	186	6,047	190	5,262	5,034	7,121	7,121	8,990
Write-down of marketable equity and debt securities and other investments						(19,759)	(19,759)	(8,476)
Loss on limited partnership interests								(3,750)
Debt restructuring/reorganization costs			(24)		(3,084)		(1,843)	
Severance tax refund				4,468	4,468			
Dividend expense								(145)
Minority interest		(39)	932	(812)	2,074	(1,266)	2,721	(295)
Income from continuing operations before income taxes	39,187	57,394	8,707	98,697	50,830	49,148	45,694	56,740
Income tax (expense) benefit	(4,782)	(5,966)	(3,405)	(17,326)	4,565	16,750	15,792	(10,880)
Income from continuing operations	$ 34,405	$ 51,428	$ 5,302	$ 81,371	$ 55,395	$ 65,898	$ 61,486	$ 45,860

(in $000's, except per unit amounts)

Discontinued operations:								
Income from discontinued operations	957	3,218		7,500		7,653		
Gain on sales and disposition of real estate	18,723	6,929		75,197		3,353		
Total income from discontinued operations	19,680	10,147		82,697		11,006		
Net earnings	$ 54,085	$ 61,575		$ 164,068		$ 76,904		
Net earnings attributable to:								
Limited partners	$ 58,228	$ 57,608		$ 152,507		$ 59,360		
General partner	(4,143)	3,967		11,561		17,544		
Net earnings	$ 54,085	$ 61,575		$ 164,068		$ 76,904		
Net earnings per limited partnership unit:								
Basic earnings:								
Income from continuing operations	$ 0.84	$ 1.03	$ 0.17	$ 1.55	$ 0.74	$ 1.00	$ 0.72	$ 0.59
Income from discontinued operations	0.42	0.22		1.76		0.24		
Basic earnings per LP unit	$ 1.26	$ 1.25		$ 3.31		$ 1.24		
Weighted average limited partnership units outstanding	46,098,284	46,098,284	62,167,250	46,098,283	62,167,250	46,098,284	57,856,905	57,856,905
Diluted earnings:								
Income from continuing operations	$ 0.81	$ 0.93	$ 0.17	$ 1.48	$ 0.74	$ 0.94	$ 0.70	$ 0.57
Income from discontinued operations	0.39	0.19		1.57		0.19		
Diluted earnings per LP unit	$ 1.20	$ 1.12		$ 3.05		$ 1.13		
Weighted average limited partnership units outstanding	49,857,622	52,499,303	62,167,250	51,542,312	62,167,250	54,489,942	66,248,564	68,225,319
Other financial data:								
Capital expenditures (excluding property acquisitions)	$ 25,852	$ 6,106		$ 63,749	$ 150,854	$ 33,957	$ 86,841	$ 60,776
Book value per unit				$ 30.97	$ 23.76			

(in $000's)

	At March 31,		At December 31,		
	2005	**2005**	**2004**	**2004**	**2003**
	(Supplemental)	**(Pro Forma)**	**(Supplemental)**	**(Pro Forma)**	**(Supplemental)**
Balance Sheet Data:					
Cash and cash equivalents	1,250,074	1,105,723	$ 768,918	$ 1,097,810	$ 504,369
Hotel, casino and resort operating properties	334,931	503,168	339,492	511,132	340,229
Oil and gas properties	180,241	521,776	168,136	506,900	168,921
Investment in U.S. Government and Agency Obligations	74,427	74,427	102,331	102,331	61,573
Other investments	244,602	244,602	245,948	245,948	50,328
Total assets	2,935,697	3,215,728	2,408,189	3,179,167	1,831,573
Mortgages payable	80,191	80,191	91,896	91,896	180,989
Senior secured note payable 7.85% due 2012	215,000	215,000	215,000	215,000	
Senior unsecured notes payable 8 1/8% due 2012	350,679	350,679	350,598	830,598	
Senior unsecured notes payable 7 1/8% due 2013	480,000	480,000			
Liability for preferred limited partnership units	108,006	108,006	106,731	106,731	101,649
Partner's equity	1,479,125	1,505,122	1,427,435	1,477,355	1,393,347
Capital Expenditures:					
As reported	$ 25,852	N/A	$ 63,750	$ 63,750	$ 33,957
Panaco	N/A	N/A	1,994	N/A	N/A
GB Holdings, Inc.	N/A	N/A	17,378	N/A	N/A
NEG Holding	N/A	N/A	67,732	N/A	N/A
	$ 25,852	N/A	$ 63,750	$ 150,854	$ 33,957

MANAGEMENT'S DISCUSSION AND ANALYSIS OF SUPPLEMENTAL FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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; 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, insurance and asset management.

In continuation of our strategy to grow our core businesses, we have recently acquired, and have entered into agreements to acquire, additional gaming and entertainment and oil and as assets from affiliates of Mr. Icahn. See "Pending Acquisitions."

To capitalize on favorable real estate market conditions and the mature nature of our commercial real estate portfolio, we have offered our rental real estate portfolio for sale. During the year ended December 31, 2004, we sold 57 rental real estate properties for approximately $245.4 million. These properties were encumbered by mortgage debt of approximately $93.8 million that we repaid from the sale proceeds. As of December 31, 2004, we owned 71 rental real estate properties with a book value of approximately $196.3 million, individually encumbered by mortgage debt which aggregated approximately $91.9 million. As of December 31, 2004, we had entered into conditional sales contracts or letters of intent for 15 rental real estate properties. Selling prices for the properties covered by the contracts or letters of intent would total approximately $97.9 million. These properties are encumbered by mortgage debt of approximately $36.0 million. Because of the conditional nature of sales contracts and letters of intent, we cannot be certain that these properties will be sold. We continue to seek purchasers for our remaining rental real estate portfolio. We cannot be certain that we will receive offers satisfactory to us or, if we receive offers, any of the properties will ultimately be sold at prices acceptable to us. In the three months ended March 31, 2005, we sold four rental real estate properties and a golf resort for approximately $51.9 million which were encumbered by mortgage debt of approximately $10.7 million that was repaid from the sale proceeds.

Of the five properties, we sold one financing lease property for approximately $8.4 million encumbered by mortgage debt of approximately $3.8 million. The carrying value of this property was approximately $8.2 million; therefore, we recognized a gain on sale of approximately $0.2 million in the three months ended March 31, 2005, which in included in income from continuing operations. We sold four operating properties for approximately $43.5 million encumbered by mortgage debt of approximately $6.9 million. The carrying value of these properties was approximately $24.8 million. We recognized a gain on sale of approximately $18.7 million in the three months ended March 31, 2005, which is included in income from discontinued operations.

At March 31, 2005, we had 11 properties under contract or as to which letters of intent had been executed by potential purchasers, all of which contracts or letters of intent are subject to purchaser's due diligence and other closing conditions. Selling prices for the properties covered by the contracts or letters of intent would total approximately $45.5 million. These properties are encumbered by mortgage debt of approximately $25.3 million. At March 31, 2005, the carrying value of these properties is approximately $29.1 million. In accordance with generally accepted accounting principles, only the real estate operating properties under contract or letter of intent, but not the financing lease properties,

were reclassified to "Properties Held for Sale" and the related income and expense reclassified to "Income from Discontinued Operations."

Historically, substantially all of our real estate assets leased to others have been net-leased to single corporate tenants under long-term leases. With certain exceptions, these tenants are required to pay all expenses relating to the leased property and therefore we are not typically responsible for payment of expenses, such as maintenance, utilities, taxes and insurance associated with such properties.

Expenses relating to environmental clean-up related to our development and rental real estate operations have not had a material effect on our earnings, capital expenditures or competitive position. We believe that substantially all such costs would be the responsibility of the tenants pursuant to lease terms. While most tenants have assumed responsibility for the environmental conditions existing on their leased property, there can be no assurance that we will not be deemed to be a responsible party or that the tenant will bear the costs of remediation. Also, as we acquire more operating properties, our exposure to environmental clean-up costs may increase. We have completed Phase I environmental site assessments on most of our properties through third-party consultants. Based on the results of these Phase I environmental site assessments, the environmental consultant has recommended that certain sites may have environmental conditions that should be further reviewed. We have notified each of the responsible tenants to attempt to ensure that they cause any required investigation and/or remediation to be performed and most tenants continue to take appropriate action. However, if the tenants fail to perform responsibilities under their leases referred to above, we could potentially be liable for these costs. Based on the limited number of Phase II environmental site assessments that have been conducted by the consultants, there can be no accurate estimate of the need for or extent of any required remediation, or the costs thereof. Phase I environmental site assessments will also be performed in connection with new acquisitions and with such property refinancings as we may deem necessary and appropriate. We are in the process of updating our Phase I environmental site assessments for certain of our environmentally sensitive properties. Approximately 75 updates were completed in 2003. No additional material environmental conditions were discovered. Although we conducted environmental investigations in 2004 for newly acquired properties and no environmental concerns were disclosed by such investigations, we did not conduct any updates to the Phase I environmental site assessments for our remaining portfolio in 2004.

We have made investments in the gaming industry through our ownership of Stratosphere Casino Hotel & Tower in Las Vegas, Nevada and through our purchase of securities of the entity which owns The Sands Hotel and Casino in Atlantic City, New Jersey. One of our subsidiaries, formed for this purpose, entered into an agreement in January 2004 to acquire two Las Vegas hotels and casinos, Arizona Charlie's Decatur and Arizona Charlie's Boulder, from Mr. Icahn and an entity affiliated with Mr. Icahn, for aggregate consideration of $125.9 million. Upon obtaining all approvals necessary under gaming laws, the acquisition was completed in May 2004. We have entered into an agreement with affiliates of Mr. Icahn pursuant to which we 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, the indirect owner of The Sands Hotel and Casino. We are considering additional gaming industry investments. These investments may include acquisitions from, or be made in conjunction with, our affiliates, provided that the terms thereof are fair and reasonable to us.

We have entered into agreements with affiliates of Mr. Icahn to purchase the other membership interest in NEG Holding and 100% of the equity of TransTexas and Panaco, each an oil and gas exploration and production company. On April 6, 2005, we completed the purchase of TransTexas for $180.0 million of cash. A Form 8-K was filed on May 10, 2005, which included AREP's supplemental consolidated historical financial statements to give effect to the acquisition of TransTexas. See "Item

1 Business Pending Acquisitions." NEG Operating, TransTexas and Panaco are affected by extensive regulation through various federal, state and local laws and regulations relating to the exploration for and development, production, gathering and marketing of oil and gas. NEG Operating, TransTexas and Panaco are also subject to numerous environmental laws, including but not limited to, those governing management of waste, protection of water, air quality, the discharge of materials into the environment, and preservation of natural resources. Non-compliance with environmental laws and the discharge of oil, natural gas, or other materials into the air, soil or water may give rise to liabilities to the government and third parties, including civil and criminal penalties, and may require us to incur costs to remedy the discharge. Laws and regulations protecting the environment have become more stringent in recent years, and may in certain circumstances impose retroactive, strict, and joint and several liabilities rendering entities liable for environmental damage without regard to negligence or fault. We cannot assure you that new laws and regulations, or modifications of or new interpretations of existing laws and regulations, will not substantially increase the cost of compliance or otherwise adversely affect our oil and gas operations and financial condition or that material indemnity claims will not arise with respect to properties that we acquire. While we do not anticipate incurring material costs in connection with environmental compliance and remediation, we cannot guarantee that material costs will not be incurred.

In accordance with GAAP, assets transferred between entities under common control are accounted for at historical costs similar to a pooling of interests and the financial statements of previously separate companies for periods prior to the acquisition are (and, in the case of the pending acquisitions, following the closing of the acquisitions, will be) restated on a combined basis.

Supplemental Results of Operations

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

Gross revenues increased by $27.8 million, or 23.9%, during the three months ended March 31, 2005 as compared to the same period in 2004. This increase reflects increases of $8.0 million in interest income on U.S. government and agency obligations and other investments, $7.9 million in hotel and casino operating income, $4.2 million in hotel and resort operating income, $3.4 million in dividend and other income, $3.3 million in land, house and condominium sales, $2.0 million in accretion of investment in NEG Holding LLC and $0.6 million in NEG management fees, partially offset by decreases of $1.0 million in interest income on financing leases and $0.6 million in equity in earnings of GB Holdings. The increase in interest income on U.S. government and agency obligations and other investments is primarily due to increased interest income from the senior debt proceeds, increased interest income from other investment and increased interest income on debt securities of affiliates. The increase in hotel and casino operating income is primarily due to an increase in casino, hotel and food and beverage revenues. Hotel and resort operating income increased primarily due to the Grand Harbor acquisition. The increase in land, house and condominium sales is primarily due to an increase in the number of units sold.

Expenses increased by $23.0 million, or 24.5%, during the three months ended March 31, 2005 as compared to the same period in 2004. This increase reflects increases of $12.1 million in interest expense, $4.0 million in hotel and resorts operating expenses, $3.7 million in the cost of land, house and condominium sales, $3.4 million in hotel and casino operating expenses, and $3.2 million in general and administrative expenses partially offset by decreases of $2.2 million in depreciation and amortization and $0.1 million in property expenses. The increase in interest expense is primarily attributable to interest on the senior notes issued by us in May 2004 and February 2005, respectively. The increase in hotel and resort operating expenses is primarily due to the Grand Harbor acquisition. The increase in costs of land, house and condominium sales is due to increased sales as noted above. The increase in hotel and casino operating expenses is primarily attributable to increased costs

associated with increased revenues. The increase in general and administrative expenses is primarily attributable to expenses incurred by NEG in connection with the increase in NEG management fees, legal fees, the addition of Grand Harbor and state and local franchise taxes in connection with the 2004 property sales.

Operating income increased during the three months ended March 31, 2005 $4.8 million as compared to the same period in 2004 as detailed above.

Earnings from land, house and condominium operations decreased by $0.4 million in the three months ended March 31, 2005 compared to the same period in 2004 due to a decrease in margins on units sold.

Earnings from hotel and casino operating properties increased by $4.4 million during the three months ended March 31, 2005 due to increased revenues throughout the properties.

A gain on property transactions from continuing operations of $0.2 million was recorded in the three months ended March 31, 2005 as compared to $6.0 million in the same period in 2004.

Other losses of $0.2 million were recorded in the three months ended March 31, 2005. There were no significant other losses in 2004.

A gain on sale of marketable equity securities of $28.9 million was recorded in the three months ended March 31, 2004. There were no such gains in the comparable period of 2005.

Unrealized gains on securities sold short of $21.7 million were recorded in the three months ended March 31, 2005. There were no such gains in 2004.

Income from continuing operations before income taxes decreased by $18.2 million in the three months ended March 31, 2005 as compared to the same period in 2004 as detailed above.

Income tax expense of $4.8 million was recorded in the three months ended March 31, 2005 as compared to $6.0 million in the same period in 2004. Income tax expense was recorded by our corporate subsidiaries, NEG, TransTexas and American Casino.

Income from continuing operations decreased by $17.0 million in the three months ended March 31, 2005 as compared to the same period in 2004 as detailed above.

Income from discontinued operations increased by $9.5 million in the three months ended March 31, 2005, as compared to the same period in 2004 due to gains on property dispositions.

Net earnings for the three months ended March 31, 2005 decreased by $7.5 million as compared to the three months ended March 31, 2004, primarily due to decreased gain on sales of real estate from continuing operations ($5.9 million) and decreased gain on sale of marketable equity securities ($28.9 million), partially offset by unrealized gains on securities sold short ($21.7 million) and in the 2005 period increased income from discontinued operations ($9.5 million).

Calendar Year 2004 Compared to Calendar Year 2003

Gross revenues increased by $117.5 million, or 30.2%, during 2004 as compared to 2003. This increase reflects increases of $37.5 million in oil and gas operating revenues, $37.1 million in hotel and casino operating revenues, $21.8 million in interest income on U.S. government and agency obligations and other investments, $13.3 million in land, house and condominium sales, $4.3 million in accretion of investment in NEG Holding LLC, $3.8 million in hotel and resort operating income, $0.3 million in NEG management fees, $1.4 million in equity in earnings of GB Holdings, $0.8 million in rental

income, and $0.4 million in dividend and other income. These increases were partially offset by a decrease of $3.2 million in interest income on financing leases. The increase in oil and gas operating income was due to a full year of income for TransTexas compared to four months in 2003. The increase in hotel and casino operating income is primarily due to an increase in casino, hotel, and food and beverage revenues. The increase in interest income on U.S. government and agency obligations and other investments is primarily due to the repayment of two mezzanine loans, on which interest was accruing, and increased interest income from other investments. The increase in land, house and condominium sales is primarily due to sales of higher priced units. The increase in NEG management fees is primarily due to management fees received from Panaco. NEG entered into a management agreement with Panaco in November 2004. The decrease in interest income on financing leases is primarily due to property sales and reclassifications.

Expenses increased by $92.3 million, or 28.3%, during 2004, as compared to 2003. This increase reflects increases of $22.6 million in interest expense, $10.7 million in hotel and casino operating expenses, $9.4 million in cost of land, house and condominium sales, $8.8 million in oil and gas operating expenses, $6.9 million in general and administrative expenses, $27.7 million in depreciation, depletion and amortization, $4.0 million in hotel and resort operating expenses and $2.4 million in provision for loss on real estate. These increases were partially offset by a decrease of $0.2 million in property expenses. The increase in interest expense is primarily attributable to interest on the $215 million principal amount of 7.85% senior secured notes issued by American Casino, the $353 million principal amount of 8 1/8% senior notes issued by us in May 2004 and interest expense pertaining to preferred limited partnership pay-in-kind distribution. The increase in hotel and casino operating expenses is primarily attributable to increased costs associated with increased revenues. The increase in the land, house and condominium expenses is primarily attributable to increased sales as discussed above. The increase in oil and gas operating expenses of $8.8 million was due to a full year of expenses in 2004 compared to four months in 2003. The increase in general and administrative expenses is primarily attributable to expenses incurred in connection with the increase in NEG management fees and as a result of the Grand Harbor acquisition in July 2004. The increase in depreciation, depletion and amortization is primarily due to increased depreciation and amortization with respect to American Casino and a full year of depletion with respect to TransTexas compared to four months in 2003.

Operating income increased during 2004 by $25.3 million, or 40.9%, to $87.2 million from $61.9 million in 2003, as detailed above.

Earnings from land, house and condominium operations increased by $4.0 million or 96.0% to $8.1 million in 2004 due to sales of higher priced units. Based on current information, sales are expected to decrease in early 2005. However, the Company currently expects that the effects of the acquisition of Grand Harbor, completed in July 2004, and the approval in March 2004 of a 35 unit sub-division in Westchester County, New York, should provide increased earnings from these operations in the second half of 2005.

Earnings from hotel and casino operating properties increased by $26.4 million, or 57.4%, to $72.4 million during 2004 due to increased revenues at each of our three properties.

Earnings from oil and gas operating properties increased by $28.7 million, or 180.5% to $44.6 million.

Gains on sales of property transactions and other assets from continuing operations increased by $1.3 million or 23.2%, to $6.9 million, in 2004.

A gain on sale of marketable debt securities of $40.2 million was recorded in 2004, as compared to a gain of $2.6 million in 2003.

A write-down of marketable equity and debt securities and other investments of $19.8 million was recorded in 2003. There was no such write-down in 2004.

Unrealized losses on securities sold short of $23.6 million was recorded in 2004. There were no such losses in 2003. At March 1, 2005, the $23.6 million of unrealized losses has been reversed and a net gain of $3 million recorded.

An impairment loss on equity interest in GB Holdings, Inc. of $15.6 million was recorded in 2004. The impairment reflects the price, $12 million, subject to increases up to $6 million based upon Atlantic Holdings meeting earnings targets in 2005 and 2006, used in the agreement to purchase, from an affiliate of Mr. Icahn, shares of GB Holdings common stock representing approximately 41.2% of the outstanding GB Holdings common stock. The purchase price pursuant to the agreement was less than our carrying value, approximately $26.2 million, for the approximately 36.3% of the outstanding GB Holdings common stock that we own. There was no such loss in 2003.

A severance tax refund of $4.5 million was received in 2004. No such refund was received in 2003.

Minority interest in the net earnings of TransTexas was $0.8 million in 2004 as compared to $1.3 million during 2003.

Income from continuing operations before income taxes increased by $49.5 million in 2004 as compared to 2003, as detailed above.

Income tax expense of $17.3 million was recorded in 2004 as compared to a $16.8 million income tax benefit in 2003 due to a reduction in the tax valuation allowance in 2003. Income tax expense was recorded by our corporate subsidiaries NEG, TransTexas and American Casino.

Income from continuing operations increased by $15.5 million, or 23.5%, to $81.4 million in 2004.

Income from discontinued operations increased by $71.7 million to $82.7 million in 2004. This reflects our decision to capitalize on favorable real estate markets and the mature nature of our commercial real estate portfolio, which resulted in gains on property dispositions.

Net earnings for 2004 increased by $87.2 million, or 113.3%, to $164.1 million. This primarily was attributable to increased income from discontinued operations ($71.7 million), increased gain on marketable debt securities ($37.6 million), increased net oil and gas operating income ($28.7 million), increased net hotel and casino operating income ($26.4 million) and increased interest income ($21.8 million). These gains were partially offset by increased depreciation, depletion and amortization ($27.7 million) increased interest expense ($22.6 million), increase in unrealized losses on securities sold short ($23.6 million), increased income tax expense ($34.1 million) and impairment loss on equity interest in GB Holdings, Inc. ($15.6 million). Net earnings in 2003 also was affected by a write down of other investments of $19.8 million.

Upon completion of the acquisitions described in Note 29 of the consolidated financial statements, the Company will consolidate the financial statements of NEG Holding, Panaco, and GB Holdings. Certain intercompany transactions will be eliminated. As a result, certain intercompany transactions will be eliminated, including, along others, the equity interest in GB Holdings for which we recorded an impairment loss in 2004, and NEG management fees.

Calendar Year 2003 Compared to Calendar Year 2002

Gross revenues decreased by $46.0 million, or 10.6%, during 2003 as compared to 2002. This decrease reflects decreases of (1) $62.8 million in land, house and condominium sales, (2) $8.0 million

in interest income on U.S. government and agency obligations and other investments, (3) $3.8 million in equity in earnings of GB Holdings, Inc., (4) $2.7 million in accretion of investment in NEG Holding, (5) $1.6 million in financing lease income, (6) $1.0 million in NEG management fee and (7) $0.5 million in hotel and resort operating income, partially offset by increases of $20.9 million in oil and gas operating income, $12.8 million in hotel and casino operating income, $0.2 million in rental income, $0.5 million in dividend and other income. The decrease in land, house and condominium sales is primarily due to a decrease in the number of units sold, as the Grassy Hollow, Gracewood and Stone Ridge properties were depleted by sales. During 2003, Hammond Ridge received necessary approvals and, along with Penwood, have commenced lot sales. The decrease in interest income on U.S. government and agency obligations and other investments is primarily attributable to the prepayment of a loan to Mr. Icahn in 2003 and a decline in interest rates on U.S. Government and Agency obligations as higher rate bonds were called in 2002. The decrease in equity in earnings of GB Holdings, Inc. is due to decreased casino revenue primarily attributable to a reduction in the number of table games as new slot machines were added in 2002. This business strategy had a negative effect on casino operations and was changed in 2003 to focus on the mid to high-end slot customer with a balanced table game business. The decrease in accretion of investment in NEG Holding is primarily attributable to priority distributions received from NEG Holding in 2003. The decrease in financing lease income is the result of lease expirations, reclassifications of financing leases and normal financing lease amortization. The decrease in NEG management fee was due to a decrease in costs associated with NEG. The decrease in rental income is primarily attributable to property dispositions. The increase in hotel and casino operating income is primarily attributable to an increase in hotel, food and beverage revenues and a decrease in promotional allowances. The average daily room rate, or ADR, at the Stratosphere increased $3 to $51 and percentage occupancy increased approximately 0.2% to 89.8%. The ADR at Arizona Charlie's Decatur decreased $1 to $43 and percentage occupancy increased 10.9% to 85.3%. The ADR at Arizona Charlie's Boulder increased less than $1 to $43 and percentage occupancy increased 0.5% to 55.7%.

Expenses decreased by $28.5 million, or 8.0%, during 2003 as compared to 2002. This decrease reflects decreases of $45.5 million in the cost of land, house and condominium sales, $1.8 million in hotel and resort operating expenses, $1.1 million in hotel and casino operating expenses and $2.5 million in provision for loss on real estate, partially offset by increases of $5.0 million in oil and gas operating expenses, $0.6 million in rental property expenses and $16.9 million in depreciation, depletion and amortization. The decrease in the cost of land, house and condominium sales is due to decreased sales. Costs as a percentage of sales decreased from 72% in 2002 to 69% in 2003. The decrease in hotel and resort operating expenses is due to a decrease in payroll and related expenses. The decrease in hotel and casino operating expenses is primarily attributable to a decrease in selling, general and administrative expenses. Costs as a percentage of sales decreased from 87% in 2002 to 83% in 2003. A provision for loss on real estate of $0.8 million was recorded in 2003 as compared to $3.2 million in 2002. In 2002, there were more properties vacated due to tenant bankruptcies than in 2003. The increase in oil and gas operating expenses was due to no activity during 2002. The increase in depreciation, depletion and amortization was due to the inclusion of TransTexas in our operating results for four months in 2003.

Operating income decreased during 2003 by $17.4 million compared to 2002 as detailed above.

Earnings from land, house and condominium operations decreased significantly in 2003 compared to 2002 due to a decline in inventory of completed units available for sale. Based on current information, sales will increase moderately during 2004. However, municipal approval of land inventory or the purchase of approved land is required to continue this upward trend into 2005 and beyond.

Earnings from hotel, casino and resort properties could be constrained by recessionary pressures, international tensions and competition.

Earnings from oil and gas operations were $45.4 million in 2003 as compared to $33.4 million in 2002. The increase was due to the inclusion of TransTexas in our operating results in 2003.

Gain on property transactions from continuing operations decreased by $1.9 million during 2003 as compared to 2002 due to the size and number of transactions.

A loss on sale of other assets of $1.5 million was recorded in 2003 as compared to $0.4 million loss in 2002.

A write-down of marketable equity and debt securities and other investments of $19.8 million, pertaining to our investment in the Philip notes, was recorded in 2003 as compared to a write-down of $8.5 million in 2002. These write downs relate to our investment in Philip Services Corp., which filed for bankruptcy protection in June 2003.

A write-down of a limited partnership investment of $3.8 million was recorded in 2002. There was no such write-down in 2003.

A gain on sale of marketable equity securities of $2.6 million was recorded in 2003. There was no such gain in 2002.

Minority interest in the net earnings of Stratosphere Corporation was $1.9 million during 2002. As a result of the acquisition of the minority interest in December 2002, there was no minority interest in Stratosphere in 2003 or thereafter. Minority interest in the net earnings of TransTexas was $1.3 million during 2003.

Income from continuing operations before income taxes decreased by $24.7 million in 2003 as compared to 2002, as detailed above.

An income tax benefit of $16.8 million was recorded in 2003 as compared to an expense of $10.1 million in 2002. The effective tax rate on earnings of taxable subsidiaries was positively affected in 2003 by a reduction in the valuation allowance in deferred tax asset