AMERICAN REAL ESTATE PARTNERS L P
Form 10-K/A
March 31, 2006

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

Form 10-K/A

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-9516

AMERICAN REAL ESTATE PARTNERS, L.P.
(Exact name of registrant as specified in its charter)

Delaware	**13-3398766**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
100 South Bedford Road, Mt. Kisco, New York	**10549**
(Address of principal executive offices)	*(Zip Code)*

(914) 242-7700
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Depositary Units Representing Limited Partner Interests	New York Stock Exchange
5% Cumulative Pay-in-Kind Redeemable Preferred Units Representing Limited Partner Interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act from their obligations under those Securities. Yes o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated file, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of depositary units held by nonaffiliates of the registrant as of June 30, 2005, the last business day of the registrant s most recently completed second fiscal quarter, based upon the closing price of depositary units on the New York Stock Exchange Composite Tape on such date was $180,152,064.

The number of depositary and preferred units outstanding as of the close of business on March 10, 2006 was 61,856,830 and 10,800,397, respectively.

TABLE OF CONTENTS

Explanatory Note		1
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Security Holder Matter and Issuer Purchases of Equity Securities	2
Item 6.	Selected Historical Consolidated Financial Data	4
Item 7.	Management s Discussion and Analysis of Financial Conditions and Results of Operations	6
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	30
Item 8.	Financial Statements and Supplementary Data	33
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	89
Item 9A.	Controls and Procedures	89
Item 9B.	Other Information	91
	PART IV	
ITEM 15.	Exhibits and Financial Statement Schedules	92
Exhibit Index		92
Signatures		97
Schedule I		99

EX-31.1: CERTIFICATION
EX-31.2: CERTIFICATION
EX-32.1: CERTIFICATION
EX-32.2: CERTIFICATION

Table of Contents

EXPLANATORY NOTE

American Real Estate Partners, L.P. (the Company) is filing this amendment to Form 10-K for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission on March 16, 2006 to (i) include (as noted in Item 15. Exhibits, Financial Statement Schedules of the original filing) Schedule 1 Condensed Financial Information of Parent as an amendment within the 30 day filing limit, and (ii) amend certain classifications in the original filing.

Schedule I was not filed with the initial filing as additional time was required to complete the Schedule and related audit work of the Company s independent registered public accounting firms.

Additionally, we are amending the Consolidated Statements of Cash Flows contained in Item 8 of Part II. We have determined that certain transactions in our statement of cash flows related to the sales of securities not yet purchased, or short sales , and the classification of trading securities should be included in cash flows from operating activities rather than in cash flows from investing activities, as previously reported. The changes had no impact on any balance sheet or income statement amount or any cash balance. For 2005, net cash provided by operating activities, as amended by the changes, is $219.9 million instead of the previously reported $247.4 million. Cash flows used in investing activities for 2005, as amended by the changes, is $1,152.9 million instead of the previously reported $1,180.3 million. For 2004, net cash provided by operating activities is $164.0 million instead of the previously reported $97.0 million. Cash flows used in investing activities for 2004, as amended by the changes, is $341.3 million instead of the previously reported $274.3 million.

In addition, we have amended note 8 of the notes to the consolidated financial statements to reclassify certain securities to available for sale from trading to more accurately reflect the nature of the investments and we also amended the summary of Contractual Commitments included in Management s Discussion and Analyses of Financial Conditions and Results of Operations .

Except as described above, no other changes have been made to our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as initially filed with the SEC on March 16, 2006, and except as described above, this Form 10-K/A does not amend, update or change the financial statements or any other items or disclosures in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity, Related Security Holder Matter and Issuer Purchases of Equity Securities.***

Our depositary units are traded on the New York Stock Exchange, or NYSE, under the symbol ACP. The range of high and low sales prices for the depositary units on the New York Stock Exchange Composite Tape (as reported by The Wall Street Journal) for each quarter from January 1, 2004 through December 31, 2005 is as follows:

Quarter Ended:	High	Low	Dividends per Depositary Unit
March 31, 2004	$ 17.19	$ 14.46	$
June 30, 2004	21.80	15.25	
September 30, 2004	22.93	18.41	
December 31, 2004	29.23	20.00	
March 31, 2005	30.78	25.40	
June 30, 2005	29.35	26.60	
September 30, 2005	39.74	28.20	.10
December 31, 2005	39.30	28.70	.10

As of December 31, 2005, there were approximately 9,200 record holders of the depositary units.

There were no repurchases of our depositary units during 2004 or 2005.

Distributions

Distribution Policy and Quarterly Distribution

During 2005, we paid two quarterly distributions, in the third and fourth quarter, to holders of our depositary units. Each distribution was $.10 per depositary unit.

On March 15, 2006, the Board of Directors approved payment of a quarterly cash distribution of $0.10 per unit on its depositary units for the first quarter of 2006 consistent with the distribution policy adopted in 2005. The distribution is payable on April 7, 2006, to depositary unitholders of record at the close of business on March 27, 2006.

The declaration and payment of distributions is reviewed quarterly by our Board of Directors based upon a review of our balance sheet and cash flow, the ratio of current assets to current liabilities, our expected capital and liquidity requirements, the provisions of our partnership agreement and provisions in our financing arrangements governing distributions, and keeping in mind that limited partners subject to U.S. federal income tax have recognized income on our earnings without receiving distributions that could be used to satisfy any resulting tax obligations. The payment of future distributions will be determined by the Board of Directors quarterly, based upon the factors described above and other factors that it deems relevant at the time that declaration of a distribution is considered. There can be no assurance as to whether or in what amounts any future distributions might be paid.

As of March 10, 2006 there were 61,856,830 depositary units and 10,800,397 preferred units outstanding. Trading in the preferred units commenced March 31, 1995 on the NYSE under the symbol ACP-P. The preferred units represent limited partner interests in AREP and have certain rights and designations, generally as follows. Each preferred unit has a liquidation preference of $10.00 and entitles the holder to receive distributions payable solely in additional preferred units, at a rate of $.50 per preferred unit per annum (which is equal to a rate of 5% of the liquidation preference of the unit) payable annually on March 31 of each year, each referred to as a payment date.

Table of Contents

On any payment date, with the approval of our audit committee, we may opt to redeem all, but not less than all, of the preferred units for a price, payable either in all cash or by issuance of additional depositary units, equal to the liquidation preference of the preferred units, plus any accrued but unpaid distributions thereon. On March 31, 2010, we must redeem all, but not less than all, of the preferred units on the same terms as any optional redemption.

On March 31, 2005, we distributed to holders of record of our preferred units as of March 15, 2005, 514,133 additional preferred units. Pursuant to the terms of the preferred units, on February 28, 2006, we declared our scheduled annual preferred unit distribution payable in additional preferred units at the rate of 5% of the liquidation preference of $10.00. The distribution is payable on March 31, 2006 to holders of record as of March 15, 2006. In March 2006, the number of authorized preferred units was increased to 11,400,000.

Each depositary unitholder will be taxed on the unitholder s allocable share of our taxable income and gains and, with respect to preferred unitholders, accrued guaranteed payments, whether or not any cash is distributed to the unitholder.

3

Table of Contents

Item 6. ***Selected Historical Consolidated Financial Data.***

The following table summarizes certain of our selected historical consolidated financial data, which you should read in conjunction with our consolidated financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in this annual report on Form 10-K. The selected historical consolidated financial data as of December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004, and 2003, have each been derived from our audited consolidated financial statements at those dates and for those periods, contained elsewhere in this annual report Form 10-K. The selected historical consolidated financial data as of December 31, 2003, 2002 and 2001 and for the years ended December 31, 2002 and 2001 has each been derived from our audited consolidated financial statements at that date and for that period, not contained in this Form 10-K.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(In $000s except unit and per unit)				
Total revenues	$ 1,262,493	$ 670,276	$ 576,845	$ 588,061	$ 589,293
Income (loss) from continuing operations	$ (50,306)	$ 72,425	$ 58,458	$ 42,688	$ 86,739
Total income from discontinued operations	$ 23,262	$ 81,329	$ 9,962	$ 6,038	$ 7,477
Earnings (loss) before cumulative effect of accounting change	$ (27,044)	$ 153,754	$ 68,420	$ 48,726	$ 94,216
Cumulative effect of accounting change			1,912		
Net earnings (loss)	$ (27,044)	$ 153,754	$ 70,332	$ 48,726	$ 94,216
Net earnings (loss) attributable to:					
Limited partners	$ (21,640)	$ 130,850	$ 51,074	$ 63,168	$ 66,668
General partner	(5,404)	22,904	19,258	(14,442)	27,548
Net earnings (loss)	$ (27,044)	$ 153,754	$ 70,332	$ 48,726	$ 94,216
Basic earnings:					
Income (loss) from continuing operations	$ (0.82)	$ 1.11	$ 0.84	$ 1.14	$ 1.19
Income from discontinued operations	0.42	1.73	0.21	0.13	0.16
Basic earnings (loss) per LP Unit	$ (0.40)	$ 2.84	$ 1.05	$ 1.27	$ 1.35

Weighted average limited partnership units outstanding		54,085,492		46,098,284		46,098,284		46,098,284		46,098,284
Diluted earnings:										
Income (loss) from continuing operations	$	(0.82)	$	1.09	$	0.80	$	1.01	$	1.07
Income from discontinued operations		0.42		1.55		0.18		0.11		0.12
Diluted earnings (loss) per LP Unit	$	(0.40)	$	2.64	$	0.98	$	1.12	$	1.19
Weighted average limited partnership units and equivalent partnership units outstanding		54,085,492		51,542,312		54,489,943		56,466,698		55,599,112
Other financial data:										
EBITDA(2)	$	256,893	$	340,034	$	171,806	$	149,499	$	155,518
Adjusted EBITDA(2)	$	326,147	$	349,213	$	174,420	$	153,107	$	160,882
Cash dividends declared (per unit)	$	.20								

Table of Contents

	2005	2004	2003 (in $000s)	2002(1)	2001(1)
Balance sheet data:					
Cash and cash equivalents	$ 576,123	$ 806,309	$ 553,224	$ 145,195	$ 219,644
Investments	836,663	350,527	167,727	395,495	319,882
Property, plant and equipment, net	1,635,238	1,263,852	1,115,983	1,074,515	1,001,387
Total assets	3,966,462	2,861,153	2,156,892	2,002,493	2,032,297
Long term debt (including current portion)	1,435,821	759,807	374,421	435,675	530,745
Liability for preferred limited partnership units(1)	112,067	106,731	101,649		
Partners equity	1,498,449	1,641,755	1,527,396	1,387,253	1,301,810

(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.

(2) EBITDA represents earnings before interest expense, income tax (benefit) expense and depreciation, depletion and amortization. We define Adjusted EBITDA as EBITDA excluding the effect of unrealized losses or gains on derivative contracts. We present EBITDA and Adjusted EBITDA because we consider them important supplemental measures of our performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies issuing debt, many of which present EBITDA and Adjusted EBITDA when reporting their results. We present EBITDA and Adjusted EBITDA on a consolidated basis. However, we conduct substantially all of our operations through subsidiaries. The operating results of our subsidiaries may not be sufficient to make distributions to us. In addition, our subsidiaries are not obligated to make funds available to us for payment of our senior notes or otherwise, and distributions and intercompany transfers from our subsidiaries to us may be restricted by applicable law or covenants contained in debt agreements and other agreements to which these subsidiaries currently may be subject or into which they may enter into in the future. The terms of any borrowings of our subsidiaries or other entities in which we own equity may restrict dividends, distributions or loans to us.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under generally accepted accounting principles, or GAAP. For example, EBITDA and Adjusted EBITDA:

- do not reflect our cash expenditures, or future requirements for capital expenditures, or contractual commitments;
- do not reflect changes in, or cash requirements for, our working capital needs; and
- do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts.

Although depreciation, depletion and amortization are non-cash charges, the assets being depreciated, depleted or amortized often will have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements. Other companies in the industries in which we operate may calculate EBITDA and Adjusted EBITDA differently than we do, limiting their usefulness as comparative measures. In addition, EBITDA and Adjusted EBITDA do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations.

EBITDA and Adjusted EBITDA are not measurements of our financial performance under GAAP and should not be considered as an alternative to net earnings, operating income or any other performance measures derived in accordance with GAAP or as an alternative to cash flow from operating activities as a measure of our

Table of Contents

liquidity. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA only supplementally.

The following table reconciles net earnings (loss) to EBITDA and EBITDA to Adjusted EBITDA for the periods indicated (in $000s):

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Net (loss) earnings	$ (27,044)	$ 153,754	$ 70,332	$ 48,726	$ 94,216
Interest expense	104,014	62,183	38,865	37,204	44,336
Income tax expense (benefit)	21,092	18,312	(15,792)	10,880	(25,609)
Depreciation, depletion and amortization	158,581	105,785	78,401	52,689	42,575
EBITDA	256,643	340,034	171,806	149,499	155,518
Unrealized losses on derivative contracts	69,254	9,179	2,614	3,608	5,364
Adjusted EBITDA	$ 325,897	$ 349,213	$ 174,420	$ 153,107	$ 160,882

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

Management s discussion and analysis of financial condition and results of operations, or MD&A, is comprised of the following sections:

1. Overview

2. Results of Operations

   Consolidated Financial Results

   Oil & Gas

   Gaming

   Real Estate

   Home Fashion

   Holding Company and Investments

3. Liquidity and Capital Resources

   Consolidated Financial Results

   Oil & Gas

Gaming

Real Estate

Home Fashion

4. Critical Accounting Policies & Estimates

5. Certain Trends and Uncertainties

Overview

American Real Estate Partners, L.P. (the Company or AREP or we) is a master limited partnership formed in Delaware on February 17, 1987. AREP is a diversified holding company owning subsidiaries engaged in the following operating businesses: (1) Oil & Gas; (2) Gaming: (3) Real Estate and (4) Home Fashion. Our primary business strategy is to continue to grow and enhance the value of our businesses. We may also seek to acquire

additional businesses that are distressed or in out-of-favor industries and will consider the divestiture of businesses from which we do not foresee adequate future cash flow or appreciation potential. In addition, we invest our available liquidity in debt and equity securities with a view to enhancing returns as we continue to assess further acquisitions of operating businesses.

We own a 99% limited partner interest in American Real Estate Holdings Limited Partnership. AREH, the operating partnership, holds our investments and conducts our business operations. Substantially all of our assets and liabilities are owned by AREH and substantially all of our operations are conducted through AREH and its subsidiaries. American Property Investors, Inc., or API, owns a 1% general partner interest in both us and AREH, representing an aggregate 1.99% general partner interest in us and AREH. API is owned and controlled by Mr. Carl C. Icahn.

As of March 1, 2006, affiliates of Mr. Icahn beneficially owned approximately 90% of our outstanding depositary units and approximately 86.5% of our outstanding preferred units.

In addition to our Oil & Gas, Gaming, Real Estate and Home Fashion segments, we discuss the Holding Company. The Holding Company includes the unconsolidated results of AREH and AREP and, principally, includes investment activity and expenses associated with the activities of a holding company. Certain real estate expenses are included in the Holding Company to the extent they relate to administration of our various real estate holdings.

A summary of the significant events that occurred in 2005 is as follows:

We acquired additional Oil & Gas and Gaming assets from affiliates of Mr. Icahn for aggregate consideration of $180.0 million in cash and depositary units valued at $457.0 million;

Our subsidiary, GB Holdings, Inc., or GBH, filed for bankruptcy on September 29, 2005;

We continued to sell properties in our net lease portfolio;

In February 2005, we issued $480 million principal amount of 71/8% senior unsecured notes due 2013;

We incurred losses of $41.3 million on a short position that we had initiated in 2004;

Oil & Gas activities: production volumes and the market prices for oil and gas rose in 2005 over the prior year but the positive impact was offset by the negative impact of derivative losses;

On August 8, 2005, we acquired approximately two thirds of the outstanding equity of WPI, the acquirer in a bankruptcy proceeding of substantially all of the assets of WestPoint Stevens Inc. See Item 3. Legal Proceedings.

Our historical financial statements herein have been restated to reflect the five entities acquired in the second quarter of 2005 as discussed in notes 1, 4 and 5 of the notes to the consolidated financial statements.

The key factors affecting the financial results for the years ended December 31, 2005 versus 2004 were:

Decreased operating income, principally due to the operating loss of $22.4 million in the Home Fashion segment and an increase of $12.7 million in Holding Company costs. Oil & Gas operating income was reduced by $69.3 million due to unrealized derivative losses;

Net losses on securities of $21.3 million in 2005 versus gains of $16.5 million in 2004;

Impairment charges of $52.4 million in connection with the bankruptcy of GBH;

Interest expense increased $41.8 million due to higher debt levels; and

Reduced gains on sales of properties: income from discontinued operations fell $58.1 million.

The key factors affecting the financial results for the year ended December 31, 2004 versus 2003 were:

Increased operating income principally due to a $28.4 million increase in operating income from gaming activities;

Interest expense increased $23.3 million due to higher debt levels;

Interest income increased $21.4 million due to increased levels of investments;

Net gains on securities were $16.5 million in 2004 versus $1.7 million in the prior year;

Increased gains on sales of properties: income from gains on discontinued operations rose $71.8 million;

An impairment charge of $15.6 million in 2004 related to our interest in GBH.

Results of Operations

Consolidated Financial Results

Year ended December 31, 2005 compared to the year ended December 31, 2004

Revenues increased by $592.2 million, or 88.4%, as compared to the prior year. This increase reflects the inclusion of WPI ($472.7 million for five months), and increases of $19.5 million for Gaming, $60.9 million for Oil & Gas and $39.2 million for Real Estate.

Operating income decreased by $15.1 million, or 16.3%, as compared to the prior year. This decrease reflects the inclusion of losses on WPI of $22.4 million and an increase in Holding Company costs of $12.7 million, of which $4.3 million related to acquisitions. These items were offset by increases of $8.9 million from Gaming, $4.5 million from Oil & Gas, and $6.5 million from Real Estate activities. Oil & Gas operating income was reduced by $69.3 million in unrealized derivative losses.

As a result of the bankruptcy of GBH, we recorded impairment charges of $52.4 million related to the write-off of the remaining carrying amount of our investment ($6.7 million) and also to reflect a dilution in our effective ownership percentage of Atlantic Coast Entertainment Holdings Inc., 32.3% of which had been owned through our ownership of GBH ($45.7 million).

Interest expense increased by $41.8 million, or 67.3%, as compared to the prior year. This increase reflects the increased amount of borrowings, principally attributable to the issuance in February 2005 of $480.0 million principal amount of 7.125% senior notes due in 2013. Interest income increased slightly by $0.6 million, or 1.4%, as compared to the prior year.

Year ended December 31, 2004 compared to the year ended December 31, 2003

Revenues increased by $93.4 million, or 16.2%, as compared to the prior year. This increase reflects increases of $40.5 million in Gaming revenues, $38.1 million in Oil & Gas revenues, and $14.9 million from Real Estate activities.

Operating income increased by $26.5 million, or 40.1%, as compared to the prior year. This increase reflects increases of $28.4 million from Gaming, $2.7 million from Oil & Gas, offset by a $2.9 million reduction from Real Estate activities and an increase in Holding Company costs of $1.3 million and acquisition costs of $0.4 million.

Interest expense increased by $23.3 million, or 60.0%, as compared to the prior year. This increase reflects the increased amount of borrowings. Interest income increased by $21.4 million, or 90.0%, during 2004, as compared to the prior year. The increase is due to interest on two mezzanine loans, and increased interest income on other

investments.

Oil & Gas

We conduct our oil and gas activities through our wholly-owned subsidiary, NEG Oil & Gas (formerly AREP Oil & Gas). NEG Oil & Gas is an independent oil and gas exploration, development and production company based in Dallas, Texas. NEG Oil & Gas core areas of operations are the Val Verde and Permian Basins of West Texas, the Cotton Valley Trend in East Texas, the Gulf Coast and the Gulf of Mexico. NEG Oil & Gas also has oil and gas operations in the Anadarko and Arkoma Basins of Oklahoma and Arkansas. Based on reserve reports prepared as of December 31, 2005 by Netherland, Sewell & Associates, Inc. and DeGolyer and MacNaughton, independent

Table of Contents

petroleum consultants, estimated proved reserves were 500.5 Bcfe and were 86% natural gas and 50% proved developed.

As of December 31, 2005, NEG Oil & Gas owned the following assets and operations:

A 50.01% ownership interest in National Energy Group, or NEG, a publicly traded oil and gas management company. National Energy Group manages the oil and gas operations and its principal asset consists of its non-managing membership interest in NEG Holding LLC;

A managing membership interest in NEG Holding;

National Onshore LP; and

National Offshore LP.

The subsidiaries of NEG Oil & Gas were acquired in transactions with affiliates of Mr. Icahn and subsequently acquired by us in various purchase transactions. In accordance with generally accepted accounting principles, assets transferred between entities under common control are accounted for at historical cost similar to the pooling of interest method and the financial statements are combined from the date of acquisition by an entity under common control. The financial statements include the consolidated results of operations, financial position and cash flows of National Energy Group, NEG Holding, National Onshore and National Offshore from the date Mr. Icahn obtained control, or the date of common control.

The following table summarizes key operating data for the Oil & Gas segment (in $000s):

	Years Ended December 31,		
	2005	**2004**	**2003**
Gross oil and gas revenues	$ 312,661	$ 161,055	$ 108,713
Realized derivatives losses	(51,263)	(16,625)	(8,309)
Unrealized derivatives losses	(69,254)	(9,179)	(2,614)
Oil and gas revenues	192,144	135,251	97,790
Plant revenues	6,710	2,737	2,119
Total revenues	198,854	137,988	99,909
Cost and expenses:			
Total oil and gas operating expenses	54,800	31,075	22,345
Depreciation, depletion and amortization	91,100	60,123	39,455
General and administrative expenses	15,433	13,737	7,769
	161,333	104,935	69,569
Operating income	$ 37,521	$ 33,053	$ 30,340

For the years ended December 31, 2005, 2004 and 2003, natural gas comprised 72%, 70%, and 74% of gross oil and gas revenues, respectively.

Table of Contents

Other data related to Oil & Gas operations is as follows:

	Years Ended December 31,		
	2005	**2004**	**2003**
Production data:			
Oil (MBbls)	1,440	935	811
Natural gas (MMcf)	28,107	18,895	15,913
Natural gas liquids (MBbls)	350	549	166
Natural gas equivalents (MMcfe)	38,847	27,799	21,772
Average Sales Price(1):			
Oil average sales price (per Bbl)			
Price excluding realized gains or losses on derivative contracts	$ 55.72	$ 39.55	$ 30.26
Price including realized gains or losses on derivative contracts	48.95	29.89	27.32
Natural gas average sales price (per Mcf)			
Price excluding realized gains or losses on derivative contracts	7.85	5.73	5.07
Price including realized gains or losses on derivative contracts	6.38	5.39	4.70
Natural gas liquids (per Bbl)	33.46	26.72	23.24
Expense per Mcfe:			
Total oil and gas operating expenses	$ 1.41	$ 1.12	$ 1.03
Depreciation, depletion and amortization	2.35	2.14	1.80
General and administrative expenses	0.40	0.49	0.36

(1) Excludes the effect of unrealized gains and losses on derivative contracts.

For the year ended December 31, 2005, the Oil & Gas segment includes operations of NEG, National Onshore, National Offshore and NEG Holding. The date of common control for National Offshore was effective December 31, 2004. A significant portion of the fluctuations between 2005 and 2004 is due to the addition of National Offshore as well as the impact of derivative losses. For the year ended December 31, 2003, the operations of National Onshore are included from August 28, 2003, the date of common control. A significant portion of the fluctuations between 2004 and 2003 is due to the addition of the National Onshore operations in 2003.

Year ended December 31, 2005 compared to the year ended December 31, 2004

Gross oil and gas revenues for 2005, before realized and unrealized derivative losses, increased by 94.1% to $312.7 million compared to $161.1 million in the prior year. The increase is primarily attributable to (a) the acquisition of National Offshore effective December 31, 2004 ($62.2 million), (b) the increase in average sales prices ($58.9 million), and (c) the increase in volume, excluding revenues for National Offshore in 2005 ($30.5 million). Including the effects of realized and unrealized derivative losses, oil and gas revenues increased by 42.1% to $192.1 million. Unrealized derivative losses in 2005 were $69.3 million compared to $9.2 million in the prior year, an increase of 654.5%. Unrealized derivative losses resulted from mark-to-market adjustments on our unsettled derivative positions at December 31, 2005.

During 2005, our average realized price of natural gas, including the effects of realized derivative losses, increased by 18.3% to $6.38 per Mcf from $5.39 per Mcf in the prior year. Our natural gas volume increased by 9.2 Bcf, or 48.8%, to 28.1 Bcf compared to 18.9 Bcf in the prior year. Approximately 3.4 Bcf of the increase is attributable to the addition of National Offshore. Excluding the effects of National Offshore, our gas production increased by 31%

primarily due to our successful drilling activity.

Our average realized price of oil in 2005, including the effects of realized derivative losses, increased by 63.8%, to $48.95 compared to $29.89 in the prior year. Our average oil volume increased by 54% to 1,440 MBbls compared to 935 MBbls in 2004. All of the oil volume increase is attributable to the addition of National Offshore, without which our oil volume would have decreased by 9.6% due mainly to the sale of an oil producing property in 2004.

Total oil and gas operating expenses increased $23.7 million, or 76.3% to $54.8 million during 2005 as compared to $31.1 million in the prior year. Total oil and gas operating expenses per Mcfe increased $0.29, or 25.9%, compared to 2004. $12.5 million of the increase was attributable to the acquisition of National Offshore. The remainder of the increase was attributable to increased production, an increase in the number of producing wells and overall rising operating expenses in the oil and gas industry. The increase in operating expenses on a per Mcfe basis is attributable to the National Offshore acquisition. Typically offshore production is more expensive to produce and transport than onshore production.

Depletion, depreciation and amortization for the oil and gas segment, or DD&A, increased $31.0 million (51.5%) to $91.1 million during 2005 as compared to $60.1 million during 2004. DD&A per Mcfe increased $0.21, or 9.8%, to $2.35 per Mcfe as compared to $2.14 per Mcfe in 2004. $21.4 million of the increase was attributable to the acquisition of National Offshore. Absent the acquisition of National Offshore, DD&A expense increased $9.0 million, or 15%, due to 31% higher natural gas production in 2005. On a per Mcfe basis our DD&A rate increased due to the addition of the production of National Offshore.

General and administrative expenses for the oil and gas segment, or G&A, increased $1.7 million (12.3%) to $15.4 million in 2005 as compared to $13.7 million during 2004. G&A per Mcfe decreased $0.09, or 18.4%, compared to 2004. The increase in expenses was primarily attributable to the acquisition of National Offshore as we added five new staff positions as result of the acquisition. The balance of the increase was attributable to an overall increase in staff levels and higher corporate governance costs. On a per Mcfe basis, our oil and gas segment G&A decreased due to higher overall production.

Year ended December 31, 2004 compared to the year ended December 31, 2003

Gross oil and gas revenues for 2004, before realized and unrealized derivative losses, increased $52.3 million or 48.1% to $161.1 million compared to $108.7 million in 2003. The increase is primarily attributable to the acquisition of National Onshore effective August 28, 2003 ($40.4 million) and an increase in average price ($12.3 million). The increase in revenues was offset by a slight decline in production volumes, excluding the effect of the National Onshore acquisition.

Including the effects of realized and unrealized derivative losses, oil and gas revenues increased $37.5 million or 38.3% as compared to the prior year 2003. Unrealized derivative losses in 2004 were $9.2 million compared to $2.6 million in 2003, an increase of 251.1%. Unrealized derivatives losses resulted from mark-to-market adjustments on our unsettled derivative positions at December 31, 2004.

Our average natural gas price, including the effect of realized derivatives losses, increased by 14.7% and our average crude oil price increased by 9.4% in 2004 as compared to 2003. Our average natural gas production in 2004 increased to 18.9 Bcf or 18.7% when compared to 2003. The increase in natural gas production was primarily attributable to the acquisition of National Onshore effective August 28, 2003. Absent the acquisition of National Onshore, gas production decreased 2.5%.

Our oil production in 2004 increased by 15.3% to 935 Mbbls compared to 2003. The increase in oil production was primarily attributable to the acquisition of National Onshore. Absent the acquisition of National Onshore, oil production decreased 10.2% due to the sale of properties in June 2004.

Total oil and gas operating expenses increased $8.7 million, or 39.1%, to $31.1 million during 2004 as compared to $22.3 million in 2003. Total oil and gas operating expenses per Mcfe increased $0.09, or 8.7%, compared to 2003. The increase was primarily attributable to the acquisition of National Onshore effective August 28, 2003. Absent the acquisition of National Onshore, total oil and gas operating expenses increased $2.0 million, or 10.5%, due to rising

operating expenses.

Depletion, depreciation and amortization for the oil and gas segment, or DD&A, increased $20.7 million (52.4%) to $60.1 million during 2004 as compared to $39.4 million during 2003. DD&A per Mcfe increased $0.34, or 18.9%, to $2.14 per Mcfe as compared to $1.80 in 2003. The increase was attributable to the acquisition of National Onshore effective August 28, 2003. Absent the acquisition of National Onshore, DD&A expense decreased $2.1 million, or 8.8%, due to lower production in 2004 and a lower average depletion rate.

General and administrative expenses for the Oil & Gas segment, or G&A, increased $6.0 million (76.8%) to $13.7 million in 2004 as compared to $7.8 million during 2003. General and administrative expenses per Mcfe increased $0.13 or 36.1%, compared to 2003. The increase was primarily attributable to the acquisition of National Onshore. Excluding the National Onshore acquisition, general and administrative expense would have been relatively unchanged.

Gaming

We conduct our gaming operations in both Las Vegas and Atlantic City. Our Las Vegas properties include the Stratosphere Casino Hotel and Tower, Arizona Charlie s Decatur and Arizona Charlie s Boulder. Our Atlantic City operations consist of The Sands Hotel and Casino in Atlantic City, New Jersey. Substantially all of our properties were acquired in transactions with affiliates of Mr. Icahn. In accordance with generally accepted accounting principles, assets transferred between entities under common control are accounted for at historical cost similar to the pooling of interest method and the financial statements are combined from the date of acquisition by an entity under common control, from the date of common control. The financial statements include the consolidated results of operations, financial position and cash flows of our properties from the date Mr. Icahn obtained control, or the date of common control.

On September 29, 2005, GBH, through which we owned an indirect 32.3% equity interest in The Sands, filed a voluntary petition for bankruptcy relief under Chapter 11 of the Bankruptcy Code. As a result of this filing, we determined that we no longer control GBH, for accounting purposes, and deconsolidated our investment effective September 29, 2005. Accordingly, we report results for The Sands from that date based only on our direct 58.3% ownership of Atlantic Coast.

On November 29, 2005, we entered into an agreement to purchase the Flamingo Laughlin Hotel and Casino in Laughlin, Nevada and 7.7 acres of land in Atlantic City, New Jersey, for $170.0 million. See Discussion of Segment Liquidity and Capital Resources for additional information regarding this agreement.

Summarized income statement information for the years ended December 31, 2005, 2004 and 2003 is as follows (in $000s):

		December 31,	
	2005	**2004**	**2003**
Revenues:			
Casino	$ 329,789	$ 325,615	$ 302,701
Hotel	73,924	65,561	58,253
Food and beverage	92,006	88,851	81,545
Tower, retail and other income	38,668	37,330	34,059
Gross revenues	534,387	517,357	476,558
Less promotional allowances	44,066	46,521	46,189
Net revenues	490,321	470,836	430,369
Expenses:			
Casino	110,821	112,452	113,941
Hotel	31,734	27,669	24,751

Food and beverage	60,284	56,425	53,471
Other operating expenses	16,715	14,905	15,305
Selling, general and administrative	172,947	169,736	165,754
Depreciation and amortization	37,641	38,414	34,345
	430,142	419,601	407,567
Operating income	$ 60,179	$ 51,235	$ 22,802

12

Table of Contents

Year ended December 31, 2005 compared to the year ended December 31, 2004

Gross revenues increased 3.3% to $534.4 million for 2005 from $517.4 million for the prior year. This increase was primarily due to an increase in business volume, as discussed below. Las Vegas gross revenues increased 8.3% and Atlantic City gross revenues decreased 5.3%.

Casino revenues increased 1.3% to $329.8 million for 2005 from $325.6 million for the prior year. Combined slot machine revenues increased to $256.1 million, or 77.6% of combined casino revenues, for 2005 from $253.9 million for the prior year, primarily due to an increase in slot hold percentage. Combined table game revenues decreased to $63.8 million, or 16.2% of combined casino revenues, for 2005 compared to $64.5 million for the prior year, primarily due to a decrease in hold percentage. Las Vegas casino revenues increased 8.9% while Atlantic City casino revenues decreased 6.8%.

Hotel revenues increased 12.8% to $73.9 million for 2005 from $65.6 million for the prior year. This increase was primarily due to a 10.4% increase in the average daily room rate as a result of increased direct bookings and decreased rooms sold through wholesalers. Las Vegas hotel revenues increased 13.2% and Atlantic City hotel revenues increased 10.6%.

Food and beverage revenues increased 3.6% to $92.0 million for 2005 from $88.9 million for the prior year. This increase was primarily due to an increase in food and beverage covers and an increase in the average revenue per guest check. Las Vegas food and beverage revenues increased 4.6% and Atlantic City food and beverage revenues were unchanged.

Promotional allowances are comprised of the estimated retail value of goods and services provided to casino customers under various marketing programs. As a percentage of casino revenues, promotional allowances decreased to 13.4% for 2005 from 14.3% for the prior year. This decrease was primarily attributable to a reduction in benefits from promotional activities related to slots. Promotional allowances as a percentage of casino revenues for Las Vegas operations decreased by 1.7% and for Atlantic City operations increased by 0.1%.

Casino operating expenses decreased by 1.5% to $110.8 million for 2005 from $112.5 million for the prior year. The decrease in casino expenses was primarily due to reduced labor costs and a reduction in gaming taxes related to lower gaming revenues in Atlantic City partially offset by increased utilization of participation games in Las Vegas.

Hotel operating expenses increased 14.7% to $31.7 million for 2005 from $27.7 million for the prior year. This increase was primarily due to an increase in labor costs and costs associated with an increase in occupancy.

Food and beverage operating expenses increased 6.8% to $60.3 million for 2005 from $56.4 million for the prior year. This increase was primarily due to an increase in food and labor costs associated with an increase in Las Vegas business volume.

Other operating expenses increased 12.1% to $16.7 million for 2005 from $14.9 million for the prior year. This increase was primarily due to an increase in costs related to headliner entertainment at The Sands and increased labor costs related to the opening of the Insanity ride at the Stratosphere Casino Hotel & Tower in Las Vegas.

Selling, general and administrative expenses primarily consist of payroll, marketing, advertising, repair and maintenance, utilities and other administrative expenses. These expenses increased 1.9% to $172.9 million for 2005 from $169.7 million for the prior year. This increase was primarily due to an increase in payroll expenses, utility costs and professional fees, partially offset by decreased property taxes.

Year ended December 31, 2004 compared to the year ended December 31, 2003

Gross revenues increased 8.6% to $517.4 million for 2004 from $476.6 million for the prior year. This increase was primarily due to an increase in all revenues, primarily attributable to an increase in business volume, as discussed below. Las Vegas gross revenues increased 13.4% while Atlantic City gross revenues increased 1.4%.

Casino revenues increased 7.6% to $325.6 million for 2004 from $302.7 million for the prior year. Combined slot machine revenues increased to $253.9 million, or 78.0% of combined casino revenues, for 2004 from $240.8 million for the prior year, primarily due to an increase in slot hold percentage. Combined table game

revenues increased to $64.5 million, or 17.2% of combined casino revenues, for 2004 compared to $56.0 million for the prior year, primarily due to an increase in the hold percentage and an increase in the number of table games in Atlantic City. Las Vegas casino revenues increased 13.6% while Atlantic City casino revenues increased 1.8%.

Hotel revenues increased 12.5% to $65.6 million for 2004 from $58.3 million for the prior year. This increase was primarily due to an 8.1% increase in the average daily room rate, primarily attributable to an increase in tourism in the Las Vegas market. Las Vegas hotel revenues increased 15.6% and Atlantic City hotel revenues decreased 0.8%.

Food and beverage revenues increased 9.0% to $88.9 million for 2004 from $81.5 million for the prior year. This increase was primarily due to an increase in food and beverage covers and an increase in the average revenue per guest check. Las Vegas food and beverage revenues increased 12.4% and Atlantic City food and beverage revenues decreased 0.3%.

Promotional allowances are comprised of the estimated retail value of goods and services provided to casino customers under various marketing programs. As a percentage of casino revenues, promotional allowances decreased to 14.3% for 2004 from 15.3% for the prior year. This decrease was primarily attributable to a reduction in benefits from promotional activities related to slots. Promotional allowances as a percentage of casino revenues for Las Vegas operations decreased by 1.1% and for Atlantic City operations decreased by 0.8%.

Casino operating expenses decreased by 1.3% to $112.5 million for 2004 from $113.9 million for the prior year. The decrease in casino expenses was primarily due to reduced labor costs as a result of the increased utilization of ticket-in/ticket-out slot technology.

Hotel operating expenses increased 11.8% to $27.7 million for 2004 from $24.8 million for the prior year. This increase was primarily due to an increase in labor costs and costs associated with an increase in business volume.

Food and beverage operating expenses increased 5.5% to $56.4 million for 2004 from $53.5 million for the prior year. This increase was primarily due to an increase in labor costs and costs associated with an increase in business volume.

Other operating expenses decreased 2.6% to $14.9 million for 2004 from $15.3 million for the prior year. This decrease was primarily due to a decrease in costs related to headliner entertainment at The Sands.

Selling, general and administrative expenses primarily consist of marketing, advertising, repair and maintenance, utilities and other administrative expenses. These expenses increased 2.4% to $169.7 million for 2004 from $165.8 million for the prior year. This increase was primarily due to an increase in payroll expenses, legal fees, costs associated with Sarbanes-Oxley and insurance costs.

Results by Location

The following is an analysis of revenue and operating income (loss), by geographical location for our Gaming Segment (in $000s):

	Years Ended December 31,		
	2005	**2004**	**2003**
Net revenues:			
Las Vegas	$ 327,985	$ 299,981	$ 262,811
Atlantic City	162,336	170,855	167,558

Total Gaming	$ 490,321	$ 470,836	$ 430,369
Operating income (loss):			
Las Vegas	$ 67,052	$ 48,862	$ 23,847
Atlantic City	(6,873)	2,373	(1,045)
Total Gaming	$ 60,179	$ 51,235	$ 22,802

During 2005, we began to incur operating losses relating to the operation of The Sands. However, The Sands continues to generate positive cash flow. We believe that our efforts to improve profitability will lead to a reversal of these operating losses. However, there is no guarantee that our efforts will be successful and we continue to evaluate whether there is an impairment under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets.* In the event that a change in operations results in a future reduction of cash flows, we may determine that an impairment under SFAS No. 144 has occurred at The Sands, and an impairment charge may be required. The carrying value of property, plant and equipment of The Sands at December 31, 2005 was $155.5 million.

Real Estate

Our real estate operations consist of rental real estate, property development and associated resort activities. The operating performance of the three segments was as follows (in $000s):

	Year Ended December 31,		
	2005	**2004**	**2003**
Revenues:			
Rental real estate:			
Interest income on financing leases	$ 7,299	$ 9,880	$ 13,115
Rental income	9,157	8,771	7,809
Property development	58,270	26,591	13,266
Resort operations	25,911	16,210	12,377
Total revenues	100,637	61,452	46,567
Operating expenses:			
Rental real estate	4,198	7,739	5,315
Property development	47,130	22,313	12,187
Resort operations	27,963	16,592	11,358
Total expenses	79,291	46,644	28,860
Operating income	$ 21,346	$ 14,808	$ 17,707

Rental Real Estate

Year ended December 31, 2005 compared to the year ended December 31, 2004

Revenues decreased by 11.8% to $16.5 million in 2005 from $18.7 million in the prior year. The decrease was primarily attributable to the sale of ten financing lease properties. Operating expenses decreased 45.8% to $4.2 million in 2005 from $7.7 million in the prior year. The decrease was primarily due to hurricane related losses in 2004.

Year ended December 31, 2004 compared to the year ended December 31, 2003

Revenues decreased 10.9% to $18.7 million in 2004 from $20.9 million in the prior year. The decrease was primarily attributable to the sale of thirteen financing lease properties partially offset by the acquisition of an operating property in 2004. Operating expenses increased 45.6%, to $7.7 million in 2004 from $5.3 million in the prior year. The increase

was primarily due to hurricane related losses in 2004.

We market portions of our commercial real estate portfolio for sale. Sale activity was as follows (in $000s, except unit data):

	Year Ended December 31,		
	2005	**2004**	**2003**
Properties sold	14	57	9
Proceeds received	$ 52,525	$ 245,424	$ 21,164
Mortgage debt repaid	$ 10,702	$ 93,845	$ 4,375
Total gain recorded	$ 16,315	$ 80,459	$ 10,474
Gain recorded in continuing operations	$ 176	$ 5,262	$ 7,121
Gain recorded in discontinued operations(i)	$ 16,139	$ 75,197	$ 3,353

(i) In addition to gains on the rental portfolio of $16.1 million, a gain of $5.7 million on the sale of a resort property was recognized in 2005.

Property Development

Year ended December 31, 2005 compared to the year ended December 31, 2004

Revenues increased 119.1% to $58.3 million in 2005 from $26.6 million in the prior year. Operating expenses increased 111.2% to $47.1 million in 2005 from $22.3 million in the prior year. In 2005, we sold 104 units with an average profit margin of 19.1%. In 2004, we sold 38 units with an average profit margin of 16.1%.

Year ended December 31, 2004 compared to the year ended December 31, 2003

Revenues increased 100.4% to $26.6 million in 2004 from $13.3 million in the prior year. Operating expenses increased 83.1% to $22.3 million in 2004, from $12.2 million in the prior year. In 2004, we sold 38 units with an average profit margin of 16.1%. In 2003, we sold 36 units with an average profit margin of 8.1%.

Existing land inventory in New Seabury, Massachusetts and Vero Beach, Florida may provide for future sales increases to mitigate the decline in units available for sale in our Westchester, New York and Naples, Florida subdivisions.

Resort Operations

Year ended December 31, 2005 compared to the year ended December 31, 2004

Revenues increased 59.8% to $25.9 million in 2005, from $16.2 million in the prior year. This increase is primarily due to the acquisition of Grand Harbor in July, 2004. Grand Harbor revenues were $14.3 million and $5.6 million in 2005 and 2004, respectively.

Operating expenses increased 68.5% to $28.0 million in 2005 from $16.6 million in the prior year. This increase is primarily due to the acquisition of Grand Harbor. Grand Harbor expenses were $16.9 million and $6.2 million in 2005 and 2004, respectively.

Year ended December 31, 2004 compared to the year ended December 31, 2003

Revenues increased 31% to $16.2 million in 2004 from $12.4 million in the prior year. This increase is primarily due to the acquisition of Grand Harbor in July, 2004. Grand Harbor revenues were $5.6 million in 2004.

Operating expenses increased 46.1% to $16.6 million in 2004 from $11.4 million in the prior year. This increase is primarily due to the acquisition of Grand Harbor. Grand Harbor expenses were $6.2 million in 2004.

Home Fashion

On August 8, 2005, WestPoint International, Inc., or WPI, our indirect subsidiary, completed the acquisition of substantially all of the assets of WestPoint Stevens. The acquisition was completed pursuant to an agreement dated

June 23, 2005, which was subsequently approved by the U.S. Bankruptcy Court. WPI is engaged in the business of manufacturing, sourcing, marketing and distributing bed and bath home fashion products.

We invested in WPI in keeping with our strategy to acquire undervalued assets and companies that are in distressed or in out of favor industries. Although we have experience operating distressed businesses in troubled industries, we cannot predict whether we will be successful in our efforts to bring WPI to profitability.

A recent court order may result in our ownership of WPI being reduced to less than 50%. If we were to own less than 50% of the outstanding common stock and lose control of WPI, we would no longer consolidate WPI and our financial statements could be materially different as of December 31, 2005 and for the year then ended.

Results of Operations for period from August 8, 2005 to December 31, 2005

Historically, WPI has been adversely affected by a variety of negative conditions, including the following items that continue to have an impact on its operating results:

- adverse competitive conditions for U.S. mills compared to mills located overseas;
- growth of low priced imports from Asia and Latin America resulting from lifting of import quotas;
- retailers of consumer goods have become fewer and more powerful over time; and
- long term increases in pricing and decreases in availability of raw materials.

The following table summarizes the key operating data for our Home Fashion segment for the period from August 8, 2005 (acquisition date) to December 31, 2005 (in $000s):

Revenues	$ 472,681
Expenses:	
Cost of sales	421,408
Selling, general and administrative	73,702
Operating loss	$ (22,429)

Total depreciation for the period was $19.4 million, of which $16.0 million was included in cost of sales and $3.4 million was included in selling, general and administrative expenses. For the period from August 8, 2005 to December 31, 2005, bed products revenues were $294.9 million and bath products revenues were $144.0 million. Other sales, consisting primarily of sales from WPI s retail outlet stores, were $33.8 million.

Gross earnings for the period from August 8, 2005 to December 31, 2005 were $51.3 million and reflect a gross margin of 10.8%. Selling, general and administrative expenses were $73.7 million for the period from August 8, 2005 to December 31, 2005 and as a percentage of net sales represent 15.6%. The operating loss includes $1.7 million in costs related to ongoing restructuring initiatives, consisting primarily of continuing costs related to closed plants. We expect to continue our restructuring efforts and, accordingly, expect that restructuring charges and operating losses will continue to be incurred during 2006.

Other

On October 13, 2005, WPI and Ralph Lauren Home, Inc., a division of Polo Ralph Lauren Corporation, entered into a license agreement whereby WPI exclusively produces sheets, bedding accessories, towels, bed pillows, mattress pads, feather beds, down comforters and blankets under the Ralph Lauren brand. A similar license agreement had been in effect with WestPoint Stevens although the royalties and minimums were changed as of January 1, 2006 under the new agreement with WPI.

Seasonality

The results of operations for Gaming, Resort operations, Property Development operations and Home Fashion are seasonal in nature. Results for Oil & Gas and Rental Real Estate are generally not seasonal. Generally, our Las Vegas gaming and entertainment properties are not affected by seasonal trends. However, we tend to have increased

customer flow in the fourth quarter of the year. Our Atlantic City property is highly seasonal in nature, with peak activity occurring from May to September. Resort operations are highly seasonal with peak activity in Cape Cod from June to September and in Florida from November to February. Sales activity for our Property Development operations in Cape Cod and New York typically peak in late winter and early spring while in Florida our peak selling season is during the winter months. The Home Fashion segment experiences its peak sales season in the fall.

Holding Company

Investment Activities

The Holding Company engages in certain investment activities. The activities include those associated with investing its available liquidity, as well as activities that are designed to earn returns from increases or decreases in the market price of securities.

As noted below, we have significant realized and unrealized gains and losses in 2005 and 2004 from several positions, including a short position that was initiated in 2004, and several long positions, many of which were liquidated in 2005.

We may, on occasion, invest in securities in which entities affiliated with Mr. Icahn are also investing, for example, as reported on our Schedule 14A filing of December 19, 2005, we owned 11,000,000 shares of Time Warner, Inc. In a subsequent Schedule 14A, filed on February 17, 2006, we reported that our ownership of common stock of Time Warner had increased to 12,302,790 shares.

General and Administrative Expenses

General and administrative expenses related to the Holding Company and principally related to payroll and professional fees expenses of the Holding Company including costs related to administration of various real estate holdings. The amount attributable to real estate holdings was approximately $3.4 million and $2.6 million for 2005 and 2004, respectively.

Year ended December 31, 2005 compared to the year ended December 31, 2004

General and administrative costs increased 196% to $19.1 million, as compared to $6.4 million in the prior year due largely to direct acquisition costs ($4.2 million), other legal and professional fees ($3.6 million), and higher compensation costs ($1.8 million).

The direct acquisition costs related to legal and professional fees associated with the five acquisitions that were made in the first two quarters of 2005. Direct acquisition costs associated with the WPI acquisition have been capitalized. Legal and professional expenses rose due to ongoing legal proceedings relating to WPI, as well as increased expense associated with the preparation and review of our financial results and other compliance related activities including those required under the Sarbanes-Oxley Act of 2002. Higher compensation costs reflect increased headcount levels (average of 22 employees in 2005 compared to 15 in the prior year) as well as costs associated with the new CEO option plan.

Year ended December 31, 2004 compared to the year ended December 31, 2003

General and administrative costs increased 36.3% to $6.4 million, as compared to $4.7 million in the prior year, due largely to higher compensation costs (increase of $0.6 million) and professional fees (increase of $0.7 million).

Interest Income and Expense

Year ended December 31, 2005 compared to the year ended December 31, 2004

Interest expense increased 67.3% to $104.0 million, during 2005 as compared to $62.2 million in the prior year. This increase reflects increased borrowings in 2005 as a result of the issuance of the $480.0 million senior notes in February 2005 and a full year of interest on the $353.0 million senior notes issued in May 2004. Interest income was

consistent with the prior year due to reduced amounts of interest on two mezzanine loans ($18.0 million) offset by higher interest earned on cash balances.

Year ended December 31, 2004 compared to the year ended December 31, 2003

Interest expense increased 60.0% to $12.2 million, during 2004 as compared to $38.9 million in the prior year. This increase reflects the increased amount of borrowings arising from the $353.0 million of senior notes issued in May 2004. Interest income increased by $21.4 million, or 90.0%, during 2004 as compared to the prior year. The increase is due to the repayment of two mezzanine loans, on which interest was not recognized until received, and increased interest income on other investments.

Impairment Charges from GB Holdings, Inc.

On September 29, 2005, GB Holdings filed a voluntary petition for bankruptcy relief under Chapter 11 of the U.S. Bankruptcy Code. As a result of this filing, we determined that we no longer control GBH and have deconsolidated our investment effective the date of the bankruptcy filing. As a result of GBH s bankruptcy, we recorded impairment charges of $52.4 million related to the write-off of the remaining carrying amount of our investment ($6.7 million) and also to reflect a dilution in our effective ownership percentage of Atlantic Coast, 41.7% of which had been owned directly by GBH ($45.7 million).

In the year ended December 31, 2004, we recorded an impairment loss of $15.6 million on our equity investment in GBH. The purchase price pursuant to our agreement to purchase additional shares in 2005 indicated that the fair value of our investment was less than our carrying value. An impairment charge was recorded to reduce the carrying value to the value implicit in the purchase agreement.

Other Income (Expense), net

Other income (expense), net for the years ended December 31, 2005, 2004 and 2003 is as follows (in $000s):

		December 31,	
	2005	**2004**	**2003**
Net realized gains (losses) on sales of marketable securities	$ (26,938)	$ 40,159	$ 1,653
Unrealized losses on securities sold short	(4,178)	(18,807)	
Unrealized gains (losses) on marketable securities	9,856	(4,812)	
Write-down of marketable equity and debt securities			(19,759)
Minority interest	13,822	2,074	2,721
Gain on sale or disposition of real estate	176	5,262	7,121
Other	11,022	6,740	(140)
	$ 3,760	$ 30,616	$ (8,404)

The net realized losses of $26.9 million in 2005 included, principally, $42.9 million in losses related to short position covering and option trades offset by $14.6 million in gains on three energy stocks that were sold during the year. The net gains in 2004 arose, principally, from the sale of a corporate bond position acquired in 2003.

The net unrealized gains on investments of $5.7 million in 2005 relate primarily to gains on equities and options in the trading portfolio net of the unrealized loss on a short position. The net unrealized loss in 2004 was due, principally, to the unrealized losses on the short position.

Minority interest increased in 2005 due, principally, to the inclusion of the minority s share of the losses of WPI.

Effective Income Tax Rate

For the year ended December 31, 2005, we recorded an income tax provision of $21.1 million on a pre-tax loss of $29.2 million. A tax expense was recorded even though we reported an overall loss, because some of the corporate tax-paying entities reported income, but the non-corporate entities reported significant losses. For the

year ended December 31, 2004, we recorded an income tax provision of $18.3 million on pre-tax income of $90.7 million. Our effective income tax rate was (72.2%) and 20.2% for the respective periods. The difference between the effective tax rate and statutory federal rate of 35% is principally due to losses incurred for which a benefit was not provided, changes in the valuation allowance and partnership income not subject to taxation, as such taxes are the responsibility of the partners.

We recorded an income tax provision of $18.3 million and an income tax benefit of $15.8 million on pre-tax income of $90.7 million and $42.7 million for the years ended December 31, 2004 and 2003, respectively. For the year ended December 31, 2003, an income tax benefit was recorded, even though we reported overall income, primarily due to a reduction in the valuation allowances on the deferred tax assets of several corporate entities. Our effective income tax rate was 20.2% and (37.0%) for the respective periods. The difference between the effective tax rate and statutory federal rate of 35% is due principally to a change in the valuation allowance and partnership income not subject to taxation.

Liquidity and Capital Resources

Consolidated Financial Results

We are a holding company. In addition to cash and cash equivalents, U.S. government and agency obligations, marketable equity and debt securities and other short-term investments, our assets consist primarily of investments in our subsidiaries. Moreover, if we make significant investments in operating businesses, it is likely that we will reduce the liquid assets at AREP and AREH in order to fund those investments and ongoing operations. Consequently, our cash flow and our ability to meet our debt service obligations and make distributions with respect to depositary units and preferred units likely will depend on the cash flow of our subsidiaries and the payment of funds to us by our subsidiaries in the form of loans, dividends, distributions or otherwise.

The operating results of our subsidiaries may not be sufficient to make distributions to us. In addition, our subsidiaries are not obligated to make funds available to us, and distributions and intercompany transfers from our subsidiaries to us may be restricted by applicable law or covenants contained in debt agreements and other agreements to which these subsidiaries may be subject or enter into in the future. The terms of any borrowings of our subsidiaries or other entities in which we own equity may restrict dividends, distributions or loans to us. For example, the notes issued by our indirect wholly-owned subsidiary, ACEP, contain restrictions on dividends and distributions and loans to us, as well as on other transactions with us. ACEP also has a credit agreement which contains financial covenants that have the effect of restricting dividends or distributions. Our subsidiary, NEG Oil & Gas has a credit facility which restricts dividends, distributions and other transactions with us. These agreements preclude our receiving payments from the operations of our Gaming and our Oil & Gas properties which account for a significant portion of our revenues and cash flows. We are negotiating similar facilities for WPI, Atlantic Coast and our real estate development properties which may also restrict dividends, distributions and other transactions with us. To the degree any distributions and transfers are impaired or prohibited, our ability to make payments on our debt will be limited.

As of December 31, 2005, the Holding Company had a cash and cash equivalents balance of $576.1 million, short-term investments of $820.7 million (of which $448.8 million was invested in highly liquid fixed-income securities) and total debt of $912.5 million (of which $831.0 million relates to the senior unsecured notes).

At December 31, 2005, the restricted net assets of our consolidated subsidiaries approximated $842 million.

We actively pursue various means to raise cash from our subsidiaries. To date, such means include payment of dividends from subsidiaries, obtaining loans or other financings based on the asset values of subsidiaries or selling debt or equity securities of subsidiaries through capital market transactions. As a result of financing transactions at our

subsidiaries, we will face significant limitations on the amounts of cash that we can receive from subsidiaries. Our ability to make future interest payments, therefore, will be based on receiving cash from those subsidiaries that do not have restrictions and from other financing and liquidity sources available to AREP and AREH.

In February 2005, we issued $480.0 million principal amount of 7.125% senior notes due 2013. In May 2004, we issued $353.0 million principal amount of 8.125% senior notes due 2012. In January 2004, ACEP issued $215.0 million principal amount of 7.85% senior secured notes due 2012. Additionally, in December 2005, NEG

Table of Contents

Oil & Gas entered into a revolving credit facility which allows for borrowings of up to $500.0 million based upon a borrowing base determination. The initial borrowing base was $335.0 million, of which $300.0 million was borrowed at closing.

Cash Flows

Net cash provided by continuing operating activities was $218.2 million for the year ended December 31, 2005 as compared to $156.8 million in the prior year. Our cash and cash equivalents and investments in marketable equity and debt securities increased by $491.4 million during the year ended December 31, 2005 primarily due to proceeds from senior notes payable of $480.0 million, cash flow from continuing operations of $218.2 million, net proceeds from credit facilities of $252.0 million, partially offset by acquisitions of $293.6 million, and capital expenditures of $362.7 million.

Net cash provided by continuing operations activities was $156.8 million for the year ended December 31, 2004 as compared to $71.7 million in the prior year. Our cash and cash equivalents and investments in marketable equity and debt securities increased by $243.8 million during the year ended December 31, 2004 primarily due to proceeds from senior notes payable of $565.4 million, cash flow from continuing operations of $156.8 million, partially offset by acquisitions of $125.9 million and capital expenditures of $241.8 million.

We are continuing to pursue the purchase of assets, including assets that may not generate positive cash flow, are difficult to finance or may require additional capital, such as properties for development, non-performing loans, securities of companies that are undergoing or that may undergo restructuring, and companies that are in need of capital. All of these activities require us to maintain a strong capital base and liquidity.

Borrowings

Borrowings comprised the following (in $000s):

	December 31,	
	2005	2004
Senior unsecured 7.125% notes due 2013 AREP	$ 480,000	$
Senior unsecured 8.125% notes due 2012 AREP, net of discount	350,922	350,598
Senior secured 7.85% notes due 2012 ACEP	215,000	215,000
Borrowings under credit facilities NEG Oil & Gas	300,000	51,834
Mortgages payable	81,512	91,896
GBH Notes (see Note 16)		43,741
Other	8,387	6,738
Total long-term debt	1,435,821	759,807
Less: current portion, including debt related to real estate held for sale	24,155	76,679
	$ 1,411,666	$ 683,128

Senior unsecured notes AREP

Senior unsecured 7.125% notes due 2013

On February 7, 2005, AREP and American Real Estate Finance Corp. , or AREF, closed on their offering of senior notes due 2013. AREF, a wholly-owned subsidiary of the Company, was formed solely for the purpose of serving as a co-issuer of debt securities. AREF does not have any operations or assets and does not have any revenues. The notes, in the aggregate principal amount of $480.0 million, were priced at 100% of principal amount. The notes have a fixed annual interest rate of 71/8%, which will be paid every six months on February 15 and August 15. The notes will mature on February 15, 2013. AREH is a guarantor of the debt. No other subsidiaries guarantee payment of the notes.

As described below, the notes restrict the ability of AREP and AREH, subject to certain exceptions, to, among other things: incur additional debt; pay dividends or make distributions; repurchase stock; create liens; and enter into transactions with affiliates.

Senior unsecured 8.125% notes due 2012

On May 12, 2004, AREP and AREF closed on their offering of senior notes due 2012. The notes, in the aggregate principal amount of $353.0 million, were priced at 99.266% of principal amount. The notes have a fixed annual interest rate of 81/8%, which will be paid every six months on June 1 and December 1, commencing December 1, 2004. The notes will mature on June 1, 2012. AREH is a guarantor of the debt. No other subsidiaries guarantee payment on the notes.

As described below, the notes restrict the ability of AREP and AREH, subject to certain exceptions, to, among other things, incur additional debt; pay dividends or make distributions; repurchase stock; create liens; and enter into transactions with affiliates.

Senior unsecured notes restrictions and covenants AREP

Both of our senior unsecured notes issuances restrict the payment of cash dividends or distributions, the purchase of equity interests, or the purchase, redemption, defeasance or acquisition of debt subordinated to the senior unsecured notes. The notes also restrict the incurrence of debt, or the issuance of disqualified stock, as defined, with certain exceptions, provided that we may incur debt or issue disqualified stock if, immediately after such incurrence or issuance, the ratio of the aggregate principal amount of all outstanding indebtedness of AREP and its subsidiaries on a consolidated basis to the tangible net worth of AREP and its subsidiaries on a consolidated basis would have been less than 1.75 to 1.0. As of December 31, 2005, such ratio was less than 1.75 to 1.0, and accordingly, we and AREH could have incurred up to approximately $1.4 billion of additional indebtedness.

In addition, both issues of notes require that on each quarterly determination date we and the guarantor of the notes (currently only AREH) maintain a minimum ratio of cash flow to fixed charges, each as defined, of 1.5 to 1, for the four consecutive fiscal quarters most recently completed prior to such quarterly determination date. The applicable terms of the indentures, for purposes of calculating this ratio, exclude from cash flow of AREP and guarantors the net income (loss) of our non-guarantor subsidiaries (and other amounts including interest expense, depreciation, and other non-cash items deducted in calculating a subsidiary s net income), but include cash and cash equivalents received from investments or subsidiaries. For the four quarters ended December 31, 2005, the ratio of cash flow to fixed charges was in excess of 1.5 to 1.0. If the ratio were less than 1.5 to 1.0, we would be deemed to have satisfied this test if there were deposited cash, which together with cash previously deposited for such purpose and not released, equal to the amount of interest payable on the notes for one year (approximately $63 million). We believe that our existing liquidity would enable us to escrow any required amounts to remain in compliance with the relevant covenant. If at any subsequent quarterly determination date, the ratio is at least 1.5 to 1.0, such deposited funds would be released to us.

The notes also require, on each quarterly determination date, that the ratio of total unencumbered assets, as defined, to the principal amount of unsecured indebtedness, as defined, be greater than 1.5 to 1.0 as of the last day of the most recently completed fiscal quarter. As of December 31, 2005, such ratio was in excess of 1.5 to 1.0.

The notes also restrict the creation of liens, mergers, consolidations and sales of substantially all of our assets, and transactions with affiliates.

As of December 31, 2005, we were in compliance with each of the covenants contained in our senior unsecured notes. We expect to be in compliance with each of the debt covenants for the period of at least twelve months from December 31, 2005.

Senior secured 7.85% notes due 2012 ACEP

In January 2004, ACEP issued senior secured notes due 2012. The notes, in the aggregate principal amount of $215.0 million, bear interest at the rate of 7.85% per annum which will be paid every six months, on February 1 and August 1.

ACEP s 7.85% senior secured notes due 2012 restrict the payment of cash dividends or distributions by ACEP, the purchase of its equity interests, the purchase, redemption, defeasance or acquisition of debt subordinated to ACEP s notes and investments as restricted payments. ACEP s notes also prohibit the incurrence of debt, or the issuance of disqualified or preferred stock, as defined by ACEP, with certain exceptions, provided that ACEP may incur debt or issue disqualified stock if, immediately after such incurrence or issuance, the ratio of consolidated cash flow to fixed charges, each as defined, for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional indebtedness is incurred or disqualified stock or preferred stock is issued would have been at least 2.0 to 1.0, determined on a pro forma basis giving effect to the debt incurrence or issuance. As of December 31, 2005, such ratio was in excess of 2.0 to 1.0. The ACEP notes also restrict the creation of liens, the sale of assets, mergers, consolidations or sales of substantially all of its assets, the lease or grant of a license, concession, other agreements to occupy, manage or use our assets, the issuance of capital stock of restricted subsidiaries and certain related party transactions. The ACEP notes allow it to incur indebtedness, among other things, of up to $50.0 million under credit facilities, non-recourse financing of up to $15.0 million to finance the construction, purchase or lease of personal or real property used in its business, permitted affiliate subordinated indebtedness (as defined), the issuance of additional 7.85% senior secured notes due 2012 in an aggregate principal amount not to exceed 2.0 times net cash proceeds received from equity offerings and permitted affiliate subordinated debt, and additional indebtedness of up to $10.0 million.

The restrictions imposed by ACEP s senior secured notes and the credit facility likely will preclude our receiving payments from the operations of our principal hotel and gaming properties.

Additionally, ACEP s senior secured revolving credit facility allows for borrowings of up to $20.0 million, including the issuance of letters of credit of up to $10.0 million. Loans made under the senior secured revolving facility will mature and the commitments under them will terminate in January 2008. At December 31, 2005, there were no borrowings or letters of credit outstanding under the facility. The facility contains restrictive covenants similar to those contained in the 7.85% senior secured notes due 2012. In addition, the facility requires that, as of the last date of each fiscal quarter, ACEP s ratio of net property, plant and equipment for key properties, as defined, to consolidated first lien debt be not less than 5.0 to 1.0 and ACEP s ratio of consolidated first lien debt to consolidated cash flow not be more than 1.0 to 1.0. At December 31, 2005, we were in compliance with the relevant covenants. ACEP has obtained proposals to increase its facility to $60.0 million.

Borrowings under credit facilities- Mizuho

In December, 2003 NEG Operating LLC, a subsidiary of NEG Oil & Gas, entered into a credit agreement with certain commercial lending institutions, including Mizuho Corporate Bank, Ltd. as Administrative Agent and Bank of Texas, N.A. and Bank of Nova Scotia as Co-Agents.

The credit agreement provided for a loan commitment amount of up to $145.0 million and a letter of credit commitment of up to $15.0 million (provided, the outstanding aggregate amount of the unpaid borrowings, plus the aggregate undrawn face amount of all outstanding letters of credit shall not exceed the borrowing base under the credit agreement). Borrowings under the credit agreement were purchased by us in December, 2005 coincident with the entrance into the senior secured revolving credit facility described below.

As of December 31, 2004, the outstanding balance under the credit facility was $51.8 million.

NEG Oil & Gas LLC Senior Secured Revolving Credit Facility

In December, 2005, NEG Oil & Gas entered into a credit facility with Citicorp USA, Inc. as administrative agent, Bear Stearns Corporate Lending Inc., as syndication agent, and certain other lender parties. Upon the completion of

this offering, NEG, Inc. will be a guarantor of the obligations under the credit facility.

Under the credit facility, NEG Oil & Gas is permitted to borrow up to $500.0 million. Borrowings under the revolving credit facility are subject to a borrowing base determination based on the oil and gas properties of NEG Oil & Gas and its subsidiaries and the reserves and production related to those properties. The initial borrowing base is set at $335.0 million and is subject to semi-annual redeterminations, based on engineering reports to be provided by NEG Oil & Gas by March 31 and September 30 of each year, beginning March 31, 2006. Obligations under the

credit facility are secured by liens on all of the assets of NEG Oil & Gas and its wholly-owned subsidiaries. The credit facility has a term of five years and all amounts will be due and payable on December 20, 2010. Advances under the credit facility will be in the form of either base rate loans or Eurodollar loans, each as defined. At December 31, 2005, the interest rate on the outstanding amount under the credit facility was 6.44%. Commitment fees for the unused credit facility range from 0.375% to 0.50% and are payable quarterly.

NEG Oil & Gas used the proceeds of the initial $300.0 million borrowings to (1) purchase the existing obligations of its indirect subsidiary, NEG Operating, from the lenders under NEG Operating s credit facility with Mizuho Corporate Bank, Ltd., as administrative agent, (2) to repay a National Onshore loan, borrowed from AREP, of $85.0 million used to purchase properties in the Minden Field; (3) pay a distribution to AREP of $78.0 million, and (4) pay transaction costs.

The credit facility contains covenants that, among other things, restrict the incurrence of indebtedness by NEG Oil & Gas and its subsidiaries, the creation of liens by them, hedging contracts, mergers and issuances of securities by them, and distributions and investments by NEG Oil & Gas and its subsidiaries. The covenant restricting indebtedness allows, among other things, for the incurrence of up to $200.0 million principal amount of second lien borrowings or high yield debt that satisfy certain conditions specified in the credit facility. The restriction on distributions and investments allows, among other things, for distributions to AREP from the proceeds from the issuance or borrowing of second lien or high yield debt and distributions in connection with an initial equity offering, as defined, quarterly tax distributions to NEG Oil & Gas equity holders, repayment of currently outstanding advances by AREP to subsidiaries of NEG Oil & Gas aggregating approximately $40.0 million and other cash distributions to NEG Oil & Gas s equity holders not to exceed $8.0 million in any fiscal year.

The credit facility also requires NEG Oil & Gas to maintain: (1) a ratio of consolidated total debt to consolidated EBITDA (for the four fiscal quarter period ending on the date of the consolidated balance sheet used to determine consolidated total debt), as defined, of not more than 3.5 to 1.0; (2) consolidated tangible net worth, as defined, of not less than $240.0 million, plus 50% of consolidated net income for each fiscal quarter ending after December 31, 2005 for which consolidated net income is positive; and (3) a ratio of consolidated current assets to consolidated current liabilities of not less than 1.0 to 1.0. These covenants may have the effect of limiting distributions by NEG Oil & Gas.

Obligations under the credit facility are immediately due and payable upon the occurrence of certain events of default in the credit facility, including failure to pay any principal components of any obligations when due and payable, failure to comply with any covenant or condition of any loan document or hedging contract, as defined in the credit facility, within 30 days of receiving notice of such failure, any change of control or any event of default as defined in the restated NEG Operating credit facility.

Mortgages payable

Mortgages payable, all of which are nonrecourse to us, are summarized below. The mortgages bear interest at rates between 4.97-7.99% and have maturities between September 1, 2008 and July 1, 2016. The following is a summary of mortgages payable (in $000s):

	December 31,	
	2005	**2004**
Total mortgages	$ 81,512	$ 91,896
Less current portion and mortgages on properties held for sale	(18,104)	(31,177)

	$ 63,408	$ 60,719

Table of Contents

Contractual Commitments

The following table reflects, at December 31, 2005, our contractual cash obligations, subject to certain conditions, due over the indicated periods and when they come due ($ in millions):

	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Senior unsecured 7.125% notes	$	$	$	$ 480.0	$ 480.0
Senior unsecured 8.125% notes				353.0	353.0
Senior secured 7.85% notes				215.0	215.0
Senior debt interest	79.8	164.0	159.5	185.5	588.8
Oil & Gas Credit facility			300.0		300.0
Oil & Gas Credit facility interest	19.3	38.6	38.6		96.5
Derivative obligations	68.0	17.9			85.9
Mortgages payable	4.5	28.9	8.7	39.4	81.5
Lease obligations	15.7	23.0	12.7	13.8	65.2
Construction and development obligations	29.3	3.4			32.7
Other	43.8	11.4	6.4		61.6
Total	$ 260.4	$ 287.2	$ 525.9	$ 1,286.7	$ 2,360.2

Derivative Obligations

Our Oil & Gas operations have liabilities related to derivative contracts of $85.9 million at December 31, 2005. The fair value of the derivative contracts that mature in less than a year is $68.0 million. The amount, if any, that we will be required to pay with respect to any contract will be determined at the maturity date and may vary from the fair value as reported at this time depending on market prices for oil and gas and the stated contract terms.

Textile purchase orders

Purchase orders or contracts for the purchase of certain inventory and other goods and services are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Purchase orders are based on our current needs and are fulfilled by vendors within short time horizons. We do not have significant agreements for the purchase of inventory or other goods specifying minimum quantities or set prices that exceed expected requirements.

Obligations Related to Securities

As discussed in Note 8 of the consolidated financial statements, we have contractual liabilities of $75.9 million and $131.1 million related to securities sold not yet purchased and a margin liability on marketable securities, respectively. These amounts have not been included in the table above as their maturity is not subject to a contract and cannot properly be estimated.

Off Balance Sheet Arrangements

We do not maintain any off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others.

Discussion of Segment Liquidity and Capital Resources

Oil & Gas

NEG Oil & Gas derives its cash primarily from the sale of natural gas and oil and borrowings. During the year ended December 31, 2005, cash flows from operations provided by our oil and gas segment was $154.7 million

compared to $91.6 million in 2004. The increase was primarily attributable to higher revenues due to the acquisition of National Offshore and higher price realizations.

During the year ended December 31, 2005, our oil and gas capital expenditures aggregated $315.9 million. NEG Oil & Gas capital expenditures for 2006 are forecasted to be approximately $200.0 million. The planned capital expenditures do not include any major acquisitions that we may consider from time to time and for which NEG Oil & Gas may need to obtain additional financing.

On March 10, 2005, NEG Oil & Gas sold its rights and interests in West Delta 52, 54 and 58 to an unrelated third party in exchange for the assumption of existing future asset retirement obligations on the properties and a cash payment of $0.5 million. The estimated fair value of the asset retirement obligations assumed by the purchaser was $16.8 million. In addition, NEG Oil & Gas transferred to the purchaser $4.7 million in an escrow account that had been funded relating to the asset retirement obligations on the properties. The full cost pool was reduced by $11.6 million and no gain or loss was recognized on the transaction.

Historically, we have funded our Oil & Gas capital expenditures from Oil & Gas operating cash flows and bank borrowings. Our Oil & Gas operating cash flows may fluctuate significantly due to changes in oil and gas commodity prices, production interruptions and other factors. The timing of most of our oil and gas capital expenditures is discretionary because we have no long-term capital expenditure commitments. We may vary our capital expenditures as circumstances warrant in the future.

NEG Oil & Gas Credit Facility

On December 22, 2005, NEG Oil & Gas completed a new $500.0 million senior secured revolving credit facility, or the revolving credit facility. The initial borrowing base is $335.0 million, of which $300.0 million was drawn at closing. This facility will mature in December 2010 and is secured by substantially all of the assets of NEG Oil & Gas and its subsidiaries. The borrowing base will be redetermined semi-annually based on, among other things, the lenders review of NEG Oil & Gas mid-year and year-end reserve reports.

Gaming

Our Gaming segment derives cash primarily from casino, hotel and related activities. Cash from operations was $68.5 million, $58.7 million and $45.5 million for the years ended December 31, 2005, 2004 and 2003, respectively. The increase from 2004 to 2005 and from 2003 to 2004 was due to increased revenues. In addition to cash from operations, cash is available to us, if necessary, under our separate senior secured revolving credit facilities for our Atlantic City and Las Vegas subsidiaries. Our Las Vegas and Atlantic City operations maintain credit facilities. Both facilities are subject to us complying with financial and other covenants. At December 31, 2005, we had availability under our credit facilities of $20.0 million and $3.5 million for Las Vegas and Atlantic City, respectively, at December 31, 2005, subject to continuing compliance with existing covenant restrictions. Our Las Vegas facility expires January 29, 2008 and our Atlantic City facility expires on November 17, 2007. The cash generated from operations and credit facilities of our Las Vegas and Atlantic City are not available to fund one another.

Under terms of the senior secured notes of ACEP, the ability to pay dividends and engage in other transactions with AREP are limited.

Capital spending for the Las Vegas operations was $28.2 million, $14.0 million and $30.4 million for the years ended December 31, 2005, 2004 and 2003, respectively. Capital spending for the Atlantic City operation was $4.0 million, $16.6 million and $12.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. We have estimated our combined capital expenditures for 2006 to be $29.6 million.

On November 29, 2005, AREP s wholly-owned subsidiary, AREP Gaming LLC, through its subsidiaries, AREP Laughlin Corporation and AREP Boardwalk LLC, entered into an agreement to purchase the Flamingo Laughlin Hotel and Casino in Laughlin, Nevada and 7.7 acres of land in Atlantic City, New Jersey from Harrah s Entertainment, for $170.0 million. Completion of the transaction is subject to regulatory approval and is expected to close in mid-2006. We intend to assign the right to purchase the Flamingo to ACEP. The allocation of the purchase price is subject to agreement by Harrah s. AREH s direct subsidiaries will own and operate the Flamingo as part of

Table of Contents

ACEP and the Atlantic City property will be owned by AREP Gaming LLC. ACEP has obtained proposals to increase its senior secured revolving credit facility to $60.0 million, which they plan to utilize, together with their excess cash to purchase the Flamingo and fund the additional capital spending estimated to be approximately $40.0 million through 2008.

The Flamingo owns approximately 18 acres of land located next to the Colorado River in Laughlin, Nevada and is a tourist-oriented gaming and entertainment destination property. The Flamingo features the largest hotel in Laughlin with 1,907 hotel rooms, a 57,000 square foot casino, seven dining options, 2,420 parking spaces, over 35,000 square feet of meeting space and a 3,000-seat outdoor amphitheater.

The Atlantic City acquisition includes 7.7 acres of largely underdeveloped land between The Sands and the Atlantic City Boardwalk. AREP Boardwalk LLC will acquire the site and is seeking financing for the acquisition. If such financing is not available, AREP expects to fund the purchase price from available cash.

An acquisition option is currently being discussed with Atlantic Coast.

Real Estate

Our real estate operations generate cash through rentals and leases and asset sales (principally sales of rental properties) and the operation of resorts. All of these operations generate cash flows from operations.

Real estate development activities are currently a significant user of funds. With our renewed development activity at New Seabury and Grand Harbor, it is expected that cash expenditures over the next year will approximate $100.0 million. Such amounts will be funded, principally, from unit sales and, to the extent such proceeds are insufficient, by AREP from available cash.

Asset Sales and Purchases

During the year ended December 31, 2005, we sold 14 rental real estate properties for $52.5 million, which were encumbered by mortgage debt of $10.7 million which was repaid from the sales proceeds.

Net proceeds from the sale or disposal of portfolio properties totaled $41.8 million in the year ended December 31, 2005. During 2004, net sales proceeds totaled $151.6 million.

Home Fashion

Our Home Fashion segment did not generate cash flow from operations in 2005. At December 31, 2005, the segment had approximately $90.0 million of cash and cash equivalents. WPI may receive an additional $92 million in connection with the rights offering to which we may be obligated to subscribe depending upon whether certain former creditors of WestPoint Stevens choose to do so and the outcome of the pending litigation. The rights offering has been delayed and our right to participate in it has been challenged by certain creditors of WestPoint Stevens. Until the earlier of August 8, 2006, or the date on which such rights are exercised, AREH has made available to WPI a line of credit. The proceeds from the sale under the rights offering must be used by WPI to repay the AREH line of credit. See Item 3. Legal Proceedings.

For the period from August 8, 2005 to December 31, 2005, the Home Fashion segment had a negative cash flow from operations of $9.6 million. In the first two months of 2006, the Home Fashion segment experienced an increased rate of negative cash flow from operations. Such negative cash flow was principally due to restructuring actions that had been delayed and which took place in the first two months of 2006.

Capital spending by WPI was $5.7 million for the period from August 8, 2005 to December 31, 2005. Capital expenditures for 2006 are expected to total approximately $15.0 million. We believe WPI s current liquidity levels are sufficient to fund its operations for the foreseeable future.

Our Home Fashion segment is negotiating to obtain a $250.0 million senior secured revolving credit facility from a third party which, upon the entering into the credit facility, is expected to impose various operating and financial restrictions on WPI and its subsidiaries. These restrictions include limitations on indebtedness, liens, asset sales, transactions with affiliates, acquisitions, mergers, capital expenditures, dividends and investments. Net

proceeds from the offering would be used for general business purposes including restructurings and international expansion.

Distributions

During 2005, we began to pay distributions to our unit holders. Total distributions of $0.20 were declared and paid during the year in an aggregate amount of $12.6 million.

On March 31, 2005, we distributed to holders of record of our preferred units as of March 15, 2005, 514,313 additional preferred units. Pursuant to the terms of the preferred units, on February 8, 2006, we declared our scheduled annual preferred unit distribution payable in additional preferred units at the rate of 5% of the liquidation preference of $10.00. The distribution is payable on March 31, 2006 to holders of record as of March 15, 2006. In March 2006, the number of authorized preferred units was increased to 11,400,000.

Our preferred units are subject to redemption at our option on any payment date, and the preferred units must be redeemed by us on or before March 31, 2010. The redemption price is payable, at our option, subject to the indenture, either all in cash or by the issuance of depositary units, in either case, in an amount equal to the liquidation preference of the preferred units plus any accrued but unpaid distributions thereon.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 of our consolidated financial statements. Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles, or GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Among others, estimates are used when accounting for valuation of investments, recognition of casino revenues and promotional allowances and estimated costs to complete its land, house and condominium developments. Estimates and assumptions are evaluated on an ongoing basis and are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.

We believe the following accounting policies are critical to our business operations and the understanding of results of operations and affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Accounting for the Impairment of Long-Lived Assets

Long-lived assets held and used by us and long-lived assets to be disposed of, are reviewed for impairment whenever events or changes in circumstances, such as vacancies and rejected leases, indicate that the carrying amount of an asset may not be recoverable.

In performing the review for recoverability, we estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows, undiscounted and without interest charges, is less than the carrying amount of the asset an impairment loss is recognized. Measurement of an impairment loss for long-lived assets that we expect to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

During 2005, we began to incur operating losses relating to operation of The Sands. However, The Sands continues to generate positive cash flow. We believe that our efforts to improve profitability will lead to a reversal of these operating losses. However, as there is no guarantee that our efforts will be successful, we continue to evaluate whether there is impairment under SFAS No. 144 *Accounting for the Impairment or Disposal of Long-lived Assets.* In the event that a change in operations results in a future reduction of cash flows, we may determine that an impairment under SFAS 144 has occurred at The Sands, and an impairment charge may be required. The carrying value of property, plant and equipment of The Sands at December 31, 2005 was approximately $155.5 million.

Table of Contents

Commitments and Contingencies Litigation

On an ongoing basis, we assess the potential liabilities related to any lawsuits or claims brought against us. While it is typically very difficult to determine the timing and ultimate outcome of such actions, we use our best judgment to determine if it is probable that we will incur an expense related to the settlement or final adjudication of such matters and whether a reasonable estimation of such probable loss, if any, can be made. In assessing probable losses, we make estimates of the amount of insurance recoveries, if any. We accrue a liability when we believe a loss is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertainties related to the eventual outcome of litigation and potential insurance recovery, it is possible that certain matters may be resolved for amounts materially different from any provisions or disclosures that we have previously made.

Oil and Natural Gas Properties

We utilize the full cost method of accounting for our crude oil and gas properties. Under the full cost method, all productive and nonproductive costs incurred in connection with the acquisition, exploration and development of crude oil and natural gas reserves are capitalized and amortized on the units-of-production method based upon total proved reserves. The costs of unproven properties are excluded from the amortization calculation until the individual properties are evaluated and a determination is made as to whether reserves exist. Conveyances of properties, including gains or losses on abandonments of properties, are treated as adjustments to the cost of crude oil and natural gas properties, with no gain or loss recognized.

Under the full cost method, the net book value of oil and natural gas properties, less related deferred income taxes, may not exceed the estimated after-tax future net revenues from proved oil and natural gas properties, discounted at 10% per year (the ceiling limitation). In arriving at estimated future net revenues, estimated lease operating expenses, development costs, abandonment costs, and certain production related and ad-valorem taxes are deducted. In calculating future net revenues, prices and costs in effect at the time of the calculation are held constant indefinitely, except for changes, which are fixed and determinable by existing contracts. The net book value is compared to the ceiling limitation on a quarterly basis.

Accounting for Asset Retirement Obligations

We account for our asset retirement obligation under Statement of Financial Accounting Standards No. 143 (SFAS 143), *Accounting for Asset Retirement Obligations.* SFAS 143 provides accounting requirements for costs associated with legal obligations to retire tangible, long-lived assets. Under SFAS 143, an asset retirement obligation is needed at fair value in the period in which it is incurred by increasing the carrying amount for the related long-lived asset. In each subsequent period, the liability is accreted to its present value and the capitalized cost is depreciated over the useful life of the related asset.

Income Taxes

No provision has been made for federal, state or local income taxes on the results of operations generated by partnership activities as such taxes are the responsibility of the partners. Our corporate subsidiaries, account for their income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Management periodically evaluates all evidence, both positive and negative, in determining whether a valuation allowance to reduce the carrying value of deferred tax assets is still needed. In 2005 and 2004, we concluded, based on the projected allocations of taxable income, that our corporate subsidiaries more likely than not will realize a partial benefit from their deferred tax assets and loss carry forwards. Ultimate realization of the deferred tax asset is dependent upon, among other factors, our corporate subsidiaries ability to generate sufficient

taxable income within the carry forward periods and is subject to change depending on the tax laws in effect in the years in which the carry forwards are used.

Forward Looking Statements

Statements included in Management s Discussion and Analysis of Financial Condition and Results of Operations 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 21E of the Securities Exchange Act of 1934, as amended by Public Law 104-67.

Forward looking statements regarding management s present plans or expectations involve risks and uncertainties and changing economic or competitive conditions, as well as the negotiation of agreements with third parties, which could cause actual results to differ from present plans or expectations, and such differences could be material. Readers should consider that such statements speak only as of the date hereof.

Certain Trends and Uncertainties

We have in the past and may in the future make forward looking statements. Certain of the statements contained in this document involve risks and uncertainties. Our future results could differ materially from those statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed in this document. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those predicted. Also, please see Item 1A., Risk Factors of this Form 10-K.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk.*

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our significant market risks are primarily associated with interest rates, equity prices and derivatives. The following sections address the significant market risks associated with our business activities.

Interest Rate Risk

The fair values of our long term debt and other borrowings will fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of those instruments. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

We do not invest in derivative financial instruments, interest rate swaps or other investments that alter interest rate exposure.

We have predominately long-term fixed interest rate debt. Generally, the fair market value of debt securities with a fixed interest rate will increase as interest rates fall, and the fair market value will decrease as interest rates rise. At December 31, 2005, the impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of approximately $30 million. A 100 basis point decrease would result in an increase in market value of approximately $30 million.

Equity Price Risk

The carrying values of investments subject to equity price risks are based on quoted market prices or management s estimates of fair value as of the balance sheet dates. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

Table of Contents

Based on a sensitivity analysis for our equity price risks as of December 31, 2005 and 2004 the effects of a hypothetical 20% increase or decrease in market prices as of those dates would result in a gain or loss that would be approximately $170 million and $19 million, respectively. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due to the nature of equity markets.

Commodity Price Risk

Our Home Fashion and Oil & Gas operating units selectively use commodity futures contracts, forward purchase commodity contracts, option contracts and price collars primarily to reduce the risk of changes to cotton and oil and gas prices. We do not hold or issue derivative instruments for trading purposes.

At December 31, 2005, WPI, in its normal course of business, had entered into various commodity futures contracts, forward purchase commodity contracts and option contracts. Based on December 31, 2005 forward cotton prices, WPI s forward purchase commodity contracts (which covered a portion of its 2006 needs) had a net deferred gain of $0.2 million.

Based on a sensitivity analysis for commodities that assumes a decrease of 10% in such commodity prices, the hypothetical net deferred loss for the forward purchase commodity contracts of WPI at December 31, 2005 is estimated to be $0.1 million. Actual commodity price volatility is dependent on many varied factors impacting supply and demand that are impossible to forecast. Therefore, actual changes in fair value over time could differ substantially from the hypothetical change disclosed above.

The Oil & Gas segments revenues are derived from the sale of its crude oil and natural gas production. The prices for oil and gas remain extremely volatile and sometimes experience large fluctuations as a result of relatively small changes in supply, weather conditions, economic conditions and government actions. If energy prices decline significantly, revenues and cash flow would significantly decline. In addition, a noncash write-down of our oil and gas properties could be required under full cost accounting rules if prices declined significantly, even if it is only for a short period of time. See *Revenue Recognition Oil and Natural Gas Properties* under Item 7 of this annual report on Form 10-K. From time to time, we enter into derivative financial instruments to manage oil and gas price risk related to revenue.

We use price collars to reduce the risk of changes in oil and gas prices. Under these arrangements, no payments are due by either party so long as the market price is above the floor price set in the collar below the ceiling. If the price falls below the floor, the counter-party to the collar pays the difference to us and if the price is above the ceiling, the counter-party receives the difference from us.

The following is a summary of our commodity price collar agreements as of December 31, 2005:

Type of Contract	Production Month	Volume per Month	Floor	Ceiling
No cost collars	Jan Dec 2006	31,000 Bbls	41.65	45.25
No cost collars	Jan Dec 2006	16,000 Bbls	41.75	45.40
No cost collars	Jan Dec 2006	540,000 MMBTU	6.00	7.25
No cost collars	Jan Dec 2006	120,000 MMBTU	6.00	7.28
No cost collars	Jan Dec 2006	500,000 MMBTU	4.50	5.00
No cost collars	Jan Dec 2006	500,000 MMBTU	4.50	5.00

No cost collars	Jan	Dec 2006	46,000 Bbls	60.00	68.50
(We participate in a second ceiling at $84.50 on the 46,000 Bbls)					
No cost collars	Jan	Dec 2007	30,000 Bbls	57.00	70.50
No cost collars	Jan	Dec 2007	30,000 Bbls	57.50	72.00
No cost collars	Jan	Dec 2007	930,000 MMBTU	8.00	10.23
No cost collars	Jan	Dec 2008	46,000 Bbls	55.00	69.00
No cost collars	Jan	Dec 2008	750,000 MMBTU	7.00	10.35

Table of Contents

We record derivative contracts as assets or liabilities in the balance sheet at fair value. As of December 31, 2005 and 2004, these derivatives were recorded as a liability of $85.9 million (including a current liability of $68.0 million) and $16.7 million (including a current liability of $8.9 million), respectively. The long-term portion is included in other non-current liabilities. We have elected not to designate any of these instruments as hedges for accounting purposes and, accordingly, both realized and unrealized gains and losses are included in oil and gas revenues. Our realized and unrealized losses on our derivative contracts for the periods indicated were as follows (in $000s):

	Years ended December 31,		
	2005	2004	2003
Realized loss (net cash payments)	$ (51,263)	$ (16,625)	$ (8,309)
Unrealized loss	(69,254)	(9,179)	(2,614)
	$ (120,517)	$ (25,804)	$ (10,923)

32

Item 8. ***Financial Statements and Supplementary Data.***

Report of Independent Registered Public Accounting Firm

Board of Directors and Partners of
American Real Estate Partners, L.P.

We have audited the accompanying consolidated balance sheets of American Real Estate Partners, L.P. and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in partners equity and comprehensive income (loss), and cash flows for each of the two years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Partnership s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of GB Holdings, Inc. and Subsidiaries as of and for the year ended December 31, 2004, which statements reflect total assets of 4% percent and total revenue of 25% of the related consolidated totals as of December 31, 2004. Those statements were audited by other auditors, whose report thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for GB Holdings, Inc. and Subsidiaries, is based solely on the report of the other auditors. Those auditors expressed an unqualified opinion with emphasis on a going concern matter on those financial statements in their report dated March 11, 2005.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Real Estate Partners, L.P. and Subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their operations and their consolidated cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule listed in the index at Item 15(a)(2) is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of American Real Estate Partners, L.P. and Subsidiaries internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 10, 2006 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

New York, New York
March 10, 2006 (except for Note 8,
as to which the date is March 29, 2006)

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Shareholders of GB Holdings, Inc.:

We have audited the consolidated balance sheet of GB Holdings, Inc. and subsidiaries as of December 31, 2004 (not presented herein) and the related consolidated statements of operations, changes in shareholders equity and cash flows for each of the years in the two-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GB Holdings, Inc. and subsidiaries as of December 31, 2004 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2004, in conformity with US generally accepted accounting principles.

The consolidated financial statements have been prepared assuming that GB Holdings, Inc. will continue as a going concern. As discussed in Notes 1 and 2 to the consolidated financial statements, the Company has suffered recurring net losses, has a net working capital deficiency and has significant debt obligations which are due within one year that raise substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Notes 1 and 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

Short Hills, New Jersey
March 11, 2005

Table of Contents

Report of Independent Registered Public Accounting Firm

The Partners
American Real Estate Partners, L.P.:

We have audited the accompanying consolidated statements of operations, changes in partners equity and comprehensive income, and cash flows of American Real Estate Partners, L.P. and subsidiaries for the year ended December 31, 2003. These consolidated financial statements are the responsibility of the Partnership s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of American Real Estate Partners, L.P. and subsidiaries for the year ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, effective January 1, 2003, the Partnership changed its method of accounting for asset retirement obligations.

/s/ KPMG LLP

New York, New York
November 29, 2005

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004

	December 31, 2005	December 31, 2004
	(In $000s except per Unit amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 576,123	$ 806,309
Investments	820,699	99,088
Inventories, net	244,239	
Trade, notes and other receivables, net	255,014	105,486
Other current assets	287,985	209,418
Total current assets	2,184,060	1,220,301
Property, plant and equipment, net:		
Oil & Gas	742,459	527,384
Gaming	441,059	445,400
Real Estate	285,694	291,068
Home Fashion	166,026	
Total property, plant and equipment, net	1,635,238	1,263,852
Investments	15,964	251,439
Intangible assets	23,402	
Other assets	107,798	125,561
Total assets	$ 3,966,462	$ 2,861,153
LIABILITIES AND PARTNERS EQUITY		
Current liabilities:		
Accounts payable	$ 93,807	$ 90,690
Accrued expenses	225,690	60,967
Current portion of long-term debt	24,155	76,679
Securities sold not yet purchased	75,883	90,674
Margin liability on marketable securities	131,061	
Total current liabilities	550,596	319,010
Long-term debt	1,411,666	683,128
Other non-current liabilities	89,085	92,789
Preferred limited partnership units:		

$10 per unit liquidation preference, 5% cumulative pay-in-kind; 10,900,000 authorized; 10,800,397 and 10,286,264 issued and outstanding as of December 31, 2005 and 2004, respectively	112,067	106,731
Total long-term liabilities	1,612,818	882,648
Total liabilities	2,163,414	1,201,658
Minority interests	304,599	17,740
Commitments and contingencies (Note 25)		
Partners equity		
Limited partners:		
Depositary units; 67,850,000 authorized; 62,994,030 and 47,235,485 outstanding as of December 31, 2005 and 2004, respectively	1,728,572	1,301,625
General partner	(218,202)	352,051
Treasury units at cost:		
1,137,200 depositary units	(11,921)	(11,921)
Partners equity	1,498,449	1,641,755
Total liabilities and partners equity	$ 3,966,462	$ 2,861,153

See notes to consolidated financial statements.

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2005, 2004 and 2003

	Years Ended December 31,		
	2005	**2004**	**2003**
	(In $000s, except per unit data)		
Revenues:			
Oil & Gas	$ 198,854	$ 137,988	$ 99,909
Gaming	490,321	470,836	430,369
Real Estate	100,637	61,452	46,567
Home Fashion	472,681		
	1,262,493	670,276	576,845
Expenses:			
Oil & Gas	161,333	104,935	69,569
Gaming	430,142	419,601	407,567
Real Estate	79,291	46,644	28,860
Home Fashion	495,110		
Holding Company	14,436	6,019	4,720
Acquisition costs	4,664	414	
	1,184,976	577,613	510,716
Operating income	77,517	92,663	66,129
Other income (expense), net:			
Interest expense	(104,014)	(62,183)	(38,865)
Interest income	45,889	45,241	23,806
Impairment charges on GB Holdings, Inc.	(52,366)	(15,600)	
Other income (expense), net	3,760	30,616	(8,404)
Income (loss) from continuing operations before income taxes	(29,214)	90,737	42,666
Income tax (expense) benefit	(21,092)	(18,312)	15,792
Income (loss) from continuing operations	(50,306)	72,425	58,458
Discontinued operations:			
Income from discontinued operations	1,413	6,132	6,609
Gain on sales and disposition of real estate	21,849	75,197	3,353
Income from discontinued operations	23,262	81,329	9,962
Earnings (loss) before cumulative effect of accounting change	(27,044)	153,754	68,420
Cumulative effect of accounting change			1,912
Net earnings (loss)	$ (27,044)	$ 153,754	$ 70,332

Net earnings (loss) attributable to:			
Limited partners	$ (21,640)	$ 130,850	$ 51,074
General partner	(5,404)	22,904	19,258
	$ (27,044)	$ 153,754	$ 70,332
Net earnings per limited partnership unit:			
Basic earnings (loss):			
Income (loss) from continuing operations	$ (0.82)	$ 1.11	$ 0.84
Income from discontinued operations	0.42	1.73	0.21
Basic earnings (loss) per LP unit	$ (0.40)	$ 2.84	$ 1.05
Weighted average limited partnership units outstanding	54,085,492	46,098,284	46,098,284
Diluted earnings:			
Income (loss) from continuing operations	$ (0.82)	$ 1.09	$ 0.80
Income from discontinued operations	0.42	1.55	0.18
Diluted earnings (loss) per LP unit	$ (0.40)	$ 2.64	$ 0.98
Weighted average limited partnership units and equivalent partnership units outstanding	54,085,492	51,542,312	54,489,943

See notes to consolidated financial statements.

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS
EQUITY AND COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2005, 2004 and 2003

	General Partner s Equity (Deficit)	Limited Partners Equity		Held in Treasury		Total Partners Equity
		Depositary Units	Preferred Units	Amounts	Units	
			(In $000s)			
Balance, December 31, 2002	$ 224,843	1,077,523	96,808	$ (11,921)	1,137	$ 1,387,253
Comprehensive income:						
Net earnings	19,258	51,074				70,332
Reclassification of unrealized loss on sale of debt securities	15	746				761
Net unrealized gains on securities available for sale	183	8,991				9,174
Sale of marketable equity securities available for sale	(6)	(274)				(280)
Comprehensive income	19,450	60,537				79,987
Pay-in-kind distribution		(2,391)	2,391			
Change in deferred tax asset valuation allowance related to book-tax differences existing at time of bankruptcy	524	46,581				47,105
Capital distributions	(2,808)					(2,808)
Reclassification of Preferred LP units to liabilities			(99,199)			(99,199)
Other	(24)	(1,172)				(1,196)
Net adjustment for TransTexas acquisition	116,254					116,254
Balance, December 31, 2003	358,239	1,181,078		(11,921)	1,137	1,527,396
Comprehensive income:						
Net earnings	22,904	130,850				153,754
Reclassification of unrealized gains on marketable securities sold	(190)	(9,378)				(9,568)
Net unrealized gains on securities available for sale	1	32				33
Comprehensive income	22,715	121,504				144,219
Capital distribution from American Casino	(17,916)					(17,916)

Capital contribution to American Casino	22,800				22,800
Arizona Charlies acquisition	(125,900)				(125,900)
Change in deferred tax asset related to acquisition of Arizona Charlies	2,490				2,490
Net adjustment for Panaco acquisition	91,561				91,561
Distribution to general partner	(1,919)				(1,919)
Other	(19)	(957)			(976)
Balance, December 31, 2004	352,051	1,301,625	(11,921)	1,137	1,641,755
Comprehensive income:					
Net earnings (loss)	(5,404)	(21,640)			(27,044)
Net unrealized gains on securities available for sale	5	225			230
Comprehensive loss	(5,399)	(21,415)			(26,814)
General partner contribution	9,279				9,279
AREP Oil & Gas acquisitions	(616,740)	444,998			(171,742)
GBH/Atlantic Coast acquisitions	46,249	12,000			58,249
Change in reporting entity and other	(803)	3,253			2,450
CEO LP Unit Options	10	482			492
Return of capital to GB Holdings, Inc.	(2,598)				(2,598)
Partnership distributions	(251)	(12,371)			(12,622)
Balance, December 31, 2005	$ (218,202)	1,728,572	$ (11,921)	1,137	$ 1,498,449

Accumulated other comprehensive income (loss) at December 31, 2005, 2004 and 2003 was $(0.1) million, $(0.1) million and $9.2 million, respectively.

See notes to consolidated financial statements.

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005, 2004 and 2003

	Years Ended December 31,		
	2005	2004	2003
		(In $000s)	
	(Restated) (See note 8)	(Restated) (See note 8)	
Cash flows from operating activities:			
Income (loss) from continuing operations	$ (50,306)	$ 72,425	$ 58,458
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, depletion and amortization	158,581	105,785	78,401
Investment (gains) losses	21,260	(16,540)	(2,607)
Change in fair market value of derivative contract	69,254	9,179	2,614
Impairment loss on investment in GB Holdings, Inc.	52,366	15,600	
Preferred LP unit interest expense	5,336	5,082	2,450
Minority interest	(13,822)	(2,074)	(2,721)
Deferred income tax (expense) benefit	10,130	14,297	(22,256)
Net proceeds from sales of trading securities	28,560		
Changes in operating assets and liabilities:			
Increase in trade notes and other receivables	(821)	(16,442)	(870)
Decrease (increase) in other assets	(18,725)	(123,001)	
Decrease (increase) in inventory	17,880		
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(60,092)	101,848	(42,001)
Other	(1,378)	(9,597)	261
Net cash provided by continuing operations	218,223	156,562	71,729
Income from discontinued operations	23,262	81,329	9,962
Depreciation and amortization	250	1,319	5,108
Net gain from property transactions	(21,849)	(75,197)	(3,353)
Net cash provided by discontinued operations	1,663	7,451	11,717
Net cash provided by operating activities	**219,886**	**164,013**	**83,446**
Cash flows from investing activities:			
Capital expenditures	(362,689)	(241,752)	(82,966)
Purchases of marketable equity and debt securities included in investments	(766,933)	(285,923)	(73,631)
Proceeds from sales of marketable equity and debt securities included in investments	197,653	93,556	278,321
Net proceeds from the sales and disposition of real estate	8,414	43,590	15,828

Repayment of mezzanine loans included in investments		49,130	12,200
Purchase (decrease) of debt securities of affiliates		(101,500)	
Repayment of related party note			250,000
Acquisitions of businesses, net of cash acquired	(293,649)	(125,900)	(148,101)
Cash related to combination of entities accounted for as a pooling of interest		23,753	15,312
Other	10,934	1,872	4,198
Net cash (used in) provided by investing activities	(1,206,270)	(543,174)	271,161
Cash flows from discontinued operations:			
Net proceeds from the sales and disposition of real estate	53,404	201,834	5,336
Net cash (used in) provided by investing activities	**(1,152,866)**	**(341,340)**	**276,497**

(continued on next page)

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2005, 2004 and 2003

	Years Ended December 31,		
	2005	2004	2003
		(In $000s)	
	(Restated) (See note 8)	(Restated) (See note 8)	
Cash flows from financing activities:			
Partners equity:			
Distribution to partners	$ (12,622)	$ (17,916)	$
Partners contribution	9,279	22,800	
Debt:			
Proceeds from credit facilities	382,648	8,000	99,405
Repayment of credit facilities	(130,609)		(3,994)
Proceeds from senior notes payable	480,000	565,409	
Decrease in due to affiliates		(24,925)	
Proceeds from mortgages payable	4,425	10,000	20,000
Mortgages paid upon disposition of properties	(5,675)	(26,800)	(3,837)
Periodic principal payments	(3,941)	(14,692)	(61,998)
Debt issuance costs	(13,618)	(25,177)	(952)
Other	(165)	758	
Net cash provided by financing activities	709,722	497,457	48,624
Cash flows from discontinued operations:			
Mortgages paid upon disposition of properties	(6,928)	(67,045)	(538)
Net cash provided by financing activities	**702,794**	**430,412**	**48,086**
Net increase (decrease) in cash and cash equivalents	(230,186)	253,085	408,029
Cash and cash equivalents, beginning of year	**806,309**	**553,224**	**145,195**
Cash and cash equivalents, end of year	**$ 576,123**	**$ 806,309**	**$ 553,224**
Supplemental information:			
Cash payments for interest, net of amounts capitalized	$ 77,745	$ 60,472	$ 78,890
Cash payments for income taxes, net of refunds	$ 10,194	$ 2,912	$ 609
Conversion of bonds in connection with acquisition of WPI	$ 205,850	$	$

Net unrealized gains (losses) on securities available for sale	$	230	$	33	$	9,174
Debt conversion re Atlantic Coast	$	29,500	$		$	
LP Unit Issuance	$	456,998	$		$	
Contribution of note from NEG Holding LLC	$		$		$	10,940
Change in tax asset related to acquisition	$	7,329	$	2,490	$	

See Note 7 for the cash and non-cash effects of our acquisition of WPI.

See notes to consolidated financial statements.

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005, 2004 AND 2003

1. Description of Business and Basis of Presentation

General

American Real Estate Partners, L.P. (the Company or AREP or we) is a master limited partnership formed in Delaware on February 17, 1987. AREP is a diversified holding company owning subsidiaries engaged in the following operating businesses: (1) Home Fashion; (2) Gaming; (3) Oil & Gas; and (4) Real Estate. Further information regarding our reportable segments is contained in Note 23.

We own a 99% limited partner interest in American Real Estate Holdings Limited Partnership, or AREH. AREH, the operating partnership, holds our investments and conducts our business operations. Substantially all of our assets and liabilities are owned by AREH and substantially all of our operations are conducted through AREH. American Property Investors, Inc., or API, owns a 1% general partner interest in both us and AREH, representing an aggregate 1.99% general partner interest in us and AREH. API is owned and controlled by Mr. Carl C. Icahn.

Under our amended Partnership Agreement we are permitted to make non-real estate related acquisitions and investments to enhance unitholder value and further diversify our assets. Investments may include equity and debt securities of domestic and foreign issuers. The portion of our assets invested in any one type of security or any single issuer are not limited.

We will conduct our activities in such a manner as not to be deemed an investment company under the Investment Company Act of 1940, or the 1940 Act. Generally, this means that no more than 40% of the Company s total assets will be invested in investment securities, as such term is defined in the 1940 Act. In addition, we do not intend to invest in securities as our primary business and will structure our investments to continue to be taxed as a partnership rather than as a corporation under the applicable publicly traded partnership rules of the Internal Revenue Code.

As of December 31, 2005 affiliates of Mr. Icahn owned 9,346,044 preferred units and 55,655,382 depositary units which represented 86.5% and 90% of the outstanding preferred units and depositary units, respectively.

Change in Reporting Entity

Our historical financial statements herein have been revised to reflect the acquisition of interests in five entities in the second quarter of 2005. (The revised historical financial statements were filed on a current report on Form 8-K on December 2, 2005.) The acquisitions included oil and gas and gaming entities and are described more fully in Notes 3, 5 and 6. In accordance with generally accepted accounting principles, assets transferred between entities under common control are accounted for at historical cost similar to a pooling of interests, and the financial statements of previously separate companies for periods prior to the acquisition are revised on a combined basis.

Discontinued Operations

Certain of our properties are classified as discontinued operations. The properties classified as discontinued operations have changed during 2005 and, accordingly, certain amounts in the accompanying 2004 and 2003 financial statements have been reclassified to conform to the current classification of properties.

Acquisition of the Assets of WestPoint Stevens Inc.

On August 8, 2005, WestPoint International, or WPI, our indirect subsidiary, completed the acquisition of substantially all of the assets of WestPoint Stevens Inc. The acquisition was completed pursuant to an agreement dated June 23, 2005, which was subsequently approved by the U.S. Bankruptcy Court. WestPoint Stevens is engaged in the business of manufacturing, sourcing, marketing and distributing bed and bath home fashion products.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The acquisition has been accounted for on the purchase method of accounting, effective August 8, 2005, the date on which the acquisition was completed. Accordingly, the fair value of the equity as of August 8, 2005 has been used in determining the fair values to be assigned to assets and liabilities on the opening balance sheet.

A recent court order may result in our ownership of WPI being reduced to less than 50%. If we were to own less than 50% of the outstanding common stock and lose control of WPI, we would no longer consolidate WPI and our financial statements would be materially different than those presented as of December 31, 2005 and for the year then ended. (See Note 25.)

Filing Status of Subsidiaries

Each of National Energy Group, Inc. or NEG, and Atlantic Coast Entertainment Holdings, Inc., or Atlantic Coast, are reporting companies under the Securities Exchange Act of 1934. In addition, American Casino & Entertainment Properties LLC (American Casino or ACEP) voluntarily files annual, quarterly and current reports. Each of these reports is separately filed with the Securities and Exchange Commission and are publicly available.

2. Summary of Significant Accounting Policies

As discussed in Note 1, we operate in several diversified segments. The accounting policies related to the specific segments or industries are differentiated, as required, in the list of significant accounting policies set out below.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AREP and our majority-owned subsidiaries in which AREP has a controlling financial interest as of the financial statement date. We are considered to have control if we have a direct or indirect ability to make decisions about an entity s activities through voting or similar rights. We use the guidance set forth in AICPA Statement of Position No. 78-9, *Accounting for Investments in Real Estate Ventures*, and Emerging Issues Task Force Issue No. 04-05*, Investor s Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights*, with respect to our investments in partnerships and limited liability companies. All intercompany balances and transactions are eliminated.

Investments in affiliated companies determined to be voting interest entities in which we own between 20% and 50%, and therefore exercise significant influence, but which it does not control, are accounted for using the equity method.

In accordance with generally accepted accounting principles, assets and liabilities transferred between entities under common control are accounted for at historical cost in a manner similar to a pooling of interests, and the financial statements of previously separate companies for periods prior to the acquisition are restated on a combined basis.

As required by FIN 46R, *Consolidation of Variable Interest Entities,* we evaluate our investments and other financial relationships to determine whether any further entities are required to be consolidated. As of December 31, 2005, we consolidated one entity under these rules (see Note 4).

Use of Estimates in Preparation of Financial Statements

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. The more significant estimates include (1) the valuation allowances of accounts receivable and inventory, (2) the

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

valuation of long-lived assets, mortgages and notes receivable, marketable equity and debt securities and other investments, (3) costs to complete for land, house and condominium developments, (4) gaming-related liability and promotional programs, (5) deferred tax assets, (6) oil and gas reserve estimates, (7) asset retirement obligations and (8) fair value of derivatives. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Cash and Cash Equivalents

We consider short-term investments, which are highly liquid with original maturities of three months or less at date of purchase, to be cash equivalents.

Restricted Cash

Restricted cash results primarily from escrow deposits, funds held in connection with collateralizing letters of credit and proceeds from securities sold but not yet purchased that require cash to be on deposit with the relevant brokerage institution. Restricted cash was $161.2 million and $142.9 million at December 31, 2005 and 2004, respectively, and is included as a component of other current assets in the accompanying consolidated balance sheets.

Investments

Investments in equity and debt securities are classified as either trading or available for sale based upon whether we intend to hold the investment for the foreseeable future. Trading securities are valued at quoted market value at each balance sheet date with the unrealized gains or losses reflected in the consolidated statements of operations. Available for sale securities are carried at fair value on our balance sheet. Unrealized holding gains and losses on available for sale securities are excluded from earnings and reported as a separate component of partners equity and when sold are reclassified out of partners equity. For purposes of determining gains and losses, the cost of securities is based on specific identification.

A decline in the market value of any available for sale security below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the investment is established. Dividend income is recorded when declared and interest income is recognized when earned.

Accounts Receivable

An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable at the date of the consolidated financial statements, assessments of collectibility based on an evaluation of historic and anticipated trends, the financial condition of our customers, and an evaluation of the impact of economic conditions. Our allowance for doubtful accounts is an estimate based on specifically identified accounts as well as general reserves based on historical experience.

Inventories

Inventories are stated at the lower of cost or market. The cost of manufactured goods, which are held only by WPI, includes material, labor and factory overhead. Inventories reflected on the August 8, 2005 opening WPI balance sheet

are stated at fair value as determined by an independent appraisal. Inventories acquired subsequent to August 8, 2005 are stated at the lower of cost (first-in, first-out method) or market. We maintain reserves for estimated excess, slow moving and obsolete inventory as well as inventory whose carrying value is in excess of net realizable value.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories consisted of the following (in $000s):

	December 31, 2005	August 8, 2005
Raw materials and supplies	$ 33,083	$ 35,740
Goods in process	100,337	114,448
Finished goods	110,819	111,931
	$ 244,239	$ 262,119

Property, Plant and Equipment

Land and construction-in-progress costs are stated at the lower of cost or net realizable value. Interest is capitalized on expenditures for long-term projects until a salable condition is reached. The interest capitalization rate is based on the interest rate on specific borrowings to fund the projects.

Buildings, furniture and equipment are stated at cost less accumulated depreciation unless declines in the values of the fixed assets are considered other than temporary, at which time the property is written down to net realizable value. Depreciation is principally computed using the straight-line method over the estimated useful lives of the particular property or equipment, as follows: buildings and improvements, 4 to 40 years; furniture, fixtures and equipment, 1 to 18 years. Leasehold improvements are amortized over the life of the lease or the life of the improvement, whichever is shorter.

Maintenance and repairs are charged to expense as incurred. The cost of additions and improvements is capitalized and depreciated over the remaining useful lives of the assets. The cost and accumulated depreciation of assets sold or retired are removed from our consolidated balance sheet, and any gain or loss is recognized in the year of disposal.

Real estate properties held for use or investment, other than those accounted for under the financing method, are carried at cost less accumulated depreciation. Where declines in the values of the properties are determined to be other than temporary, the cost basis of the property is written down to net realizable value. A property is classified as held for sale at the time management determines that the criteria in Statement of Financial Accounting Standards No. 144 have been met. Properties held for sale are carried at the lower of cost or net realizable value. Such properties are no longer depreciated and their results of operations are included in discontinued operations. As a result of the reclassification of certain real estate to properties held for sale during the year ended December 31, 2005 income and expenses of such properties are reclassified to discontinued operations for all prior periods. If management determines that a property classified as held for sale no longer meets the criteria in SFAS 144, the property is reclassified as held for use.

Intangible Assets

Intangible assets consist of trademarks of WPI (Note 7). In accordance with *Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite lives are no longer amortized, but instead tested for impairment.

Accounting for the Impairment of Long-Lived Assets

We evaluate our long-lived assets in accordance with the application of SFAS No. 144. Accordingly, we evaluate the realizability of our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Inherent in the reviews of the carrying amounts of the above assets are various estimates, including the expected usage of the asset. Assets must be tested at the lowest level for which identifiable cash flows exist. Future cash flow estimates are, by their nature, subjective and actual results may differ materially from our estimates. If our ongoing estimates of future cash flows are not met, we may have to

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

record impairment charges in future accounting periods. Our estimates of cash flows are based on the current regulatory, social and economic climates, recent operating information and budgets of the operating property.

In accordance with SFAS No. 144, we tested the long-lived assets of The Sands in Atlantic City for recoverability during 2005. As the property s estimated undiscounted future cash flows exceed its carrying value, we do not believe The Sands assets to be impaired. However, we will continue to monitor the performance of The Sands as well as continue to update our asset recoverability test under SFAS No. 144. If future asset recoverability tests indicate that the assets of The Sands are impaired, we would be required to record a non-cash write-down of the assets and such a write-down could have a material impact on our consolidated financial statements.

Accounting for Asset Retirement Obligations

Effective January 1, 2003 we adopted the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations.* SFAS No. 143 provides accounting requirements for costs associated with legal obligations to retire tangible, long-lived assets. Under SFAS No. 143, an asset retirement obligation is recorded at fair value in the period in which it is incurred by increasing the carrying amount for the related long-lived asset which is depreciated over its useful life. In each subsequent period, the liability is adjusted to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Upon adoption, we recorded an obligation of $3.0 million.

Leases

Substantially all of the property comprising our net lease portfolio is leased to others under long-term net leases and we account for these leases in accordance with the provisions of FASB Statement No. 13, *Accounting for Leases*, as amended. This statement sets forth specific criteria for determining whether a lease is to be accounted for as a financing lease or an operating lease. Under the financing method, minimum lease payments to be received plus the estimated value of the property at the end of the lease are considered the gross investment in the lease. Unearned income, representing the difference between gross investment and actual cost of the leased property, is amortized to income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease. Under the operating method, revenue is recognized as rentals become due, and expenses (including depreciation) are charged to operations as incurred.

Oil and Natural Gas Properties

We utilize the full cost method of accounting for our crude oil and natural gas properties. Under the full cost method, all productive and nonproductive costs incurred in connection with the acquisition, exploration and development of crude oil and natural gas reserves are capitalized and amortized on the units-of-production method based upon total proved reserves. The costs of unproven properties are excluded from the amortization calculation until the individual properties are evaluated and a determination is made as to whether reserves exist. Conveyances of properties, including gains or losses on abandonment of properties, are treated as adjustments to the cost of crude oil and natural gas properties, with no gain or loss recognized.

Under the full cost method, the net book value of oil and natural gas properties, less related deferred income taxes, may not exceed the estimated after-tax future net revenues from proved oil and natural gas properties, discounted at 10% per year (the ceiling limitation). In arriving at estimated future net revenues, estimated lease operating expenses, development costs, abandonment costs, and certain production related and ad-valorem taxes are deducted. In

calculating future net revenues, prices and costs in effect at the time of the calculation are held constant indefinitely, except for changes which are fixed and determinable by existing contracts. The net book value of oil and gas properties is compared to the ceiling limitation on a quarterly basis. We did not incur a ceiling write-down in 2005, 2004 or 2003.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We have capitalized internal costs of $1.1 million, $1.0 million and $0.6 million for the years ended December 31, 2005, 2004 and 2003, respectively, with respect to our oil and gas activities. We have not capitalized interest expense.

We are subject to extensive Federal, state and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environment effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated.

Derivatives

From time to time our subsidiaries enter into derivative contracts, including (a) commodity price collar agreements entered into by our Oil & Gas segment to reduce our exposure to price risk in the spot market for natural gas and oil and (b) commodity futures contracts, forward purchase commodity contracts and option contracts entered into by our Home Fashion segment primarily to manage our exposure to cotton commodity price risk. We follow SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which was amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities.* These pronouncements established accounting and reporting standards for derivative instruments and for hedging activities, which generally require recognition of all derivatives as either assets or liabilities in the balance sheet at their fair value. The accounting for changes in fair value depends on the intended use of the derivative and its resulting designation. Through December 31, 2005, we did not use hedge accounting and accordingly, all unrealized gains and losses are reflected in our consolidated statement of operations.

Revenue and Expense Recognition

Home Fashion WPI records revenue when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the price to the customer is fixed and determinable and collectibility is reasonably assured. Unless otherwise agreed in writing, title and risk of loss pass from WPI to the customer when WPI delivers the merchandise to the designated point of delivery, to the designated point of destination, or to the designated carrier, free on board. Provisions for certain rebates, sales incentives, product returns and discounts to customers are recorded in the same period the related revenue is recorded.

Customer incentives are provided to WPI customers primarily for new sales programs. These incentives begin to accrue when a commitment has been made to the customer and are recorded as a reduction to sales.

Gaming Gaming segment revenue consists of casino, hotel and restaurant revenues. We recognize revenues in accordance with industry practice. Casino revenue is the net win from gaming activities (the difference between gaming wins and losses). Casino revenues are net of accruals for anticipated payouts of progressive and certain other slot machine jackpots. Gross revenues include the estimated retail value of hotel rooms, food and beverage and other items that are provided to customers on a complimentary basis. A corresponding amount is deducted as promotional allowances. The costs of such complimentary revenues are included in gaming expenses. Hotel and restaurant revenue is recognized when services are performed.

We also reward our customers, through the use of loyalty programs with points based on amounts wagered, that can be redeemed for a specified period of time for cash. We deduct the cash incentive amounts from casino revenue.

Oil and Gas Revenues from the natural gas and oil produced are recognized upon the passage of title, net of royalties. We account for natural gas production imbalances using the sales method, whereby we recognize revenue on all natural gas sold to our customers notwithstanding the fact its ownership may be less than 100% of the natural gas sold. Liabilities are recorded by us for imbalances greater than our proportionate share of remaining natural gas

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reserves. We had $1.1 million and $0.9 million in gas balancing liabilities as of December 31, 2005 and 2004, respectively.

Revenues from the sale of oil and natural gas are shown net of the impact of realized and unrealized derivative losses.

Real Estate Revenue from real estate sales and related costs are recognized at the time of closing primarily by specific identification. We follow the guidelines for profit recognition set forth by SFAS No. 66, *Accounting for Sales of Real Estate.*

Income Taxes

No provision has been made for Federal, state or local income taxes on the results of operations generated by partnership activities, as such taxes are the responsibility of the partners. Provision has been made for Federal, state or local income taxes on the results of operations generated by our corporate subsidiaries. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are limited to amounts considered to be realizable in future periods. A valuation allowance is recorded against deferred tax assets if management does not believe that we have met the more likely than not standard imposed by SFAS No. 109 to allow recognition of such an asset.

Share-Based Compensation

In December 2004, SFAS No. 123 (Revised 2004), *Share-Based Payment* (SFAS No. 123R) was issued. This accounting standard eliminated the ability to account for share-based compensation transactions using the intrinsic value method in accordance with APB Opinion No. 25 and requires instead that such transactions be accounted for using a fair-value-based method. SFAS No. 123R requires public entities to record non-cash compensation expense related to payment for employee services by an equity award, such as stock options, in their financial statements over the requisite service period. We have adopted SFAS No. 123R as of June 30, 2005. The adoption of SFAS No. 123R did not have any impact on our consolidated financial statements since there were no pre-existing options.

Net Earnings Per Limited Partnership Unit

Basic earnings per LP Unit are based on net earnings after deducting preferred pay-in-kind distributions to preferred unitholders. The resulting net earnings available for limited partners are divided by the weighted average number of depositary limited partnership units outstanding.

Diluted earnings per LP Unit uses net earnings attributable to limited partner interests, as adjusted after July 1, 2003, for the preferred pay-in-kind distributions. The preferred units are considered to be equivalent units. The number of equivalent units used in the calculation of diluted income per LP unit was 5,444,028 and 8,391,659 limited partnership units for the years ended December 31, 2004 and 2003, respectively. For the year ended December 31, 2005, 3,538,196 equivalent units were excluded from the calculation of diluted income per LP unit as the effect of including

them would have been anti-dilutive.

For accounting purposes, NEG s earnings prior to the NEG acquisition in October 2003, earnings from Arizona Charlie s Decatur and Arizona Charlie s Boulder prior to their acquisition in May 2004, TransTexas earnings prior to its acquisition in April 2005, and earnings from NEG Holding LLC, or NEG Holdings (excluding

47

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

earnings from NEG Holdings allocable to NEG), Panaco, GBH, and Atlantic Coast prior to their acquisition in June 2005 have been allocated to the General Partner for accounting purposes and therefore are excluded from the computation of basic and diluted earnings per LP unit.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current years presentation. In our consolidated statements of cash flows for the years ended December 31, 2004 and 2003, we modified the classification of changes in net proceeds from sales and dispositions of real estate to present the payment of mortgages as a financing activity. This change consisted of reclassifying mortgage payments of $93,845,000 and $538,000 from investing to financing for the years ended December 31, 2004 and 2003, respectively.

Recently Issued Pronouncements

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, or SFAS 154, which replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28.* SFAS No. 154 provides guidance on the accounting for, and reporting of, accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not believe the adoption of SFAS 154 will have a material impact on our consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs An Amendment of ARB No. 43, Chapter 4*, or SFAS 151 discusses the general principles applicable to the pricing of inventory. SFAS 151 amends ARB 43, Chapter 4, to clarify that abnormal amount of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of production facilities. The provisions of this Statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are currently evaluating the impact of this standard on our consolidated financial statements.

In June 2005, the FASB issued FASB Staff Position (FSP) SOP 78-9-1, *Interaction of AICPA Statement of Position 78-9 and EIFT No. 04-5*. This FSP provides guidance on whether a general partner in a real estate partnership controls and, therefore, consolidates that partnership. The FSP is effective for general partners of all new partnerships formed after June 29, 2005, and for any existing partnership for which the partnership agreement is modified after June 29, 2005. For general partners in all other partnerships, the consensus is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. We do not believe that the adoption of this FSP will have a significant effect on our financial statements.

In November 2005, the FASB issued Staff Position Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FAS 115-1 and FAS 124-1). FAS 115-1 and FAS 124-1 address the determination of when an investment is considered impaired and whether that impairment is other-than-temporary, how to measure the impairment loss, and addresses the accounting after an entity recognizes an other-than-temporary impairment. Certain disclosures about unrealized losses that the entity did not recognize as other-than-temporary impairments are also addressed. FAS 115-1 and FAS 124-1 are effective for

periods beginning after December 15, 2005. We will be adopting this pronouncement beginning with its fiscal year 2006. We do not currently believe that the adoption of FAS 115-1 and FAS 124-1 will have a significant impact on our financial condition and results of operations.

On February 16, 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Instruments- an amendment of FASB Statements No. 133 and 140.* The statement amends Statement 133 to permit fair value measurement for certain hybrid financial instruments that contain an embedded derivative, provides additional

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

guidance on the applicability of Statement 133 and 140 to certain financial instruments and subordinated concentrations of credit risk. The new standard is effective for the first fiscal year beginning after September 15, 2006. We are currently evaluating the impact this new standard will have on our financial statements.

3. Related Party Transactions

We have entered into several transactions with entities affiliated with Mr. Icahn. The transactions include purchases by us of businesses and business interests, including debt, for the affiliated entities. Additionally, other loan and administrative service transactions have occurred as described below.

All related party transactions are reviewed and approved by our Audit Committee. Where appropriate, our Audit Committee will obtain independent financial advice and counsel on the transactions.

In accordance with generally accepted accounting principles, assets transferred between entities under common control are accounted for at historical cost similar to a pooling of interest, and the financial statements of previously separate companies for periods prior to the acquisition are restated on a combined basis. Additionally, the earnings, losses, capital contribution and distributions of the acquired entities are allocated to the general partner as an adjustment to equity, as is the difference between the consideration paid and the book basis of the entity acquired.

a. Acquisitions

Oil & Gas Segment

In October 2003, pursuant to a purchase agreement dated as of May 16, 2003, we acquired certain debt and equity securities of NEG from entities affiliated with Mr. Icahn for an aggregate cash consideration of $148.1 million plus $6.7 million in cash for accrued interest on the debt securities. The securities acquired were $148,637,000 in principal amount of outstanding 10.75% senior notes due 2006 of NEG and 5,584,044 shares of common stock of NEG. As a result of the foregoing transaction and the acquisition by us of additional securities of NEG prior to the closing, we beneficially owned in excess of 50% of the outstanding common stock of NEG. In connection with the acquisition of stock in NEG, the excess of cash disbursed over the historical cost, which amounted to $2.8 million, was charged to the general partner s equity. NEG owns a 50% interest in NEG Holdings; the other 50% interest in NEG Holdings was held by an affiliate of Mr. Icahn prior to our acquisition of the interest during the second quarter of 2005. NEG Holdings owns NEG Operating LLC (Operating LLC) which owns operating oil and gas properties managed by NEG.

On December 6, 2004, we purchased from affiliates of Mr. Icahn $27.5 million aggregate principal amount, or 100% of the outstanding term notes issued by TransTexas, (the TransTexas Notes). The purchase price was $28,245,890, in cash, which equals the principal amount of the TransTexas Notes plus accrued but unpaid interest.

In December 2004, we purchased all of the membership interests of Mid River LLC, or Mid River, from affiliates of Mr. Icahn for an aggregate purchase price of $38,125,999. The assets of Mid River consist of $38,000,000 principal amount of term loans of Panaco.

In January 2005, we entered into an agreement to acquire TransTexas (now known as National Onshore), Panaco (now known as National Offshore) and the membership interest in NEG Holdings other than that already owned by

NEG for cash consideration of $180.0 million and depositary units valued, in the aggregate, at $445.0 million, from affiliates of Mr. Icahn. The acquisition of TransTexas was completed on April 6, 2005 for $180 million in cash. The acquisition of Panaco and the membership interest in NEG Holdings was completed on June 30, 2005 for 15,344,753 depository units, valued at $445.0 million.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gaming Segment

Las Vegas Properties

In January 2004, ACEP our indirect wholly-owned subsidiary, entered into an agreement to acquire 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 acquisition was completed on May 26, 2004.

Atlantic City Property

In 1998 and 1999, we acquired an interest in The Sands, by purchasing the principal amount of $31.4 million of first mortgage notes issued by GB Property Funding Corp. or GB Property. The purchase price for the notes was $25.3 million. GB Property was organized as a special purpose entity for borrowing funds by Greate Bay Hotel and Casino, Inc. or Greate Bay. Greate Bay is a wholly-owned subsidiary of GB Holdings, Inc. or GBH. An affiliate of the general partner also made an investment. A total of $185.0 million in notes were issued.

In January 1998, GB Property and Greate Bay filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code to restructure its long-term debt.

In July 2000, the U.S. Bankruptcy Court ruled in favor of the reorganization plan proposed by affiliates of the general partner which provided for an additional investment of $65.0 million by the Icahn affiliates in exchange for a 46% equity interest in GBH, with bondholders (which also included the Icahn affiliates) to receive $110.0 million principal amount of new notes of GB Property First Mortgage, or GB Notes and a 54% equity interest in GBH. Interest on the GB Notes was payable at the rate of 11% per annum on March 29 and September 29, beginning March 29, 2001. The outstanding principal was due September 29, 2005. The principal and interest that was due on September 29, 2005 was not paid. On September 29, 2005, GBH filed for bankruptcy for protection under Chapter 11 of the Bankruptcy Code.

Until July 22, 2004, Greate Bay was the owner and operator of Sands. Atlantic Coast was a wholly-owned subsidiary of Greate Bay which was a wholly-owned subsidiary of GBH. ACE is a wholly-owned subsidiary of Atlantic Coast. Atlantic Coast and ACE were formed in connection with a transaction (the Transaction), which included a Consent Solicitation and Offer to Exchange in which holders of the GB Notes were given the opportunity to exchange such notes, on a dollar for dollar basis, for $110.0 million of 3% Notes due 2008 (the Atlantic Coast Notes), issued by Atlantic Coast. The Transaction and the Consent Solicitation and Offer to Exchange were consummated on July 22, 2004, and holders of $66.3 million of GB Notes exchanged such notes for $66.3 million Atlantic Coast Notes. Also on July 22, 2004, in connection with the Consent Solicitation and Offer to Exchange, the indenture governing the GB Notes was amended to eliminate certain covenants and to release the liens on the collateral securing such notes. The Transaction included, among other things, the transfer of substantially all of the assets of GBH to Atlantic Coast.

The Atlantic Coast Notes are guaranteed by ACE. Also on July 22, 2004, in connection with the consummation of the Transaction and the Consent Solicitation and Offer to Exchange, GB Property and Greate Bay merged into GBH, with GBH as the surviving entity. In connection with the transfer of the assets and certain liabilities of GBH, including the assets and certain liabilities of Greate Bay, Atlantic Coast issued 2,882,937 shares of common stock, par value $.01 per share (the Atlantic Coast common stock), to Greate Bay which, following the merger of Greate Bay became

the sole asset of GBH. Substantially all of the assets and liabilities of GBH and Greate Bay (with the exception of the remaining GB Notes and accrued interest thereon, the Atlantic Coast Common Stock, and the related pro rata share of deferred financing costs) were transferred to Atlantic Coast or ACE. As part of the Transaction, an aggregate of 10,000,000 warrants were distributed on a pro rata basis to the stockholders of GBH upon the consummation of the Transaction. Such warrants allow the holders to purchase from Atlantic Coast at an exercise price of $.01 per share, an aggregate of 2,750,000 shares of Atlantic Coast Common Stock and are only exercisable following the earlier of (a) either the Atlantic Coast Notes being paid in cash or upon conversion, in whole or in part, into Atlantic Coast Common Stock, (b) payment in full of the outstanding principal of the GB

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Notes exchanged, or (c) a determination by a majority of the board of directors of Atlantic Coast (including at least one independent director of Atlantic Coast) that the Warrants may be exercised. The Sands New Jersey gaming license was transferred to ACE in accordance with the approval of the New Jersey Casino Control Commission.

On December 27, 2004, we purchased $37.0 million principal amount of Atlantic Coast Notes from two Icahn affiliates for cash consideration of $36.0 million. We already owned $26.9 million principal amount of Atlantic Coast Notes.

On May 17, 2005, we (1) converted $28.8 million in principal amount of Atlantic Coast Notes into 1,891,181 shares of Atlantic Coast common stock and (2) exercised warrants to acquire 997,620 shares of Atlantic Coast common stock. Also on May 17, 2005, affiliates of Mr. Icahn exercised warrants to acquire 1,133,284 shares of Atlantic Coast common stock. Prior to May 17, 2005, GBH owned 100% of the outstanding common stock of Atlantic Coast.

On June 30, 2005, we completed the purchase of 4,121,033 shares of common stock of GBH and 1,133,284 shares of Atlantic Coast from affiliates of Mr. Icahn in consideration of 413,793 of our depositary units. Up to an additional 206,897 depositary units may be issued if Atlantic Coast meets certain earnings targets during 2005 and 2006. The depositary units issued in consideration for the acquisitions were valued at $12.0 million. Based on the 2005 operating performance of The Sands, it is not expected that any additional amounts will be paid.

After the acquisition, we owned 77.5% of the common stock of GBH and 58.2% of the common stock of Atlantic Coast. As a result of the acquisition, we obtained control of GBH and Atlantic Coast. The period of common control for GBH and Atlantic Coast began prior to January 1, 2002. The financial statements give retroactive effect to the consolidation of GBH and Atlantic Coast. We had previously accounted for GBH on the equity method. On September 29, 2005, GBH filed for bankruptcy.

b. Investments

We may, on occasion, invest in securities in which entities affiliated with Mr. Icahn are also investing, for example, as reported on our Schedule 14A filing of December 19, 2005, we owned 11,000,000 shares of Time Warner, Inc. In a subsequent Schedule 14A, filed on February 17, 2006, we reported that our ownership of common stock of Time Warner had increased to 12,302,790 shares. With respect to this investment, we have established limitations on the amounts we may invest as a percentage of the total of the purchases by all Icahn affiliates, the price at which purchases could be made and that our purchases would be made concurrently with those of the affiliated parties. Such limitations were reviewed by our Audit Committee. During 2005, we paid expenses of $147,000 as our share of expenses related to advisory services for this investment.

c. Administrative Services

In 1997, we entered into a license agreement with an affiliate of API for office space. The license agreement expired in June 2005. In July 2005, we entered into a new license agreement with an API affiliate for the non-exclusive use of approximately 1,514 square feet for which it pays monthly base rent of $13,000 plus 16.4% of certain additional rent. The license agreement expires in May 2012. Under the agreement, base rent is subject to increases in July 2008 and December 2011. Additionally, we are entitled to certain annual rent credits each December beginning December 2005 and continuing through December 2011. For the years ended December 31, 2005, 2004 and 2003, we paid such affiliate $138,000, $162,000 and $159,000, respectively, in connection with this licensing agreement.

For the years ended December 31, 2005, 2004 and 2003, we paid $1,016,000, $506,000 and $400,000, respectively, to XO Communications, Inc., an affiliate of the general partner, for telecommunication services.

An affiliate of the general partner provided certain administrative services to us for which we incurred charges from the affiliate of $344,986, $81,600 and $78,300, for the years ended December 31, 2005, 2004 and 2003,

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respectively. We provided certain administrative services to an affiliate of the general partner and recorded income of $324,548, $80,000, and $68,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

d. Related Party Debt Transactions

In connection with TransTexas plan of reorganization on September 1, 2003, TransTexas as borrower, entered into the Restructured Oil and Gas (O&G) Note with Thornwood, an affiliate of Mr. Icahn, as lender. The Restructured O&G Note is a term loan in the amount of $32.5 million and bears interest at a rate of 10% per annum. Interest is payable semi-annually commencing six months after the effective date. Annual principal payments in the amount of $5.0 million are due on the first through fourth anniversary dates of the effective date with the final principal payment of $12.5 million due on the fifth anniversary of the effective date. The Restructured O&G Note was purchased by us in December 2004 and is eliminated in consolidation.

During fiscal year 2002, Fresca, LLC, which was acquired by American Casino in May 2004, entered into an unsecured line of credit in the amount of $25.0 million with Starfire Holding Corporation or Starfire, an affiliate of Mr. Icahn. The outstanding balance, including accrued interest, was due and payable on January 2, 2007. As of December 31, 2003, Fresca, LLC had $25.0 million outstanding. The note bore interest on the unpaid principal balance from January 2, 2002 until maturity at the rate per annum equal to the prime rate, as established by Fleet Bank, from time to time, plus 2.75%. Interest was payable semi-annually in arrears on the first day of January and July, and at maturity. The note was guaranteed by Mr. Icahn. The note was repaid during May 2004. The interest rate at December 31, 2003 was 6.75%. During the years ended December 31, 2004, 2003 and 2002, Fresca, LLC paid $0.7 million, $1.2 million and $0.4 million, respectively.

At December 31, 2002, NEG had $10.9 million outstanding under its existing $100 million credit facility with Arnos, an Icahn affiliate. Arnos continued to be the holder of the credit facility; however, the $10.9 million note outstanding under the credit facility was contributed to Holding LLC as part of Gascon s contribution to Holding LLC on September 12, 2001. In December 2001, the maturity date of the credit facility was extended to December 31, 2003 and NEG was given a waiver of compliance with respect to any and all covenant violations.

On March 26, 2003, NEG Holdings distributed the $10.9 million note outstanding under NEG s revolving credit facility as a priority distribution to NEG, thereby canceling the note. Also, on March 26, 2003, NEG, Arnos and Operating LLC entered into an agreement to assign the credit facility to Operating LLC. Effective with this assignment, Arnos amended the credit facility to increase the revolving commitment to $150 million, increase the borrowing base to $75.0 million and extend the revolving due date until June 30, 2004. Concurrently, Arnos extended a $42.8 million loan to Operating LLC under the amended credit facility. Operating LLC then distributed $42.8 million to NEG Holdings which, thereafter, made a $40.5 million priority distribution and a $2.3 million guaranteed payment to NEG. NEG utilized these funds to pay the entire amount of the long-term interest payable on the Notes and interest accrued thereon outstanding on March 27, 2003. The Arnos facility was canceled on December 29, 2003 in conjunction with a third party bank financing.

On September 24, 2001, Arizona Charlie s, Inc., the predecessor entity to Arizona Charlie s, LLC, which was acquired by American Casino in May 2004, refinanced the remaining principal balance of $7.9 million on a prior note payable to Arnos Corp., an affiliate of Mr. Icahn. The note bore interest at the prime rate plus 1.50% (5.75% per annum at December 31, 2002), with a maturity of June 2004, and was collateralized by all the assets of Arizona Charlie s, Inc. The note was repaid during November 2003. During the years ended December 31, 2003 and 2002, Arizona Charlie s,

Inc. paid interest expense of $0.1 million and $0.4 million, respectively.

e. Other

At December 31, 2002, we held a $250 million note receivable from Mr. Icahn, which was repaid in October 2003. Interest income of $7.9 million was earned on this loan in the year ended December 31, 2003, and is included in interest income in the accompanying consolidated statements of operations.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On June 30, 2005, in connection with the issuance by us of depositary units in connection with the NEG Holdings, Panaco, GBH and Atlantic Coast transactions, we entered into a registration rights agreement with entities affiliated with Mr. Icahn.

4. Oil & Gas

We conduct our Oil & Gas operations through our wholly-owned subsidiary, NEG Oil & Gas (formerly AREP Oil & Gas). NEG Oil & Gas includes our 50.01% ownership interest in NEG, its 50% membership interest in NEG Holdings, its indirect 50% membership interest (through NEG) in NEG Holdings, and its 100% ownership interest in National Onshore and National Offshore. Our oil and gas operations consist of exploration, development, and production operations principally in Texas, Oklahoma, Louisiana and Arkansas and offshore in the Gulf of Mexico.

Summary balance sheets for NEG Oil & Gas as of December 31, 2005 and 2004, included in the consolidated balance sheet, are as follows (in $000s):

	December 31, 2005	December 31, 2004
Current assets	$ 172,188	$ 81,748
Oil and gas properties, full cost method	742,459	527,384
Other noncurrent assets	43,648	40,492
Total assets	$ 958,295	$ 649,624
Current liabilities	$ 103,726	$ 48,832
Noncurrent liabilities	360,479	123,651
Total liabilities	$ 464,205	$ 172,483

Summarized income statement information for the years ended December 31, 2005, 2004 and 2003 is as follows (in $000s):

	Years Ended December 31, 2005	2004	2003
Gross oil and gas revenues:	$ 312,661	$ 161,055	$ 108,713
Realized derivatives losses	(51,263)	(16,625)	(8,309)
Unrealized derivatives losses	(69,254)	(9,179)	(2,614)
Oil and gas revenues	192,144	135,251	97,790

Plant revenues	6,710	2,737	2,119
Total revenues	198,854	137,988	99,909
Cost and expenses:			
Total oil and gas operating expenses	54,800	31,075	22,345
Depreciation, depletion and amortization	91,100	60,123	39,455
General and administrative expenses	15,433	13,737	7,769
	161,333	104,935	69,569
Operating income	$ 37,521	$ 33,053	$ 30,340

Oil and gas operating expenses comprise expenses that are directly attributable to exploration, development and production operations including lease operating expenses, transportation expenses, gas plant operating expenses, ad valorem and production taxes.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As discussed in Note 3 above, substantially all of our oil and gas properties were acquired in transactions with affiliates of Mr. Icahn. The acquisition of entities under common control is required to be accounted for under the as if pooling method during the period of common control. As a result of this method of accounting, the assets and liabilities of National Onshore, National Offshore and NEG Holdings are included in the consolidated financial statements at historical cost. All prior period financial statements of the Company include the consolidated results of operations and cash flows of the acquired entities. The period of common control for National Onshore began September 1, 2003, when it emerged from bankruptcy. The period of common control for National Offshore began November 16, 2004, when it emerged from bankruptcy.

The membership interest acquired in NEG Holdings constitutes all of the membership interests other than the membership interest already owned by NEG, which is itself 50.01% owned by us. As a result of the acquisition of the additional direct interest in NEG Holdings, we are the primary beneficiary of NEG Holdings in accordance with FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* and consolidate the financial results of NEG Holdings since September 1, 2001, the period of common control.

For financial reporting purposes, earnings, capital contributions and capital distributions prior to the acquisitions have been allocated to the General Partner.

Other Acquisitions and Dispositions

In March 2005, NEG Oil & Gas purchased an additional interest in the Longfellow Ranch oil and gas property for $31.9 million. The Longfellow Ranch is located in Pecos County, Texas and includes the Val Verde basin, a gas producing area.

In November 2005, NEG Oil & Gas purchased oil and gas properties and acreage in the Minden Field near its existing properties in East Texas for $82.3 million, after purchase price adjustments. The Minden Field property acquisition includes 3,500 net acres with 17 producing properties.

In March 2005, NEG Oil & Gas sold its rights and interest in West Delta 52, 54, and 58 to an unrelated third party in exchange for the assumption of existing future asset retirement obligations on the properties and a cash payment of $0.5 million. The estimated fair value of the asset retirement obligations assumed by the purchaser was $16.8 million. In addition, NEG Oil & Gas transferred to the purchaser $4.7 million in an escrow account that had been funded relating to the asset retirement obligations on the properties. The full cost pool was reduced by $11.6 million and no gain or loss was recognized on the transaction.

In December 2005, NEG Oil & Gas sold its investment in an equity method investee for a gain of $5.5 million. This amount is included in other income (expense) in the accompanying consolidated statement of operations.

NEG Oil & Gas Credit Facility

On December 22, 2005, NEG Oil & Gas completed a new $500.0 million senior secured revolving credit facility, or the revolving credit facility. The initial borrowing base is $335 million, of which $300.0 million was drawn at closing. This facility will mature in December 2010 and is secured by substantially all of the assets of NEG Oil & Gas and its subsidiaries. The borrowing base will be re-determined semi-annually based on, among other things, the lenders

review of NEG Oil & Gas mid-year and year-end reserve reports.

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Capitalized Costs

Capitalized costs as of December 31, 2005 and 2004 relating to oil and gas producing activities are as follows (in $000s):

	December 31,	
	2005	**2004**
Proved properties	$ 1,229,923	$ 923,094
Other property and equipment	6,029	5,595
Total	1,235,952	928,689
Less: Accumulated depreciation, depletion and amortization	493,493	401,305
	$ 742,459	$ 527,384

Costs incurred in connection with property acquisition, exploration and development activities for the years ended December 31, 2005, 2004 and 2003 were as follows (in $000s except depletion rate):

	December 31,		
	2005	**2004**	**2003**
Acquisitions	$ 114,244	$ 128,673	$ 184,667
Exploration costs	75,357	62,209	6,950
Development costs	124,305	52,765	29,640
Total	$ 313,906	$ 243,647	$ 221,257
Depletion rate per Mcfe	$ 2.33	$ 2.11	$ 1.85

As of December 31, 2005, 2004 and 2003, all capitalized costs relating to oil and gas activities have been included in the full cost pool.

Supplemental Reserve Information (Unaudited)

The accompanying tables present information concerning our oil and natural gas producing activities during the years ended December 31, 2005, 2004 and 2003 and are prepared in accordance with SFAS No. 69, *Disclosures about Oil and Gas Producing Activities.*

Estimates of our proved reserves and proved developed reserves were prepared by independent firms of petroleum engineers, based on data supplied to them by NEG Oil & Gas. Estimates relating to oil and gas reserves are inherently imprecise and may be subject to substantial revisions due to changing prices and new information, such as reservoir performance, production data, additional drilling and other factors becomes available.

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Proved reserves are estimated quantities of oil, natural gas, condensate and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Natural gas liquids and condensate are included in oil reserves. Proved developed reserves are those proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves include those reserves expected to be recovered from new wells on undrilled acreage or existing wells on which a relatively major expenditure is required for recompletion. Natural gas quantities represent gas volumes which include amounts that will be extracted as natural gas liquids. Our estimated net proved reserves and proved developed reserves of oil and condensate and natural gas for the years ended December 31, 2005, 2004 and 2003 were as follows:

	Crude Oil (Barrels)	Natural Gas (Thousand cubic feet)
December 31, 2002	5,208,673	122,567,337
Reserves of National Onshore purchased from affiliate of general partner	1,120,400	41,440,700
Sales of reserves in place	(25,399)	(744,036)
Extensions and discoveries	494,191	61,637,828
Revisions of previous estimates	2,344,071	(2,728,657)
Production	(976,374)	(15,913,351)
December 31, 2003	8,165,562	206,259,821
Reserves of National Offshore purchased from affiliate of general partner	5,203,599	25,981,749
Sales of reserves in place	(15,643)	(344,271)
Extensions and discoveries	524,089	50,226,279
Revisions of previous estimates	204,272	9,810,665
Production	(1,484,005)	(18,895,077)
December 31, 2004	12,597,874	273,039,166
Purchase of reserves in place	483,108	94,937,034
Sales of reserves in place	(624,507)	(7,426,216)
Extensions and discoveries	743,019	79,591,588
Revisions of previous estimates	494,606	17,015,533
Production	(1,789,961)	(28,106,819)
December 31, 2005	11,904,139	429,050,286
Proved developed reserves:		
December 31, 2003	6,852,118	125,765,372
December 31, 2004	8,955,300	151,765,372

December 31, 2005	8,340,077	200,519,972

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Standardized Measure Information (Unaudited)

The calculation of estimated future net cash flows in the following table assumed the continuation of existing economic conditions and applied year-end prices (except for future price changes as allowed by contract) of oil and gas to the expected future production of such reserves, less estimated future expenditures (based on current costs) to be incurred in developing and producing those reserves.

The standardized measure of discounted future net cash flows does not purport, nor should it be interpreted, to present the fair market value of our oil and gas reserves. These estimates reflect proved reserves only and ignore, among other things, changes in prices and costs, revenues that could result from probable reserves which could become proved reserves in later years and the risks inherent in reserve estimates. The standardized measure of discounted future net cash flows relating to proved oil and gas reserves as of December 31, 2005 and 2004 is as follows (in $000s):

	December 31,	
	2005	**2004**
Future cash inflows	$ 4,891,094	$ 2,203,900
Future production and development costs	(1,556,792)	(836,092)
Future income taxes		(32,979)
Future net cash flows	3,334,302	1,334,829
Annual discount (10%) for estimating timing of cash flows	(1,562,242)	(563,549)
Standardized measure of discounted future net cash flows	$ 1,772,060	$ 771,280

Principal sources of change in the standardized measure of discounted future net cash flows for the years ended December 31, 2005, 2004 and 2003 was (in $000s):

		December 31,	
	2005	**2004**	**2003**
Beginning of year	$ 771,280	$ 620,498	$ 310,632
Sales of reserves in place	(34,820)	(1,376)	(2,476)
Sales and transfers of crude oil and natural gas produced net of production costs	(212,550)	(130,640)	(74,186)
Net change in prices and production costs	408,908	16,686	77,205
Development costs incurred during the period and changes in estimated future development costs	(150,639)	(96,236)	(70,350)
Acquisitions of reserves	415,208	75,239	101,804
Extensions and discoveries	411,092	193,022	211,325

Revisions of previous quantity estimates	68,937	31,730	37,718
Accretion of discount	77,128	62,050	34,457
Income taxes	24,097		
Changes in production rates and other	(6,581)	307	(5,631)
End of year	$ 1,772,060	$ 771,280	$ 620,498

During recent years, there have been significant fluctuations in the prices paid for crude oil in the world markets. This situation has had a destabilizing effect on crude oil posted prices in the United States, including the posted prices paid by purchasers of our crude oil. The net weighted average prices of crude oil and natural gas as of December 31, 2005, 2004 and 2003 was $57.28, $41.80 and $29.14 per barrel of crude oil and $9.59, $5.93 and $5.89 per thousand cubic feet of natural gas.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Gaming

We own and operate gaming properties in Las Vegas and Atlantic City. Our Las Vegas properties include the Stratosphere Casino Hotel and Tower, Arizona Charlie s Decatur and Arizona Charlie s Boulder. Our Atlantic City operations are based on our ownership of The Sands Hotel and Casino in Atlantic City, New Jersey through our majority ownership of Atlantic Coast.

As discussed in Note 3 above, substantially all of our gaming properties were acquired in transactions with affiliates of Mr. Icahn. In accordance with generally accepted accounting principles, assets transferred between entities under common control are accounted for at historical cost similar to the pooling of interest method and the financial statements are combined from the date of acquisition by an entity under common control. The financial statements include the consolidated results of operations, financial position and cash flows of our properties from the date Mr. Icahn obtained control, or the date of common control.

On September 29, 2005, GB Holdings filed a voluntary petition for bankruptcy relief under Chapter 11 of the Bankruptcy Code. As a result of this filing we determined that we no longer control GB Holdings, for accounting purposes, and deconsolidated our investment effective September 30, 2005. Further, as a result of the bankruptcy, impairment charges of $52.4 million were recorded (see Note 16).

In the year ended December 31, 2004, we recorded an impairment loss of $15.6 million on our equity investment in GBH. The purchase price pursuant to our agreement to purchase additional shares in 2005 indicated that the fair value of our investment was less than our carrying value. An impairment charge was recorded to reduce the carrying value to the value implicit in the purchase agreement

Summary balance sheets for our Gaming segment as of December 31, 2005 and 2004, included in the consolidated balance sheet, are as follows (in $000s):

	December 31,	
	2005	2004
Current assets	$ 158,250	$ 122,554
Property, plant and equipment, net	441,059	445,400
Other assets	57,632	69,714
Total assets	$ 656,941	$ 637,668
Current liabilities	$ 59,271	$ 105,385
Long term debt	217,335	220,633
Other liabilities	14,926	53,733
Total liabilities	$ 291,532	$ 379,751

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized income statement information for the years ended December 31, 2005, 2004 and 2003 is as follows (in $000s):

	December 31,		
	2005	**2004**	**2003**
Revenues:			
Casino	$ 329,789	$ 325,615	$ 302,701
Hotel	73,924	65,561	58,253
Food and beverage	92,006	88,851	81,545
Tower, retail and other income	38,668	37,330	34,059
Gross revenues	534,387	517,357	476,558
Less promotional allowances	44,066	46,521	46,189
Net revenues	490,321	470,836	430,369
Expenses:			
Casino	110,821	112,452	113,941
Hotel	31,734	27,669	24,751
Food and beverage	60,284	56,425	53,471
Tower, retail and other	16,715	14,905	15,305
Selling, general and administrative	172,947	169,736	165,754
Depreciation and amortization	37,641	38,414	34,345
	430,142	419,601	407,567
Operating income	$ 60,179	$ 51,235	$ 22,802

On January 5, 2004, ACEP entered into an agreement to acquire Arizona Charlie s Decatur and Arizona Charlie s Boulder, from Mr. Icahn and an entity affiliated with Mr. Icahn, for an aggregate consideration of $125.9 million. Upon closing, we transferred 100% of the common stock of Stratosphere to ACEP. As a result, following the acquisition and contributions, ACEP owns and operates three gaming and entertainment properties in the Las Vegas metropolitan area. We consolidate ACEP and its subsidiaries in our financial statements.

On November 29, 2005, AREP Gaming LLC, our subsidiary, entered into an agreement to purchase the Flamingo Laughlin Hotel and Casino, or the Flamingo, in Laughlin, Nevada and 7.7 acres of land in Atlantic City, New Jersey from Harrah s Entertainment, or Harrah s for $170.0 million. Completion of the transaction is subject to regulatory approval and is expected to close in mid-2006. We intend to assign the right to purchase the Flamingo to ACEP. The allocation of the purchase price is subject to agreement by Harrah s. The amount to be attributed to the Flamingo has not yet been determined. We will own and operate the Flamingo as part of ACEP and the Atlantic City property will

be owned by AREP Gaming LLC. ACEP obtained proposals to increase its senior secured revolving credit facility to $60.0 million, which it plans to utilize, together with its excess cash to purchase the Flamingo and fund the additional capital spending estimated to be approximately $40.0 million through 2006.

The Flamingo owns approximately 18 acres of land located next to the Colorado River in Laughlin, Nevada and is a tourist-oriented gaming and entertainment destination property. The Flamingo features the largest hotel in Laughlin with 1,907 hotel rooms, a 57,000 square foot casino, seven dining options, 2,420 parking spaces, over 35,000 square feet of meeting space and a 3,000-seat outdoor amphitheater

6. Real Estate

Our real estate operations consists of rental real estate, property development, and associated resort activities.

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized income statement information attributable to real estate operations is as follows (in $000s):

	Year Ended December 31,		
	2005	2004	2003
Revenues:			
Rental real estate:			
Interest income on financing leases	$ 7,299	$ 9,880	$ 13,115
Rental income	9,157	8,771	7,809
Property development	58,270	26,591	13,266
Resort operations	25,911	16,210	12,377
Total revenues	100,637	61,452	46,567
Operating expenses:			
Rental real estate	4,198	7,739	5,315
Property development	47,130	22,313	12,187
Resort operations	27,963	16,592	11,358
Total expenses	79,291	46,644	28,860
Operating income	$ 21,346	$ 14,808	$ 17,707

Rental Real Estate

As of December 31, 2005, we owned 55 rental real estate properties. These primarily consist of fee and leasehold interests in real estate in 25 states. Most of these properties are net-leased to single corporate tenants. Approximately 84% of these properties are currently net-leased, 6% are operating properties and 10% are vacant.

Property Development and Associated Resort Activities

We own, primarily through our Bayswater subsidiary, residential development properties. Bayswater, a real estate investment, management and development company, focuses primarily on the construction and sale of single-family houses, multi-family homes and lots in subdivisions and planned communities and raw land for residential development. Our New Seabury development property in Cape Cod, Massachusetts, and our Grand Harbor and Oak Harbor development property in Vero Beach, Florida each include land for future residential development of more than 450 and 980 units of residential housing, respectively. Both developments operate golf and resort activities.

A summary of real estate assets as of December 31, 2005 and 2004, included in the consolidated balance sheet, is as follows (in $000s):

	December 31,	
	2005	2004
Rental Properties:		
Finance leases, net	$ 73,292	$ 85,281
Operating leases	50,012	49,118
Property development	116,007	106,537
Resort properties	46,383	50,132
Total real estate	$ 285,694	$ 291,068

In addition to the above are properties held for sale. The amount included in other current assets related to such properties was $27.2 million and $58.0 million at December 31, 2005 and 2004, respectively. The operating results of certain of these properties are classified as discontinued operations.

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Real Estate Leased to Others Accounted for Under the Financing Method

Real estate leased to others accounted for under the financing method is summarized as follows (in $000s):

	December 31,	
	2005	2004
Minimum lease payments receivable	$ 79,849	$ 97,725
Unguaranteed residual value	43,429	48,980
	123,278	146,705
Less unearned income	46,239	57,512
	77,039	89,193
Less current portion of lease amortization	3,747	3,912
	$ 73,292	$ 85,281

The following is a summary of the anticipated future receipts of the minimum lease payments receivable at December 31, 2005 (in $000s):

2006	$ 10,484
2007	9,570
2008	8,214
2009	7,993
2010	5,067
Thereafter	38,521
	$ 79,849

At December 31, 2005 and 2004, $65.4 and $73.1 million, respectively, of the net investment in financing leases was pledged to collateralize the payment of nonrecourse mortgages payable.

Real Estate Leased to Others Accounted for Under the Operating Method

Real estate leased to others accounted for under the operating method is summarized as follows (in $000s):

December 31,

	2005	2004
Land	$ 12,449	$ 13,666
Commercial Buildings	56,256	45,972
	68,705	59,638
Less accumulated depreciation	18,693	10,520
	$ 50,012	$ 49,118

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the anticipated future receipts of minimum lease payments under non-cancelable leases at December 31, 2005 (in $000s):

2006	$ 12,921
2007	12,286
2008	11,809
2009	10,602
2010	9,437
Thereafter	31,248
	$ 88,303

At December 31, 2005 and 2004, $21.0 million and $14.2 million, respectively, of net real estate leased to others was pledged to collateralize the payment of non-recourse mortgages payable.

Property Held for Sale

We market for sale portions of our commercial real estate portfolio. Sales activity was as follows (in $000s, except unit data):

	December 31,		
	2005	**2004**	**2003**
Properties sold	14	57	9
Proceeds received	$ 52,525	$ 254,424	$ 21,164
Mortgage debt repaid	$ 10,702	$ 93,845	$ 4,375
Total gain recorded	$ 16,315	$ 80,459	$ 10,474
Gain recorded in continuing operations	$ 176	$ 5,262	$ 7,121
Gain recorded in discontinued operations(i)	$ 16,139	$ 75,197	$ 3,353

(i) In addition to gains on the rental portfolio of $16.1 million, a gain of $5.7 million on the sale of a resort property was recognized in 2005.

The following is a summary of property held for sale (in $000s):

	December 31,	
	2005	**2004**

Leased to others	$ 29,230	$ 74,444
Vacant	1,049	450
	30,279	74,894
Less accumulated depreciation	3,046	16,873
	$ 27,233	$ 58,021

At December 31, 2005 and 2004, $19.8 and $34.9 million, respectively, of real estate held for sale was pledged to collateralize the payment of non-recourse mortgages payable.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Discontinued Operations

The following is a summary of income from discontinued operations (in $000s):

	December 31,		
	2005	**2004**	**2003**
Rental income	$ 4,157	$ 14,804	$ 22,374
Hotel and resort operating income	709	3,868	6,128
	4,866	18,672	28,502
Mortgage interest expense	1,165	3,494	6,837
Depreciation and amortization	250	1,319	5,108
Property expenses	1,401	3,927	4,268
Hotel and resort operating expenses	637	3,800	5,680
	3,453	12,540	21,893
Income from discontinued operations	$ 1,413	$ 6,132	$ 6,609

Other

In July 2004, we purchased two Vero Beach, Florida waterfront communities, Grand Harbor and Oak Harbor (Grand Harbor), including their respective golf courses, tennis complex, fitness center, beach club and clubhouses. The acquisition also included properties in various stages of development, including land for future residential development, improved lots and finished residential units ready for sale. The purchase price was $75 million, which included $62 million of land and construction in progress. We plan to invest in the further development of these properties and the enhancement of the existing infrastructure.

7. Home Fashion

We conduct our home fashion operations through our indirect majority ownership in WPI. On August 8, 2005, WPI consummated the purchase of substantially all of the assets of WestPoint Stevens Inc., a manufacturer of home fashion products, pursuant to an Asset Purchase Agreement, dated June 23, 2005, which was subsequently approved by the U.S. Bankruptcy Court. The acquisition was made in furtherance of our objective of acquiring undervalued companies in distressed or out of favor industries.

WPI is engaged in the business of manufacturing, sourcing, marketing and distributing bed and bath home fashion products including, among others, sheets, pillowcases, comforters, blankets, bedspreads, pillows, mattress pads, towels and related products. WPI recognizes revenue primarily through the sale of home fashion products to a variety

of retail and institutional customers. WPI also operates 33 retail outlet stores that sell home fashion products, including, but not limited to, WPI s home fashion products. In addition, WPI receives a small portion of its revenues through the licensing of its trademarks.

On August 8, 2005, we acquired 13.2 million, or 67.7%, of the 19.5 million outstanding common shares of WPI. In consideration for the shares, we paid $219.9 million in cash and received the balance in respect of a portion of the debt of WestPoint Stevens. Pursuant to the asset purchase agreement, rights to subscribe for an additional 10.5 million shares of common stock at a price of $8.772 per share, or the rights offering, were allocated among former creditors of WestPoint Stevens. Under the asset purchase agreement and the bankruptcy court order approving the sale, we would receive rights to subscribe for 2.5 million of such shares and we agreed to purchase up to an additional 8.6 million shares of common stock to the extent that any rights were not exercised. Accordingly, upon completion of the rights offering and depending upon the extent to which the other holders exercise certain subscription rights, we would beneficially own between 15.7 million and 23.7 million shares of WPI common stock representing between 52.3% and 79.0% of the 30.0 million shares that would then be outstanding.

Table of Contents

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The foregoing description assumes that the subscription rights are allocated and exercised in the manner set forth in the asset purchase agreement and the sale order. However, certain of the first lien creditors appealed portions of the bankruptcy court s ruling. In connection with that appeal, the subscription rights distributed to the second lien lenders at closing were placed in escrow. We are vigorously contesting any changes to the sale order. Depending on the implementation of any changes to the bankruptcy court order, then ownership in WPI may be distributed in a different manner than described above and we may own less than a majority of WPI s shares of common stock. Our loss of control of WPI could adversely affect WPI s business and the value of our investment.

In addition, we consolidated the results and balance sheet of WPI as of December 31, 2005 and for the period from the date of acquisition through December 31, 2005. If we were to own less than 50% of the outstanding common stock and lose control of WPI, we no longer would consolidate it and our financial statements could be materially different than those presented as of December 31, 2005 and for the year then ended.

The aggregate consideration paid for the acquisition was as follows (in $000s):

Book value of first and second lien debt	$ 205,850
Cash purchases of additional equity	187,000
Exercise of rights	32,881
Transaction costs	2,070
	$ 427,801