AMERICAN REAL ESTATE PARTNERS L P
Form S-4
August 06, 2004

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 6, 2004

Registration No. 333-

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

FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AMERICAN REAL ESTATE PARTNERS, L.P.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	6512	13-3398766
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

AMERICAN REAL ESTATE FINANCE CORP.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	6512	20-1059842
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

AMERICAN REAL ESTATE HOLDINGS LIMITED PARTNERSHIP
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	6512	13-3398767
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

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100 SOUTH BEDFORD ROAD
MT. KISCO, NEW YORK 10549
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF REGISTRANTS' PRINCIPAL EXECUTIVE OFFICES)

JOHN SALDARELLI
VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
100 SOUTH BEDFORD ROAD
MT. KISCO, NEW YORK 10549
TELEPHONE: (914) 242-7700
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(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:
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FACSIMILE: (212) 835-6001

APPROXIMATE DATE OF COMMENCEMENT OF THE PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER UNIT (1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)
8-1/8% Senior Notes due 2012	$353,000,000	100%	$353,000,000
Guarantees (3)	-	-	-

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 under the Securities Act of 1933, as amended.

(2) Pursuant to Rule 457(f)(2) of the Securities Act of 1933, as amended, the registration fee has been estimated based on the book value of the securities to be received by the registrant in exchange for the securities to be issued hereunder in the exchange offer described herein.

(3) Pursuant to Rule 457(n) under the Securities Act, no separate fee is payable with respect to the guarantees.

THE REGISTRANTS HEREBY AMEND THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANTS

SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information in this Preliminary Prospectus is not complete and may be changed. We may not exchange these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This Preliminary Prospectus is not an offer to exchange these securities and is not soliciting offers to exchange these securities in any State where the exchange is not permitted.

PROSPECTUS SUBJECT TO COMPLETION DATED AUGUST 6, 2004

$353,000,000

AMERICAN REAL ESTATE PARTNERS, L.P.

AMERICAN REAL ESTATE FINANCE CORP.

OFFER TO EXCHANGE OUR 8-1/8% SENIOR NOTES DUE 2012, WHICH HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, FOR ANY AND ALL OF OUR OUTSTANDING 8-1/8% SENIOR NOTES DUE 2012

MATERIAL TERMS OF THE EXCHANGE OFFER

- The terms of the new notes are substantially identical to the outstanding notes, except that the transfer restrictions and registration rights relating to the outstanding notes will not apply to the new notes and the new notes will not provide for the payment of liquidated damages under circumstances related to the timing and completion of the exchange offer.

- Expires 5:00 p.m., New York City time, on _____, 2004, unless extended.

- We will exchange your validly tendered unregistered notes for an equal principal amount of a new series of notes which have been registered under the Securities Act of 1933.

- The exchange offer is not subject to any condition other than that the exchange offer not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission and other customary conditions.

- You may withdraw your tender of notes at any time before the exchange offer expires.

- The exchange of notes should not be a taxable exchange for U.S. federal income tax purposes.

- We will not receive any proceeds from the exchange offer.

- The new notes will not be traded on any national securities exchange and, therefore, we do not anticipate that an active public market in the new notes will develop.

PLEASE REFER TO "RISK FACTORS" BEGINNING ON PAGE 10 OF THIS DOCUMENT FOR CERTAIN IMPORTANT INFORMATION.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE NOTES TO BE ISSUED IN THE EXCHANGE OFFER OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS -, 2004

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We have not authorized any dealer, salesperson or other person to give any information or to make any representations to you other than the information contained in this prospectus. You must not rely on any information or representations not contained in this prospectus as if we had authorized it. This prospectus does not offer to sell or solicit any offer to buy any securities other than the registered notes to which it relates, nor does it offer to buy any of these notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The information contained in this prospectus is current only as of the date on the cover page of this prospectus, and may change after that date. We do not imply that there has been no change in the information contained in this prospectus or in our affairs since that date by delivering this prospectus.

PROSPECTUS

You should read the entire prospectus, including "Risk Factors" and the financial statements and related notes, before making an investment decision. Unless the context indicates otherwise, all references to "American Real Estate Partners, L.P.," "AREP," "we," "our," "ours" and "us" refer to American Real Estate Partners, L.P. and, unless the context otherwise indicates, include our subsidiaries. Our general partner is American Property Investors, Inc., or API. Carl C. Icahn, through affiliates, owns approximately 86.5% of our depositary units and preferred units and all of the capital stock of API. Substantially all of our businesses and assets are held through a limited partnership, American Real Estate Holdings Limited Partnership, or AREH, in which we own a 99% limited partnership interest. API also acts as the general partner for AREH. API has a 1% general partnership interest in each of us and AREH.

OUR COMPANY

We are a diversified holding company engaged in a variety of businesses. Our primary business strategy is to seek to acquire undervalued assets and companies that are distressed or out of favor. Our businesses currently include rental real estate; real estate development; hotel and resort operations; hotel and casino operations; investments in equity and debt securities; and oil and gas exploration and production. We intend to continue to invest in our core businesses, including real estate, gaming and entertainment, and oil and gas. We may also seek opportunities in other sectors, including energy, industrial manufacturing and insurance and asset management.

RENTAL REAL ESTATE. Our rental real estate operations consist primarily of retail, office and industrial properties leased to single corporate tenants. As of December 31, 2003, we owned 128 rental properties with a book value of approximately $340 million, individually encumbered by mortgage debt which, in the aggregate, was approximately $181 million. To capitalize on favorable real estate market conditions and the mature nature of our commercial real estate portfolio, we are offering for sale our rental real estate portfolio. As of March 31, 2004, we had sold eight properties for an aggregate sales price of approximately $18.7 million.

REAL ESTATE DEVELOPMENT. Our real estate development operations focus primarily on the acquisition, development, construction and sale of single-family homes, custom-built homes, multi-family homes and lots in subdivisions and planned communities. We currently are developing five residential subdivisions, of which two are in Westchester County, New York, one in Putnam County, New York and one in Naples, Florida. In addition, we are pursuing the development of our New Seabury property, a luxury second-home waterfront community in Cape Cod, Massachusetts.

HOTEL AND RESORT OPERATIONS. Our hotel and resort operations primarily consist of the New Seabury resort located in Cape Cod, Massachusetts. The property currently includes a golf club with two 18 hole championship golf courses, the Popponesset Inn, a casual waterfront dining and wedding facility, a villa rental program, a waterfront freshwater swimming pool, a private beach, a fitness center and a 16 court tennis facility.

HOTEL AND CASINO OPERATIONS. Our hotel and casino operations currently consist of the Stratosphere Casino Hotel & Tower, Arizona Charlie's Decatur and Arizona Charlie's Boulder, all in Las Vegas, Nevada. We also own approximately 36.3% of the common stock and approximately 40.6% of the public debt of the holding company that owns and operates the Sands Hotel and Casino in Atlantic City, New Jersey and its financing affiliate, respectively. Other affiliates of Mr. Icahn own approximately 41.2% of the common stock and approximately 55.9% of the public debt of the holding company that owns and operates the Sands Hotel

and Casino and its financing affiliate, respectively.

INVESTMENTS. We seek to purchase undervalued securities. Undervalued securities are those which we believe may have greater inherent value than indicated by their then current trading price and may present the opportunity for "activist" bondholders or shareholders to act as catalysts to realize value. Additionally, we engage in real estate lending, including making second mortgage or secured mezzanine loans to developers for the purpose of developing single-family homes, luxury garden apartments or commercial properties. These loans are subordinate to construction financing and we target an interest rate in excess of 20% per annum. As of March 31, 2004, we had approximately $42 million principal amount of these loans outstanding and commitments to fund additional loans of approximately $15 million, subject to the satisfaction of certain conditions. We also purchase mortgage loans, including non-performing loans.

OIL AND GAS. Our oil and gas operations involve the exploration, development, production and acquisition of oil and gas properties. We own, as of March 31, 2004, 50.01% of the outstanding equity of National Energy Group, Inc., or NEG, and all of its approximately $148.6 million principal amount of 10 3/4% senior notes due 2006. NEG currently manages 700 properties in Arkansas, Louisiana, Oklahoma and Texas. TransTexas Gas Corporation, an affiliate of Mr. Icahn, is also managed by NEG.

BUSINESS STRATEGY

We believe that our core strengths include:

- identifying and acquiring undervalued assets and businesses, often through the purchase of distressed securities;
- increasing value through management, financial or other operational changes;
- and managing complex legal, regulatory or financial issues which may include bankruptcy or insolvency, environmental, zoning, permitting and licensing issues.

We also believe that we have developed significant management strength, industry relationships and expertise in our core real estate, gaming and entertainment and oil and gas businesses. The key elements of our business strategy include the following.

CONTINUE TO INVEST IN AND GROW OUR EXISTING OPERATING BUSINESSES. We believe that we have developed a strong portfolio of businesses with experienced management teams. We may expand our existing businesses if appropriate opportunities are identified as well as use our established businesses as a platform for additional acquisitions in the same or other areas.

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

troubled entities and may then negotiate for the ownership or effective control of their assets.

ACTIVELY MANAGE OUR INVESTMENTS AND BUSINESSES. We seek investments for which we can identify specific areas for financial or operational improvement and where we can act as a catalyst for change. Change may include, but not be limited to, replacing or supplementing management, restructuring the balance sheet, increasing liquidity, disposing assets or cutting costs. We believe that we can leverage off of our core businesses to better assess and increase the value of our acquisitions. For instance, our homebuilding expertise allows us to appropriately assess the risks of a real estate development prior to making a mezzanine loan and also to complete a development if it is necessary or profitable to do so.

DEPLOY OPERATING AND TRANSACTION STRUCTURING EXPERTISE OF EXISTING MANAGEMENT TEAM INTO RELATED FIELDS. Our senior management team has extensive experience in real estate and in identifying undervalued assets in general. We believe there is significant opportunity to use this experience by acquiring or starting businesses in asset-intensive sectors, including other real estate development activities, industrial manufacturing, energy and insurance and asset management, in which we have had no or limited experience to date, but which may be undervalued and have potential for growth.

SUMMARY OF THE EXCHANGE OFFER

The Offering of the Private Notes.....	On May 12, 2004, we issued $353 million aggregat of our private notes in an offering not register Securities Act of 1933. At the time we issued t we entered into a registration rights agreement to offer to exchange the private notes for new n been registered under the Securities Act of 1933 offer is intended to satisfy that obligation.
The Exchange Offer.....	We are offering to exchange the new notes which registered under the Securities Act of 1933 for As of this date, there is $353 million aggregate of private notes outstanding.
Required Representations.....	In order to participate in this exchange offer, required to make certain representations to us i transmittal, including that: - any new notes will be acquired by you in the course of your business; - you have not engaged in, do not intend to en do not have an arrangement or understanding participate in a distribution of the new not - you are not an affiliate of our company.
Resale of New Notes.....	We believe that, subject to limited exceptions, be freely traded by you without compliance with and prospectus delivery provisions of the Securi provided that:

- you are acquiring new notes in the ordinary
  business;

- you are not participating, do not intend to
  and have no arrangement or understanding wit
  participate in the distribution of the new n

- you are not an affiliate of our company.

If our belief is inaccurate and you transfer any
you in the exchange offer without delivering a p
the requirements of the Securities Act of 1933 o
without an exemption from registration of your n
from such requirements, you may incur liability
Securities Act of We do not assume, or indemnify

Each broker-dealer that is issued new notes for
in exchange for private notes which were acquire
broker-dealer as a result of market-making or ot
activities also must acknowledge that it has not
any arrangement or understanding with us or any
affiliates to distribute the new notes and will
prospectus meeting the requirements of the Secur
1933 in connection with any resale of the new no
the exchange offer.

We have agreed in the registration rights agreem
broker-dealer may use this prospectus for an off
resale or other retransfer of the new notes issu
exchange offer.

Expiration Date.....

The exchange offer will expire at 5:00 p.m., New
_____, 2004, unless extended, in which case
"expiration date" shall mean the latest date and
extend the exchange offer.

Conditions to the Exchange Offer.....

The exchange offer is subject to certain customa
which may be waived by us. The exchange offer i
upon any minimum principal amount of private not

Procedures for Tendering
Private Notes.....

If you wish to tender your private notes for exc
transmit to Wilmington Trust Company, as exchang
address set forth in this prospectus under the h
Exchange Offer - Exchange Agent," and on the fro
letter of transmittal, on or before the expirati
properly completed and duly executed letter of t
which accompanies this prospectus, or a facsimil
of transmittal and either:

the private notes and any other required doc
exchange agent; or

a computer generated message transmitted by
Depository Trust Company's Automated Tender
and received by the exchange agent and formi

	confirmation of book entry transfer in which agree to be bound by the terms of the letter
	If either of these procedures cannot be satisfie then you should comply with the guaranteed deliv described below. By executing the letter of tran of private notes will make certain representatio under "The Exchange Offer - Procedures for Tende
Special Procedures for Beneficial Owners.....	If you are a beneficial owner whose private note the name of a broker, dealer, commercial bank, t other nominee and you wish to tender your privat exchange offer, you should contact such register and instruct such registered holder to tender on you wish to tender on your own behalf, you must, completing and executing the letter of transmitt your private notes, either make appropriate arra register ownership of the private notes in your properly completed bond power from the registere transfer of registered ownership may take consid not be able to be completed prior to the expirat

Guaranteed Delivery Procedures.....	If you wish to tender private notes and time wil documents required by the letter of transmittal exchange agent prior to the expiration date, or book-entry transfer cannot be completed on a tim tender your private notes according to the guara procedures described under "The Exchange Offer - Delivery Procedures."
Acceptance of Private Notes and Delivery of New Notes.....	Subject to the conditions described under "The E Conditions," we will accept for exchange any and which are validly tendered in the exchange offer prior to 5:00 p.m., New York City time, on the e
Withdrawal Rights.....	You may withdraw your tender of private notes at 5:00 p.m., New York City time, on the expiration compliance with the procedures for withdrawal de prospectus under heading "The Exchange Offer - W Tenders."
Federal Income Tax Considerations.....	For a discussion of the material federal income relating to the exchange of private notes for th as the ownership of the new notes, see "Certain Tax Consequences."
Exchange Agent.....	The Wilmington Trust Company is serving as the e address, telephone number and facsimile number o agent are set forth in this prospectus under the Exchange Offer - Exchange Agent."
Consequences of Failure to Exchange Private Notes.....	If you do not exchange private notes for new not continue to be subject to the restrictions on tr

the private notes and in the indenture governing notes. In general, the unregistered private note or sold, unless they are registered under the Se 1933, except pursuant to an exemption from, or i subject to, the Securities Act of 1933 and appli securities laws.

THE NEW NOTES

The terms of the new notes we are issuing in this exchange offer and the private notes that are outstanding are identical in all material respects except:

- The new notes will be registered under the Securities Act of 1933;
- The new notes will not contain transfer restrictions and registration rights that relate to the private notes.

The new notes will evidence the same debt as the old notes and will be governed by the same indenture. References to notes include both private notes and new notes.

Issuer	American Real Estate Partners, L.P. is a holding comp are conducted through its subsidiaries and substantia consist of a 99% limited partnership interest in its Real Estate Holdings Limited Partnership, or AREH, wh company for its operating subsidiaries and investment be guaranteed by AREH.
Co-Issuer	American Real Estate Finance Corp. is a wholly-owned American Real Estate Partners, L.P. It was formed sol of serving as a co-issuer of debt securities of Ameri Partners, L.P. in order to facilitate offerings of th Other than as a co-issuer of the notes, American Real does not and will not have any operations or assets a revenues. As a result, holders of the notes should no Real Estate Finance Corp. to participate in servicing the new notes.
Notes Offered	$353.0 million in aggregate principal amount of 8-1/8 2012.
Maturity	June 1, 2012.
Interest Payment Dates	June 1 and December 1 of each year, commencing Decemb
Ranking	The new notes and the guarantee will rank equally wit our and the guarantor's existing and future senior un indebtedness, and will rank senior to all of our and guarantor's existing and future subordinated indebted new notes and the guarantee will be effectively subor all of our and the guarantor's existing and future se indebtedness, to the extent of the collateral securin indebtedness. The new notes and the guarantee also wi effectively subordinated to all indebtedness and othe liabilities, including trade payables, of all our sub

	other than AREH. As of March 31, 2004, the new notes guarantee would have been effectively subordinated to aggregate of $394.3 million of AREH's secured debt an subsidiaries' debt, excluding trade payables.
Guarantee.....	If we cannot make payments on the new notes when they AREH must make them instead. Other than AREH, none of subsidiaries will guarantee payments on the new notes
Optional Redemption.....	We may, at our option, redeem some or all of the new any time on or after June 1, 2008, at the redemption listed under "Description of Notes -- Optional Redemp In addition, prior to June 1, 2007, we may, at our op redeem up to 35% of the new notes with the proceeds o sales of our equity at the redemption price listed un "Description of Notes -- Optional

	Redemption." We may make the redemption only if, after redemption, at least 65% of the aggregate principal am the notes issued remains outstanding.
Redemption Based on Gaming Laws.....	The new notes are subject to mandatory disposition and redemption requirements following certain determinatio applicable gaming authorities.
Certain Covenants.....	We will issue the new notes under an indenture with AR Wilmington Trust Company, as trustee acting on your be indenture will, among other things, restrict our and A ability to: - Incur additional debt; - Pay dividends and make distributions; - Repurchase equity securities; - Create liens; - Enter into transactions with affiliates; and - Merge or consolidate. Our subsidiaries other than AREH will not be restricte ability to incur debt, create liens or merge or consol
Absence of Established Market for Notes.....	The new notes will be new securities for which there i currently no market. We cannot assure you that a liqui for the new notes will develop or be maintained.

AREP INFORMATION

American Real Estate Partners, L.P. is a publicly traded master limited partnership formed in Delaware on February 17, 1987. Carl C. Icahn, through affiliates, owns approximately 86.5% of our depositary units and preferred units. Our general partner is American Property Investors, Inc., a Delaware corporation, which is a wholly-owned subsidiary of Beckton Corp., a Delaware corporation. All of the outstanding capital stock of Beckton is owned by Mr. Icahn. Affiliates of Mr. Icahn acquired API in 1990. Substantially all of our businesses and assets are held through a limited partnership, American Real Estate Holdings Limited Partnership, or AREH, in which we own a 99% limited partnership interest. API also acts as the general partner for AREH. API has a 1% general partnership interest in each of us and AREH. Our, AREH's and API's principal business address is 100 South Bedford Road, Mt. Kisco, New York 10549, and our, AREH's and API's telephone number is (914) 242-7700.

American Real Estate Finance Corp., a Delaware corporation, is a wholly-owned subsidiary of AREP. American Real Estate Finance Corp. was incorporated on April 19, 2004 and was formed solely for the purpose of serving as a co-issuer of debt securities of American Real Estate Partners, L.P. in order to facilitate offerings of the debt securities. Other than as a co-issuer of the notes, American Real Estate Finance Corp. will not have any operations or assets and will not have any revenues. As a result, prospective holders of the notes should not expect American Real Estate Finance Corp. to participate in servicing any obligations on the notes. American Real Estate Finance Corp.'s principal business address is 100 South Bedford Road, Mt. Kisco, New York 10549 and its telephone number is (914) 242-7700.

STRUCTURE CHART

The following is a chart of our ownership and the structure of the entities through which we conduct our operations.

[STRUCTURE CHART]

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(1) Our partnership units consist of depositary units, representing limited partnership interests, and preferred units, representing preferred limited partnership interests. Mr. Icahn owns approximately 86.5% of each class of these units. As of March 31, 2004, there were 46,098,284 depositary units and 10,286,264 preferred units outstanding.

(2) National Energy Group, Inc. is a publicly held company, the stock of which currently trades on the OTC Bulletin Board. National Energy Group, Inc.'s assets principally consist of a 50% membership interest in NEG Holding LLC. The other 50% membership interest in NEG Holding LLC is held by Gascon Partners, an affiliate of Mr. Icahn, which is the managing member of NEG Holding LLC. The assets of NEG Holding LLC consist of the membership interests of National Energy Group, Inc. Operating LLC, which owns oil and natural gas assets. The operating agreement of NEG Operating LLC provides for its management by Gascon Partners, which engaged National Energy Group, Inc. to manage the operations.

(3) New Seabury Properties L.L.C., directly and through its single purpose subsidiaries, owns a 381 acre resort community in Cape Cod, Massachusetts.

(4) On May 26, 2004, American Casino & Entertainment Properties LLC acquired

Arizona Charlie's Decatur and Arizona Charlie's Boulder from Mr. Icahn and one of his affiliates. On May 26, 2004, AREH transferred 100% of the common stock of Stratosphere Corporation to ACEP.

(5) The Bayswater Group, LLC, directly and through its and AREH's single purpose subsidiaries, is engaged in real estate investment, management and development, focused primarily on the acquisition, development, construction and sale of single-family homes, custom-built homes, multi-family homes and lots in subdivisions and planned communities.

(6) As of July 22, 2004, we own approximately 36.3% of the common stock of GB Holdings, Inc. and approximately 40.6% of the public debt of Atlantic Coast Entertainment Holdings, Inc. which owns the entity which operates the Sands Hotel and Casino. Mr. Icahn and his affiliates hold approximately an additional 41.2% of GB Holdings common stock and 55.9% of the debt of Atlantic Coast.

RISK FACTORS

You should consider carefully each of the following risks and all other information contained in this prospectus before deciding to invest in the notes.

RISKS RELATING TO OUR STRUCTURE AND INDEBTEDNESS

WE AND AREH ARE HOLDING COMPANIES AND WILL DEPEND ON THE BUSINESSES OF OUR SUBSIDIARIES TO SATISFY OUR OBLIGATIONS UNDER THE NOTES.

We and AREH are holding companies. In addition to cash and cash equivalents, U.S. government and agency obligations and marketable equity and debt securities, 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 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. If we invest our cash, we may become dependent on our subsidiaries to provide cash to us to service our debt.

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 on the 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 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 ACEP notes contain restrictions on dividends and distributions and loans to us, as well as other transactions with us. These likely will preclude our receiving payments from the operations of our principal hotel and gaming properties. To the degree any distributions and transfers are impaired or prohibited, our ability to make payments on the notes will be limited.

WE, AREH OR OUR SUBSIDIARIES MAY BE ABLE TO INCUR SUBSTANTIALLY MORE DEBT.

We, AREH or our subsidiaries may be able to incur substantial additional indebtedness in the future. The terms of the indenture do not prohibit us or our subsidiaries from doing so. We and AREH may incur additional pari passu indebtedness if we comply with certain financial tests contained in the

indenture. As of March 31, 2004, based upon these tests, we and AREH could have incurred up to approximately $1.6 billion of additional indebtedness. Our subsidiaries other than AREH are not subject to the covenant restricting debt incurrence contained in the indenture. If new debt is added to our, AREH's and our subsidiaries' current debt levels, the related risks that we, AREH and they now face could intensify. In addition, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a "Change of Control" under the indenture.

THE NOTES WILL BE EFFECTIVELY SUBORDINATED TO ANY SECURED INDEBTEDNESS, AND THE INDEBTEDNESS AND LIABILITIES OF OUR SUBSIDIARIES OTHER THAN AREH.

The notes also will be effectively subordinated to any of our and AREH's indebtedness secured by our or AREH's assets. We and AREH may be able to incur substantial additional secured indebtedness in the future. The terms of the indenture permit us and AREH to do so. The notes will be effectively subordinated to our and AREH's existing and future secured indebtedness to the extent of the collateral securing such indebtedness. The notes will also be effectively subordinated to all the indebtedness and liabilities, including trade payables, of all of our subsidiaries, other than AREH. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, other than AREH, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us.

OUR SUBSIDIARIES, OTHER THAN AREH, WILL NOT BE SUBJECT TO ANY OF THE COVENANTS IN THE INDENTURE FOR THE NOTES AND ONLY AREH WILL GUARANTEE THE NOTES. WE MAY NOT BE ABLE TO RELY ON THE CASH FLOW OR ASSETS OF OUR SUBSIDIARIES TO PAY OUR INDEBTEDNESS.

Our subsidiaries, other than AREH, will not be subject to the covenants under the indenture for the notes. We may form additional subsidiaries in the future which will not be subject to the covenants under the indenture for the notes. Of our existing and future subsidiaries, only AREH is required to guarantee the notes. Our existing and future non-guarantor subsidiaries may enter into financing arrangements that limit their ability to make dividends, distributions, loans or other payments to fund payments in respect of the notes. Accordingly, we may not be able to rely on the cash flow or assets of our subsidiaries to pay the notes.

RISKS RELATING TO THE NOTES

OUR FAILURE TO COMPLY WITH THE COVENANTS CONTAINED UNDER ONE OF OUR DEBT INSTRUMENTS OR THE INDENTURE GOVERNING THE NOTES, INCLUDING OUR FAILURE AS A RESULT OF EVENTS BEYOND OUR CONTROL, COULD RESULT IN AN EVENT OF DEFAULT WHICH WOULD MATERIALLY AND ADVERSELY AFFECT OUR FINANCIAL CONDITION.

If there were an event of default under one of our debt instruments, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. In addition, any event of default or declaration of acceleration under one debt instrument could result in an event of default under one or more of our other debt instruments, including the notes. It is possible that, if the defaulted debt is accelerated, our assets and cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments and we cannot assure you that we would be able to refinance or restructure the payments on those debt securities.

TO SERVICE OUR INDEBTEDNESS, WE WILL REQUIRE A SIGNIFICANT AMOUNT OF CASH. OUR ABILITY TO MAINTAIN OUR CURRENT CASH POSITION OR GENERATE CASH DEPENDS ON MANY

FACTORS BEYOND OUR CONTROL.

Our ability to make payments on and to refinance our indebtedness, including these notes, and to fund operations will depend on existing cash balances and our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, regulatory and other factors that are beyond our control.

We may use our cash and the proceeds of the offering of the private notes in our business activities. The businesses or assets we acquire may not generate sufficient cash to service our debt, including the notes. In addition, we may not generate sufficient cash flow from operations or investments and future borrowings may not be available to us in an amount sufficient to enable us to service our indebtedness, including these notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including these notes, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including these notes, on commercially reasonable terms or at all.

THE INDENTURE DOES NOT RESTRICT OUR ABILITY TO CHANGE OUR LINES OF BUSINESS OR INVEST THE PROCEEDS OF ASSET SALES AND ALLOWS FOR THE SALE OF ALL OR SUBSTANTIALLY ALL OF OUR AND AREH'S ASSETS WITHOUT THE NOTES BEING ASSUMED BY THE ACQUIRERS.

The indenture does not restrict in any way the businesses in which we may engage and if we were to change our current lines of business, in whole or in part, you would not be entitled to accelerated repayment of the notes. We also are not required to offer to purchase notes with the proceeds from asset sales, including in the event of the sale of all or substantially all of our assets or AREH's assets, and may reinvest the proceeds without the approval of noteholders. In addition, we and AREH may sell all or substantially all of our and its assets without the notes being assumed by the acquirers.

WE MAY NOT HAVE SUFFICIENT FUNDS NECESSARY TO FINANCE THE CHANGE OF CONTROL OFFER REQUIRED BY THE INDENTURE.

Upon the occurrence of certain specific kinds of change of control events, we will be required to offer to repurchase all outstanding notes at 101% of their principal amount plus accrued and unpaid interest and liquidated damages, if any, to the date of repurchase. Mr. Icahn, through affiliates, currently owns 100% of API and

approximately 86.5% of our outstanding depositary units and preferred units, and if he were to sell or otherwise transfer some or all of his interests in us to unrelated parties, a change of control could be deemed to have occurred under the terms of the indenture governing the notes. However, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of notes.

FEDERAL AND STATE STATUTES ALLOW COURTS, UNDER SPECIFIC CIRCUMSTANCES, TO VOID GUARANTEES AND REQUIRE NOTEHOLDERS TO RETURN PAYMENTS RECEIVED FROM THE GUARANTOR.

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee:

- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee; and

- was insolvent or rendered insolvent by reason of such incurrence; or

- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or

- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by that guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets; or

- if the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that AREH, after giving effect to its guarantee of these notes, will not be insolvent, will not have unreasonably small capital for the business in which it is engaged and will not have incurred debts beyond its ability to pay such debts as they mature. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard.

AS A NOTEHOLDER YOU MAY BE REQUIRED TO COMPLY WITH LICENSING, QUALIFICATION OR OTHER REQUIREMENTS UNDER GAMING LAWS AND COULD BE REQUIRED TO DISPOSE OF THE NOTES.

We may be required to disclose the identities of the holders of the notes to the New Jersey and Nevada gaming authorities upon request. The New Jersey Casino Control Act, or NJCCA, imposes substantial restrictions on the ownership of securities of AREP and its subsidiaries. A holder of the notes may be required to meet the qualification provisions of the NJCCA relating to financial sources and/or security holders. The indenture governing the notes provide that if the New Jersey Casino Control Commission, or New Jersey Commission, requires a holder of the notes (whether the record or beneficial owner) to qualify under the NJCCA and the holder does not so qualify, then the holder must dispose of his interest in the notes within 30 days after receipt by AREP of notice of the finding that the holder does not so qualify, or AREP may redeem the notes at the lower of the outstanding principal amount or the notes' value calculated as if the investment had been made on the date of disqualification of the holder (or the

lesser amount as may be required by the New Jersey Commission). If a holder is found unqualified by the New Jersey Commission, it is unlawful for the holder:

- to exercise, directly or through any trustee or nominee, any right conferred by such securities or

- to receive any dividends or interest upon such securities or any remuneration, in any form, from its affiliated casino licensee for services rendered or otherwise.

The Nevada Gaming Commission may, in its discretion, require a holder of the notes to file an application, be investigated and be found suitable to hold the notes. In addition, the Nevada Gaming Commission may, in its discretion, require the holder of any debt security of a company registered by the Nevada Gaming Commission as a publicly-traded corporation to file an application, be investigated and be found suitable to own such debt security.

If a record or beneficial holder of a note is required by the Nevada Gaming Commission to be found suitable, such owner will be required to apply for a finding of suitability within 30 days after request of such gaming authority or within such earlier time prescribed by such gaming authority. The applicant for a finding of suitability must pay all costs of the application and investigation for such finding of suitability. If the Nevada Gaming Commission determines that a person is unsuitable to own such security, then, pursuant to the Nevada Gaming Control Act, we can be sanctioned, including the loss of our approvals, if, without the prior approval of the Nevada Gaming Commission, we:

- pay to the unsuitable person any dividend, interest, or any distribution whatsoever;

- recognize any voting right of the unsuitable person with respect to such securities;

- pay the unsuitable person remuneration in any form; or

- make any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

Each holder of the notes will be deemed to have agreed, to the extent permitted by law, that if the Nevada gaming authorities determine that a holder or beneficial owner of the notes must be found suitable, and if that holder or beneficial owner either refuses to file an application or is found unsuitable, that holder shall, upon our request, dispose of its notes within 30 days after receipt of our request, or earlier as may be ordered by the Nevada gaming authorities. We will also have the right to call for the redemption of notes of any holder at any time to prevent the loss or material impairment of a gaming license or an application for a gaming license at a redemption price equal to:

- the lesser of the cost paid by the holder or the fair market value of the notes, in each case, plus accrued and unpaid interest and liquidated damages, if any, to the earlier of the date of redemption, or earlier as may be required by the Nevada gaming authorities or the finding of unsuitability by the Nevada gaming authorities; or

- such other lesser amount as may be ordered by the Nevada gaming authorities.

We will notify the trustee under the indenture in writing of any redemption as soon as practicable. We will not be responsible for any costs or expenses you may incur in connection with your application for a license, qualification or a finding of suitability, or your compliance with any other requirement of a gaming authority. The indenture also provides that as soon as a

gaming authority requires you to sell your notes, you will, to the extent required by applicable gaming laws, have no further right:

- to exercise, directly or indirectly, any right conferred by the notes or the indenture; or

- to receive from us any interest, dividends or any other distributions or payments, or any remuneration in any form, relating to the notes, except the redemption price we refer to above.

OUR GENERAL PARTNER AND ITS CONTROL PERSON COULD EXERCISE THEIR INFLUENCE OVER US TO YOUR DETRIMENT.

Mr. Icahn, through affiliates, currently owns 100% of API, our general partner, and approximately 86.5% of our outstanding depositary units and preferred units and, as a result, has and will have the ability to influence many aspects of our operations and affairs. API also is the general partner of AREH. In addition, an affiliate of Mr. Icahn owns a 50% interest and is the managing member of NEG Holding LLC. The other 50% interest is owned by National Energy Group, Inc., of which we own a majority of the common stock. Mr. Icahn and affiliates, including AREP, own approximately 77.5% of the stock of GB Holdings, Inc., the sole shareholder of Atlantic Coast Entertainment Holdings, Inc. or Atlantic Holdings, which owns and operates the Sands Hotel and Casino. Mr. Icahn and affiliates, including AREP, own approximately 96.5% of the debt of Atlantic Holdings. Mr. Icahn and his affiliates, other than AREP, own approximately 41.2% of the common stock of GB Holdings and 55.9% of the debt of Atlantic Coast, AREP owns approximately 36.3% of the common stock of GB Holdings and 40.6% of the debt of Atlantic Coast. We may invest in entities in which Mr. Icahn also invests or purchase investments from him or his affiliates. Although API has never received fees in connection with our investments, our partnership agreement allows for the payment of these fees. Mr. Icahn may pursue other business opportunities in the real estate or other industries in which we compete and there is no requirement that any additional business opportunities be presented to us.

The interests of Mr. Icahn, including his interests in entities in which he and we have invested or may invest in the future, may differ from your interests as a noteholder and, as such, he may take actions that may not be in your interest. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, Mr. Icahn's interests might conflict with your interests as a noteholder.

In addition, if Mr. Icahn were to sell, or otherwise transfer, some or all of his interests in us to an unrelated party or group, a change of control could be deemed to have occurred under the terms of the indenture governing the notes which would require us to offer to repurchase all outstanding notes at 101% of their principal amount plus accrued and unpaid interest and liquidated damages, if any, to the date of repurchase. However, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of notes.

CERTAIN OF OUR MANAGEMENT ARE COMMITTED TO THE MANAGEMENT OF OTHER BUSINESSES.

Certain of the individuals who conduct the affairs of API are and will in the future be committed to the management of other businesses owned by Mr. Icahn and his affiliates. Accordingly, these individuals will not be devoting all of their professional time to the management of us, and conflicts may arise between our interests and the other entities or business activities in which such individuals are involved. Conflicts of interest may arise in the future as such affiliates and we may compete for the same assets, purchasers and sellers of

assets, lessees or financings.

SINCE WE ARE A LIMITED PARTNERSHIP, YOU MAY NOT BE ABLE TO PURSUE LEGAL CLAIMS AGAINST US IN U.S. FEDERAL COURTS.

We are a limited partnership organized under the laws of the state of Delaware. Under the rules of federal civil procedure, you may not be able to sue us in federal court on claims other than those based solely on federal law, because of lack of complete diversity. Case law applying diversity jurisdiction deems us to have the citizenship of each of our limited partners. Because we are a publicly traded limited partnership, it may not be possible for you to attempt to sue us in a federal court because we have citizenship in all 50 U.S. states and operations in many states. Accordingly, you will be limited to bring any claims in state court. Furthermore, American Real Estate Finance Corp., our corporate co-issuer for the notes, has only nominal assets and no operations. While you may be able to sue the corporate co-issuer in federal court, you are not likely to be able to realize on any judgment rendered against it.

WE MAY BE SUBJECT TO THE PENSION LIABILITIES OF OUR AFFILIATES.

Mr. Icahn, through certain affiliates, currently owns 100% of API and approximately 86% of our outstanding depositary units and preferred units. Applicable pension and tax laws make each member of a "controlled group" of entities, generally defined as entities in which there is at least an 80% common ownership interest, jointly and severally liable for certain pension plan obligations of any member of the controlled group. These pension obligations include ongoing contributions to fund the plan, as well as liability for any unfunded liabilities that may exist at the time the plan is terminated. In addition, the failure to pay these pension obligations when due may result in the creation of liens in favor of the pension plan or the Pension Benefit Guaranty Corporation, or the PBGC,

against the assets of each member of the controlled group.

As a result of the more than 80% ownership interest in us by Mr. Icahn's affiliates, we and our subsidiaries, are subject to the pension liabilities of all entities in which Mr. Icahn has a direct or indirect ownership interest of at least 80%. One such entity, ACF Industries LLC, or ACF, is the sponsor of several pension plans which are underfunded by a total of approximately $28 million on an ongoing actuarial basis and $131 million if those plans were terminated, as most recently reported for the 2003 plan year by the plans' actuaries. These liabilities could increase or decrease, depending on a number of factors, including future changes in promised benefits, investment returns, and the assumptions used to calculate the liability. As members of the ACF controlled group, we would be liable for any failure of ACF to make ongoing pension contributions or to pay the unfunded liabilities upon a termination of the ACF pension plans. In addition, other entities now or in the future within the controlled group that includes us may have pension plan obligations that are, or may become, underfunded and we would be liable for any failure of such entities to make ongoing pension contributions or to pay the unfunded liabilities upon a termination of such plans.

The current underfunded status of the ACF pension plans requires ACF to notify the PBGC of certain "reportable events," such as if we cease to be a member of the ACF controlled group, or if we make certain extraordinary dividends or stock redemptions. The obligation to report could cause us to seek to delay or reconsider the occurrence of such reportable events.

Starfire, which is 100% owned by Mr. Icahn, has undertaken to indemnify us

and our subsidiaries from losses resulting from any imposition of pension funding or termination liabilities that may be imposed on us and our subsidiaries or our assets as a result of being a member of the Icahn controlled group. The Starfire indemnity provides, among other things, that so long as such contingent liabilities exist and could be imposed on us, Starfire will not make any distributions to its stockholders that would reduce its net worth to below $250 million. Nonetheless, Starfire may not be able to fund its indemnification obligations to us.

WE ARE SUBJECT TO THE RISK OF POSSIBLY BECOMING AN INVESTMENT COMPANY.

Because we are a holding company and a significant portion of our assets consists of investments in companies in which we own less than a 50% interest, we run the risk of inadvertently becoming an investment company that is required to register under the Investment Company Act of 1940. Registered investment companies are subject to extensive, restrictive and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, dividends and transactions with affiliates. Registered investment companies are not permitted to operate their business in the manner in which we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies.

To avoid regulation under the Investment Company Act, we monitor the value of our investments and structure transactions with an eye toward the Investment Company Act. As a result, we may structure transactions in a less advantageous manner than if we did not have Investment Company Act concerns, or we may avoid otherwise economically desirable transactions due to those concerns. In addition, events beyond our control, including significant appreciation or depreciation in the market value of certain of our publicly traded holdings, could result in our inadvertently becoming an investment company.

If it were established that we were an investment company, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, in an action brought by the SEC, that we would be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions with us undertaken during the period it was established that we were an unregistered investment company.

WE MAY BECOME TAXABLE AS A CORPORATION.

We operate as a partnership for federal income tax purposes. This allows us to pass through our income and deductions to our partners. We believe that we have been and are properly treated as a partnership for federal income tax purposes. However, the Internal Revenue Service, or IRS, could challenge our partnership status and we could fail to qualify as a partnership for past years as well as future years. Qualification as a partnership involves the

application of highly technical and complex provisions of the Internal Revenue Code of 1986, as amended. For example, a publicly traded partnership is generally taxable as a corporation unless 90% or more of its gross income is "qualifying" income, which includes interest, dividends, real property rents, gains from the sale or other disposition of real property, gain from the sale or other disposition of capital assets held for the production of interest or dividends, and certain other items. We believe that in all prior years of our existence at least 90% of our gross income was qualifying income and we intend to structure our business in a manner such that at least 90% of our gross income will constitute qualifying income this year and in the future. However, there

can be no assurance that such structuring will be effective in all events to avoid the receipt of more than 10% of non-qualifying income. If less than 90% of our gross income constitutes qualifying income, we may be subject to corporate tax on our net income at regular corporate tax rates. Further, if less than 90% of our gross income constituted qualifying income for past years, we may be subject to corporate level tax plus interest and possibly penalties. In addition, if we register under the Investment Company Act of 1940, it is likely that we would be treated as a corporation for U.S. federal income tax purposes and subject to corporate tax on our net income at regular corporate tax rates. The cost of paying federal and possibly state income tax, either for past years or going forward, would be a significant liability and would reduce our funds available to make interest and principal payments on the notes.

RISKS RELATING TO THE EXCHANGE OFFER

HOLDERS WHO FAIL TO EXCHANGE THEIR PRIVATE NOTES WILL CONTINUE TO BE SUBJECT TO RESTRICTIONS ON TRANSFER.

If you do not exchange your private notes for new notes in the exchange offer, you will continue to be subject to the restrictions on transfer of your private notes described in the legend on your private notes. The restrictions on transfer of your private notes arise because we issued the private notes under exemptions from, or in transactions not subject to, the registration requirements of the Securities Act of 1933 and applicable state securities laws. In general, you may only offer or sell the private notes if they are registered under the Securities Act and applicable state securities laws, or are offered and sold under an exemption from these requirements. We do not plan to register the private notes under the Securities Act.

BROKER-DEALERS OR HOLDERS OF NOTES MAY BE COME SUBJECT TO THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE SECURITIES ACT.

Any broker-dealer that:

- exchanges its private notes in the exchange offer for the purpose of participating in a distribution of the new notes, or
- resells new notes that were received by it for its own account in the exchange offer,

may be deemed to have received restricted securities and may be required to comply with the registration and prospectus delivery requirements of the Securities Act of 1933 in connection with any resale transaction by that broker-dealer. Any profit on the resale of the new notes and any commission or concessions received by a broker-dealer may be deemed to be underwriting compensation under the Securities Act. In addition to broker-dealers, any holder of notes that exchanges its private notes in the exchange offer for the purpose of participating in a distribution of the new notes may be deemed to have received restricted securities and may be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction by that holder.

WE CANNOT GUARANTEE THAT THERE WILL BE A TRADING MARKET FOR THE NEW NOTES.

The new notes are a new issue of securities and currently there is no market for them. We do not intend to apply to have the new notes listed or quoted on any exchange or quotation system. Accordingly, we cannot assure you that a liquid market will develop for the new notes.

The liquidity of any market for the new notes will depend on a variety of factors, including:

- the number of holders of the new notes;

- our performance; and

- the market for similar securities and the interest of securities dealers in making a market in the new notes.

A liquid trading market may not develop for the new notes.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the new notes. The market, if any, for the new notes may experience similar disruptions may adversely affect the prices at which you may sell your new notes. If our active trading market does not develop or is not maintained, the market price and liquidity of the new notes may be adversely affected.

To the extent private notes are tendered and accepted in the exchange offer, the trading market, if any, for the private notes that are not so tendered would be adversely affected.

RISKS RELATING TO OUR BUSINESS

REAL ESTATE OPERATIONS

OUR INVESTMENT IN PROPERTY DEVELOPMENT MAY BE MORE COSTLY THAN ANTICIPATED.

We have invested and expect to continue to invest in unentitled land, undeveloped land and distressed development properties. These properties involve more risk than properties on which development has been completed. Unentitled land may not be approved for development. Undeveloped land and distressed development properties do not generate any operating revenue, while costs are incurred to develop the properties. In addition, undeveloped land and development properties incur expenditures prior to completion, including property taxes and development costs. Also, construction may not be completed within budget or as scheduled and projected rental levels or sales prices may not be achieved and other unpredictable contingencies beyond our control could occur. We will not be able to recoup any of such costs until such time as these properties, or parcels thereof, are either disposed of or developed into income-producing assets.

COMPETITION FOR ACQUISITIONS COULD ADVERSELY AFFECT US AND NEW ACQUISITIONS MAY FAIL TO PERFORM AS EXPECTED.

We seek to acquire investments that are undervalued. Acquisition opportunities in the real estate market for value-added investors have become competitive to source and the increased competition may negatively impact the spreads and the ability to find quality assets that provide returns that we seek. These investments may not be readily financeable and may not generate immediate positive cash flow for us. There can be no assurance that any asset we acquire, whether in the real estate sector or otherwise, will increase in value or generate positive cash flow.

WE MAY NOT BE ABLE TO SELL OUR RENTAL PROPERTIES, WHICH WOULD REDUCE CASH AVAILABLE FOR OTHER PURPOSES.

We are currently marketing for sale our rental real estate portfolio. During the three months ended March 31, 2004 we had sold eight properties for an aggregate sale price of approximately $18.7 million. As of March 23, 2004, we had conditional sales contracts or letters of intent for 40 additional

properties, with an aggregate book value as of March 31, 2004 of approximately $226 million, for an aggregate sales price of approximately $323 million. Generally, these contracts and letters of intent may be terminated by the buyer with little or no penalty. We may not be successful in obtaining purchase offers at acceptable prices and sales may not be consummated. If we do not sell this real estate, we will not pay off the mortgages associated with these properties which would reduce the amount we could borrow for other purposes under the indenture. Many of our properties are net-leased to single corporate tenants, it may be difficult to sell those properties that existing tenants decline to

re-let. Our attempt to market the real estate portfolio may not be successful. Even if our efforts are successful, we cannot be certain that the proceeds from the sales can be used to acquire businesses and investments at prices or at projected returns which are deemed favorable.

WE FACE POTENTIAL ADVERSE EFFECTS FROM TENANT BANKRUPTCIES OR INSOLVENCIES.

The bankruptcy or insolvency of our tenants may adversely affect the income produced by our properties. If a tenant defaults, we may experience delays and incur substantial costs in enforcing our rights as landlord. If a tenant files for bankruptcy, we cannot evict the tenant solely because of such bankruptcy. A court, however, may authorize a tenant to reject or terminate its lease with us.

THE DEVELOPMENT OF OUR NEW SEABURY PROPERTY MAY BE LIMITED BY GOVERNMENT AUTHORITIES.

We continue to pursue the approval and development of our New Seabury property in Cape Cod, Massachusetts. The development plans have been opposed by the Cape Cod Commission. We have appealed its administrative decision asserting jurisdiction over the development and a Massachusetts Superior Court ruled that a development proposal for up to 278 residential units was exempt from the Commission's jurisdiction. However, the Court has not ruled with respect to our initial proposal to build up to 675 residential/hotel units. We cannot predict the effect on our development of the property if we lose any appeal from the Court's decision or if the Commission is ultimately successful in asserting jurisdiction over any of the development proposals.

WE MAY BE SUBJECT TO ENVIRONMENTAL LIABILITY.

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances, pollutants and contaminants released on, under or in its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such substances. To the extent any such substances are found in or on any property invested in by us, we could be exposed to liability and be required to incur substantial remediation costs. The presence of such substances or the failure to undertake proper remediation may adversely affect the ability to finance, refinance or dispose of such property. We generally conduct a Phase I environmental site assessment on properties in which we are considering investing. A Phase I environmental site assessment involves record review, visual site assessment and personnel interviews, but does not typically include invasive testing procedures such as air, soil or groundwater sampling or other tests performed as part of a Phase II environmental site assessment. Accordingly, there can be no assurance that these assessments will disclose all potential liabilities or that future property uses or conditions or changes in applicable environmental laws and regulations or activities at nearby properties will not result in the creation of environmental liabilities with respect to a

property.

HOTEL AND CASINO OPERATIONS

THE GAMING INDUSTRY IS HIGHLY REGULATED. THE GAMING AUTHORITIES AND STATE AND MUNICIPAL LICENSING AUTHORITIES HAVE SIGNIFICANT CONTROL OVER OUR OPERATIONS.

Our properties currently conduct licensed gaming operations in Nevada and New Jersey. Various regulatory authorities, including the Nevada State Gaming Control Board, Nevada Gaming Commission and the New Jersey Casino Control Commission, require our properties to hold various licenses and registrations, findings of suitability, permits and approvals to engage in gaming operations and to meet requirements of suitability. These gaming authorities also control approval of ownership interests in gaming operations. These gaming authorities may deny, limit, condition, suspend or revoke our gaming licenses, registrations, findings of suitability or the approval of any of our ownership interests in any of the licensed gaming operations conducted in Nevada and New Jersey, any of which could have a significant adverse effect on our business, financial condition and results of operations, for any cause they may deem reasonable. If we violate gaming laws or regulations that are applicable to us, we may have to pay substantial fines or forfeit assets. If, in the future, we operate or have an ownership interest in casino gaming facilities located outside of Nevada or New Jersey, we may also be subject to the gaming laws and regulations of those other jurisdictions.

The sale of alcoholic beverages at our Nevada properties is subject to licensing and regulation by the City of Las Vegas and Clark County, Nevada. The City of Las Vegas and Clark County have full power to limit, condition, suspend or revoke any such license, and any such disciplinary action may, and revocation would, reduce the number of visitors to our Nevada casinos to the extent the availability of alcoholic beverages is important to them. Changes in ownership arising from the acquisition by ACEP of the Arizona Charlie's casinos will require the approval of the City of Las Vegas and Clark County, Nevada in order for the applicable alcoholic beverage license to remain in effect. The acquisition may not receive the required approvals. If our alcohol licenses become in any way impaired, it would reduce the number of visitors. Any reduction in our number of visitors will reduce our revenue and cash flow.

RISING OPERATING COSTS FOR OUR GAMING AND ENTERTAINMENT PROPERTIES COULD HAVE A NEGATIVE IMPACT ON OUR PROFITABILITY.

The operating expenses associated with our gaming and entertainment properties could increase due to some of the following factors:

- Potential changes in the tax or regulatory environment which impose additional restrictions or increase operating costs;
- Our properties use significant amounts of electricity, natural gas and other forms of energy, and energy price increases may reduce our working capital;
- Our properties use significant amounts of water and a water shortage may adversely affect our operations;
- An increase in the cost of health care benefits for our employees could have a negative impact on our profitability;
- Some of our employees are covered by collective bargaining

agreements and we may incur higher costs or work slow-downs or stoppages due to union activities;

- Our reliance on slot machine revenues and the concentration of manufacturing of slot machines in certain companies could impose additional costs on us; and

- Our insurance coverage may not be adequate to cover all possible losses and our insurance costs may increase.

WE FACE SUBSTANTIAL COMPETITION IN THE HOTEL AND CASINO INDUSTRY.

The hotel and casino industry in general, and the markets in which we compete in particular, are highly competitive.

- We compete with many world class destination resorts with greater name recognition, different attractions, amenities and entertainment options.

- We compete with the continued growth of gaming on Native American tribal lands, particularly in California.

- The existence of legalized gambling in other jurisdictions may reduce the number of visitors to our properties.

- Certain states have legalized, and others may legalize, casino gaming in specific venues, including race tracks and/or in specific areas, including metropolitan areas from which we traditionally attract customers, including Los Angeles, San Francisco and New York.

- Our properties also compete and will in the future compete with all forms of legalized gambling.

Many of our competitors have greater financial, selling and marketing, technical and other resources than we do. We may not be able to compete effectively with our competitors and we may lose market share, which could reduce our revenue and cash flow.

ECONOMIC DOWNTURNS, TERRORISM AND THE UNCERTAINTY OF WAR, AS WELL AS OTHER FACTORS AFFECTING DISCRETIONARY CONSUMER SPENDING, COULD REDUCE THE NUMBER OF OUR VISITORS OR THE AMOUNT OF MONEY VISITORS SPEND AT OUR CASINOS.

The strength and profitability of our business depends on consumer demand for hotel-casino resorts and gaming in general and for the type of amenities we offer. Changes in consumer preferences or discretionary consumer spending could harm our business.

During periods of economic contraction, our revenues may decrease while some of our costs remain fixed, resulting in decreased earnings. This is because the gaming and other leisure activities we offer at our properties are discretionary expenditures, and participation in these activities may decline during economic downturns because consumers have less disposable income. Even an uncertain economic outlook may adversely affect consumer spending in our gaming operations and related facilities, as consumers spend less in anticipation of a potential economic downturn. Additionally, rising gas prices could deter non-local visitors from traveling to our properties.

The terrorist attacks which occurred on September 11, 2001, the potential for

future terrorist attacks and wars in Afghanistan and Iraq have had a negative impact on travel and leisure expenditures, including lodging, gaming and tourism. Leisure and business travel, especially travel by air, remain particularly susceptible to global geopolitical events. Many of the customers of our properties travel by air, and the cost and availability of air service can affect our business. Furthermore, insurance coverage against loss or business interruption resulting from war and some forms of terrorism may be unavailable or not available on terms that we consider reasonable. We cannot predict the extent to which war, future security alerts or additional terrorist attacks may interfere with our operations.

INVESTMENTS

WE MAY NOT BE ABLE TO IDENTIFY SUITABLE INVESTMENTS.

Our partnership agreement allows us to take advantage of investment opportunities we believe exist outside of the real estate market. The equity securities in which we may invest may include common stocks, preferred stocks and securities convertible into common stocks, as well as warrants to purchase these securities. The debt securities in which we may invest may include bonds, debentures, notes, or non-rated mortgage-related securities, municipal obligations, bank debt and mezzanine loans. Certain of these securities may include lower rated or non-rated securities which may provide the potential for higher yields and therefore may entail higher risk and may include the securities of bankrupt or distressed companies. In addition, we may engage in various investment techniques, including derivatives, options and futures transactions, foreign currency transactions, "short" sales and leveraging for either hedging or other purposes. We may concentrate our activities by owning one or a few businesses or holdings, which would increase our risk. We may not be successful in finding suitable opportunities to invest our cash and our strategy of investing in undervalued assets may expose us to numerous risks.

OUR INVESTMENTS MAY BE SUBJECT TO SIGNIFICANT UNCERTAINTIES.

Our investments may not be successful for many reasons including, but not limited to:

- Fluctuation of interest rates;
- Lack of control in minority investments;
- Worsening of general economic and market conditions;
- Lack of diversification;

- Inexperience with non-real estate areas;
- Fluctuation of U.S. dollar exchange rates; and
- Adverse legal and regulatory developments that may affect particular businesses.

OIL AND GAS

WE FACE SUBSTANTIAL RISKS IN THE OIL AND GAS INDUSTRY.

The exploration for and production of oil and gas involves numerous risks. The cost of drilling, completing and operating wells for oil or gas is often uncertain, and a number of factors can delay or prevent drilling operations or

production, including:

- unexpected drilling conditions;
- pressure or irregularities in formation;
- equipment failures or repairs;
- fires or other accidents;
- adverse weather conditions;
- pipeline ruptures or spills; and
- shortages or delays in the availability of drilling rigs and the delivery of equipment.

THE OIL AND GAS INDUSTRY IS HIGHLY REGULATED AND FEDERAL, STATE AND MUNICIPAL LICENSING AUTHORITIES HAVE SIGNIFICANT CONTROL OVER OUR OPERATIONS.

The oil and gas industry is subject to extensive legislation and regulation, which is under constant review for amendment or expansion. Any changes may affect, among other things, the pricing or marketing of oil and gas production. State and local authorities regulate various aspects of oil and gas exploration and production activities, including the drilling of wells, the spacing of wells, the unitization or pooling of oil and gas properties, environmental matters, safety standards, market sharing and well site restoration.

The oil and gas industry is subject to laws, regulations and other legal requirements enacted or adopted by federal, state and local, as well as foreign, authorities relating to protection of the environment and health and safety matters, including those legal requirements that govern discharges of substances into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, groundwater quality and availability, and plant and wildlife protection.

FORWARD-LOOKING STATEMENTS

Some statements in this prospectus and the documents incorporated by reference are known as "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may relate to, among other things, future performance generally, business development activities, future capital expenditures, financing sources and availability and the effects of regulation and competition.

When we use the words "believe," "intend," "expect," "may," "will," "should," "anticipate," "could," "estimate," "plan," "predict," "project," or their negatives, or other similar expressions, the statements which include those words are usually forward-looking statements. When we describe strategy that involves risks or uncertainties, we are making forward-looking statements.

We warn you that forward-looking statements are only predictions. Actual events or results may differ as a result of risks that we face, including those set forth in the section of this prospectus called "Risk Factors." Those risks are representative of factors that could affect the outcome of the forward-looking statements. These and the other factors discussed elsewhere in this prospectus and the documents incorporated by reference herein are not necessarily all of the important factors that could cause our results to differ

materially from those expressed in our forward-looking statements. Forward-looking statements speak only as of the date they were made and we undertake no obligation to update them.

INDUSTRY DATA

We refer to market and industry data throughout this prospectus that we have obtained from publicly available information and industry publications and other data that is based on the good faith estimates of our management, which estimates are based upon their review of internal surveys, independent industry publications and other publicly available information. Although we believe that these sources are reliable, we have not verified the accuracy or completeness of this information. We are not aware of any misstatements regarding the market and industry data presented in this prospectus, however, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Risk Factors."

USE OF PROCEEDS

We will not receive any proceeds from the exchange of the new notes for the private notes pursuant to the exchange offer. On May 12, 2004, we issued and sold the private notes in a private offering, receiving net proceeds of approximately $343 million, after deducting selling and offering expenses.

We intend to use the net proceeds of the private offering for general business purposes, including to pursue our primary business strategy of acquiring undervalued assets in either our existing lines of business or other businesses and to provide additional capital to grow our existing business.

We will use the net proceeds of the private offering and conduct our activities in a manner so as not to be deemed an investment company under the Investment Company Act. Generally this means that we do not intend to enter the business of investing in securities and that no more than 40% of our total assets will be invested in securities. The portion of our assets invested in each type of security or any single issuer or industry will not be limited.

THE EXCHANGE OFFER

PURPOSE OF THE EXCHANGE OFFER

In connection with the sale of the private notes, we and the initial purchaser entered into a registration rights agreement in which we and AREH agreed to:

- file a registration statement with the Securities and Exchange Commission with respect to the exchange of the private notes for new notes, or the exchange offer registration statement, no later than 90 days after the date we issued the private notes;
- use all commercially reasonable efforts to have the exchange offer registration statement declared effective by the SEC on or prior to 180 days after the issuance date; and
- commence the offer to exchange new notes for the private notes and use all commercially reasonable efforts to issue on or prior to 30 business days, or longer if required by the federal securities laws,

after the date on which the exchange offer registration statement was declared effective by the SEC, new notes in exchange for all private notes tendered prior to that date in the exchange offer.

We are making the exchange offer to satisfy certain of our obligations under the registration rights agreement. We filed a copy of the registration rights agreement as an exhibit to the exchange offer registration statement.

RESALE OF EXCHANGE NOTES

Under existing interpretations of the Securities Act of 1933 by the staff of the SEC contained in several no-action letters to third parties, we believe that the new notes will generally be freely transferable by holders who have validly participated in the exchange offer without further registration under the Securities Act of 1933 (assuming the truth of certain representations required to be made by each holder of notes, as set forth below). For additional information on the staff's position, we refer you to the following no-action letters: Exxon Capital Holdings Corporation, available April 13, 1988; Morgan Stanley & Co. Incorporated, available June 5, 1991; and Shearman & Sterling, available July 2, 1993. However, any purchaser of private notes who is one of our "affiliates" or who intends to participate in the exchange offer for the purpose of distributing the new notes or who is a broker-dealer who purchased private notes from us to resell pursuant to Rule 144A or any other available exemption under the Securities Act of 1933:

- will not be able to tender its private notes in the exchange offer;
- will not be able to rely on the interpretations of the staff of the SEC; and
- must comply with the registration and prospectus delivery requirements of the Securities Act of 1933 in connection with any sale or transfer of the private notes unless such sale or transfer is made pursuant to an exemption from these requirements.

If you wish to exchange private notes for new notes in the exchange offer, you will be required to make representations in a letter of transmittal which accompanies this prospectus, including that:

- you are not our "affiliate" (as defined in Rule 405 under the Securities Act of 1933);
- any new notes to be received by you will be acquired in the ordinary course of your business;
- you have no arrangement or understanding with any person to participate in the distribution of the new notes in violation of the provisions of the Securities Act of 1933;

- if you are not a broker-dealer, you are not engaged in, and do not intend to engage in, a distribution of new notes; and
- if you are a broker-dealer, you acquired the private notes for your own account as a result of market-making or other trading activities (and as such, you are a "participating broker-dealer"), you have not entered into any arrangement or understanding with American Real Estate Partners, L.P. or an affiliate of American Real Estate Partners, L.P. to distribute the new notes and you will deliver a prospectus meeting the requirements of the Securities Act of 1933 in

connection with any resale of the new notes.

Rule 405 under the Securities Act of 1933 provides that an "affiliate" of, or person "affiliated" with, a specified person, is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with the person specified.

The SEC has taken the position that participating broker-dealers may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, and accordingly may fulfill their prospectus delivery requirements with respect to the new notes, other than a resale of an unsold allotment from the original sale of the notes, with the prospectus contained in the exchange offer registration statement. Under the registration rights agreement, we have agreed to use commercially reasonable efforts to allow participating broker-dealers and other persons, if any, subject to similar prospectus delivery requirements, to use the prospectus contained in the exchange offer registration statement in connection with the resale of the new notes for a period of 270 days from the issuance of the new notes.

TERMS OF THE EXCHANGE OFFER

This prospectus and the accompanying letter of transmittal contain the terms and conditions of the exchange offer. Upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal, we will accept for exchange all private notes which are properly tendered and not withdrawn on or prior to 5:00 p.m., New York City time, on the expiration date. After authentication of the new notes by the trustee or an authentication agent, we will issue and deliver $1,000 principal amount of new notes in exchange for each $1,000 principal amount of outstanding private notes accepted in the exchange offer. Holders may tender some or all of their private notes in the exchange offer in denominations of $1,000 and integral multiples thereof.

The form and terms of the new notes are identical in all material respects to the form and terms of the private notes, except that:

(1) the offering of the new notes has been registered under the Securities Act of 1933;

(2) the new notes generally will not be subject to transfer restrictions or have registration rights; and

(3) certain provisions relating to liquidated damages on the private notes provided for under certain circumstances will be eliminated.

The new notes will evidence the same debt as the private notes. The new notes will be issued under and entitled to the benefits of the indenture.

As of the date of this prospectus, $353 million aggregate principal amount of the private notes is outstanding. In connection with the issuance of the private notes, we made arrangements for the private notes to be issued and transferable in book-entry form through the facilities of the Depository Trust Company acting as a depositary. The new notes will also be issuable and transferable in book-entry form through the Depository Trust Company.

The exchange offer is not conditioned upon any minimum aggregate principal amount of private notes being tendered. However, our obligation to accept private notes for exchange pursuant to the exchange offer is subject to certain customary conditions that we describe under "-- Conditions" below.

Holders who tender private notes in the exchange offer will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of private notes pursuant to the exchange offer. We will pay all charges and expenses, other than certain applicable taxes, in connection with the exchange offer. See "-- Solicitation of Tenders; Fees and Expenses" for more detailed information regarding the expenses of the exchange offer.

By executing or otherwise becoming bound by the letter of transmittal, you will be making the representations described under "--Procedures for Tendering" below.

EXPIRATION DATE; EXTENSIONS; AMENDMENTS

The term "expiration date" will mean 5:00 p.m., New York City time, on _____, 2004, unless we, in our sole discretion, extend the exchange offer, in which case the term "expiration date" will mean the latest date and time to which we extend the exchange offer.

To extend the exchange offer, we will:

- notify the exchange agent of any extension orally or in writing; and

- notify the registered holders of the private notes by means of a press release or other public announcement, each before 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

We reserve the right, in our reasonable discretion:

- to delay accepting any private notes;

- to extend the exchange offer; or

- if any conditions listed below under "--Conditions" are not satisfied, to terminate the exchange offer by giving oral or written notice of the delay, extension or termination to the exchange agent.

We will follow any delay in acceptance, extension or termination as promptly as practicable by oral or written notice to the registered holders. If we amend the exchange offer in a manner we determine constitutes a material change, we will promptly disclose the amendment in a prospectus supplement that we will distribute to the registered holders.

INTEREST ON THE NEW NOTES

Interest on the new notes will accrue from the last interest payment date on which interest was paid on the private notes surrendered in exchange for new notes or, if no interest has been paid on the private notes, from the issue date of the private notes, May 12, 2004. Interest on the new notes will be payable semi-annually on June 1 and December 1 of each year, commencing December 1, 2004.

PROCEDURES FOR TENDERING

You may tender your private notes in the exchange offer only if you are a registered holder of private notes. To tender in the exchange offer, you must:

- complete, sign and date the letter of transmittal or a facsimile the letter of transmittal;

- have the signatures thereof guaranteed if required by the letter of transmittal; and

- mail or otherwise deliver the letter of transmittal or such facsimile to the exchange agent, at the

address listed below under " -- Exchange Agent" for receipt prior to the expiration date.

In addition, either:

- the exchange agent must receive certificates for the private notes along with the letter of transmittal into its account at the Depository Trust Company pursuant to the procedure described under " -- Book-Entry Transfer" before the expiration date;

- the exchange agent must receive a timely confirmation of a book-entry transfer, if the procedure is available, into its account at the Depository Trust Company pursuant to the procedure described under " -- Book-Entry Transfer" before the expiration date; or

- you must comply with the procedures described under "Guaranteed Delivery Procedures."

Your tender, if not withdrawn before the expiration date, will constitute an agreement between you and us in accordance with the terms and subject to the conditions described in this prospectus and in the letter of transmittal.

The method of delivery of private notes and the letter of transmittal and all other required documents to the exchange agent is at your election and risk. We recommend that, instead of delivery by mail, you use an overnight or hand delivery service. In all cases, you should allow sufficient time to ensure delivery to the exchange agent prior to the expiration date. You should not send letters of transmittal or private notes to us. You may request that your respective brokers, dealers, commercial banks, trust companies or nominees effect the transactions described above for you.

If you are a beneficial owner whose private notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your private notes, you should contact such registered holder promptly and instruct such registered holder to tender on your behalf. If you wish to tender on your own behalf, prior to completing and executing the letter of transmittal and delivering your private notes, you must either:

- make appropriate arrangements to register ownership of your private notes in your name; or

- obtain a properly completed bond power from the registered holder.

The transfer of record ownership may take considerable time unless private notes are tendered

- by a registered holder who has not completed the box entitled "Special Registration Instructions" or "Special Delivery Instruction" on the letter of transmittal; or

- for the account of an "Eligible Institution" which is either:

  - a member firm of a registered national securities exchange or

of the National Association of Securities Dealers, Inc.;

- a commercial bank or trust company located or having an office or correspondent in the United States; or

- otherwise an "eligible guarantor institution" within meaning of Rule 17Ad-15 under the Securities Exchange Act of 1934,

an Eligible Institution must guarantee the signatures on a letter of transmittal or a notice of withdrawal described below under " -- Withdrawal of Tenders."

If the letter of transmittal is signed by a person other than the registered holder, such private notes must be

endorsed or accompanied by appropriate bond powers which authorize such person to tender the private notes on behalf of the registered holder, in either case signed as the name of the registered holder or holders appears on the private notes.

If the letter of transmittal or any private notes or bond powers are signed or endorsed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and unless waived by us, they must submit evidence satisfactory to us of their authority to so act with the letter of transmittal.

The letter of transmittal will include representations to us as set forth under "Resale of Exchange Notes."

You should note that:

- All questions as to the validity, form, eligibility, including time of receipt, acceptance and withdrawal of the tendered private notes will be determined by us in our sole discretion, which determination will be final and binding;

- We reserve the absolute right to reject any and all private notes not properly tendered or any private notes the acceptance of which would, in our judgment or the judgment of our counsel, be unlawful;

- We also reserve the absolute right to waive any irregularities or conditions of tender as to particular private notes. Our interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of private notes must be cured within such time as we shall determine;

- Although we intend to notify holders of defects or irregularities with respect to any tender of private notes, neither we, the exchange agent nor any other person shall be under any duty to give notification of any defect or irregularity with respect to tenders of private notes, nor shall any of them incur any liability for failure to give such notification; and

- Tenders of private notes will not be deemed to have been made until such irregularities have been cured or waived. Any private notes received by the exchange agent that we determine are not properly tendered or the tender of which is otherwise rejected by us and as

to which the defects or irregularities have not been cured or waived by us will be returned by the exchange agent to the tendering holder unless otherwise provided in the letter of transmittal, as soon as practicable following the expiration date.

BOOK-ENTRY TRANSFER

The exchange agent will make a request promptly after the date of this prospectus to establish accounts with respect to the private notes at the Depository Trust Company for the purpose of facilitating the exchange offer. Any financial institution that is a participant in the Depository Trust Company's system may make book-entry delivery of private notes by causing the Depository Trust Company to transfer such private notes into the exchange agent's account with respect to the private notes in accordance with the Depository Trust Company's Automated Tender Offer Program procedures for such transfer. However, the exchange for the private notes so tendered will only be made after timely confirmation of such book-entry transfer of private notes into the exchange agent's account, and timely receipt by the exchange agent of an agent's message and any other documents required by the letter of transmittal. The term "agent's message" means a message, transmitted by the Depository Trust Company and received by the exchange agent and forming a part of the confirmation of a book-entry transfer, which states that the Depository Trust Company has received an express acknowledgment from a participant that is tendering private notes that such participant has received the letter of transmittal and agrees to be bound by the terms of the letter of transmittal, and that we may enforce such agreement against the participant.

Although delivery of private notes may be effected through book-entry transfer into the exchange agent's account at the Depository Trust Company, you must transmit and the exchange agent must receive, the letter of transmittal (or facsimile thereof) properly completed and duly executed with any required signature guarantee and all other required documents prior to the expiration date, or you must comply with the guaranteed delivery procedures described below. Delivery of documents to the Depository Trust Company does not constitute delivery to the exchange agent.

GUARANTEED DELIVERY PROCEDURES

If you wish to tender your private notes but your private notes are not immediately available, or time will not permit your private notes or other required documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, you may effect a tender if:

(1) the tender is made through an Eligible Institution;

(2) prior to the expiration date, the exchange agent receives from such Eligible Institution a properly completed and duly executed notice of guaranteed delivery, by facsimile transmittal, mail or hand delivery

- stating the name and address of the holder, the certificate number or numbers of such holder's private notes and the principal amount of such private notes tendered;

- stating that the tender is being made thereby; and

- guaranteeing that, within three New York Stock Exchange trading days after the expiration date, the letter of

transmittal, or a facsimile thereof, together with the certificate(s) representing the private notes to be tendered in proper form for transfer, or confirmation of a book-entry transfer into the exchange agent's account at the Depository Trust Company of private notes delivered electronically, and any other documents required by the letter of transmittal, will be deposited by the Eligible Institution with the exchange agent; and

(3) such properly completed and executed letter of transmittal, or a facsimile thereof, together with the certificate(s) representing all tendered private notes in proper form for transfer, or confirmation of a book-entry transfer into the exchange agent's account at the Depository Trust Company of private notes delivered electronically and all other documents required by the letter of transmittal are received by the exchange agent within three New York Stock Exchange trading days after the expiration date.

Upon request, the exchange agent will send to you a notice of guaranteed delivery if you wish to tender your private notes according to the guaranteed delivery procedures described above.

WITHDRAWAL OF TENDERS

Except as otherwise provided in this prospectus, you may withdraw tenders of private notes at any time prior to the expiration date.

For a withdrawal to be effective, the exchange agent must receive a written or facsimile transmission notice of withdrawal at its address set forth this prospectus prior to the expiration date. Any such notice of withdrawal must:

- specify the name of the person who deposited the private notes to be withdrawn;

- identify the private notes to be withdrawn, including the certificate number or number and principal amount of such private notes or, in the case of private notes transferred by book-entry transfer, the name and number of the account at the Depository Trust Company to be credited; and

- be signed in the same manner as the original signature on the letter of transmittal by which such private notes were tendered, including any required signature guarantee.

We will determine in our sole discretion all questions as to the validity, form and eligibility, including time of receipt, of such withdrawal notices, and our determination shall be final and binding on all parties. We will not deem any properly withdrawn private notes to have been validly tendered for purposes of the exchange offer, and we will not issue new notes with respect those private notes unless you validly retender the withdrawn private notes. You may retender properly withdrawn private notes following one of the procedures described above under "--Procedures for Tendering" at any time prior to the expiration date.

CONDITIONS

Notwithstanding any other term of the exchange offer, we will not be required to accept for exchange, or exchange the new notes for, any private

notes, and may terminate the exchange offer as provided in this prospectus before the acceptance of the private notes, if:

the exchange offer violates applicable law, rules or regulations or an applicable interpretation of the staff of the SEC;

an action or proceeding has been instituted or threatened in any court or by any governmental agency which might materially impair our ability to proceed with the exchange offer;

there has been proposed, adopted or enacted any law, rule or regulation that, in our reasonable judgment would impair materially our ability to consummate the exchange offer; or

all governmental approvals which we deem necessary for the completion of the exchange offer have not been obtained.

If we determine in our reasonable discretion that any of these conditions are not satisfied, we may:

- refuse to accept any private notes and return all tendered private notes to you;

- extend the exchange offer and retain all private notes tendered before the exchange offer expires, subject, however, to your rights to withdraw the private notes; or

- waive the unsatisfied conditions with respect to the exchange offer and accept all properly tendered private notes that have not been withdrawn.

If the waiver constitutes a material change to the exchange offer, we will promptly disclose the waiver by means of a prospectus supplement that we will distribute to the registered holders of the private notes.

EXCHANGE AGENT

We have appointed Wilmington Trust Company, the trustee under the indenture, as exchange agent for the exchange offer. You should send all executed letters of transmittal to the exchange agent at one of the addresses set forth below. In such capacity, the exchange agent has no fiduciary duties and will be acting solely on the basis of directions of our company. You should direct questions, requests for assistance and requests for additional copies of this prospectus or of the letter of transmittal and requests for a notice of guaranteed delivery to the exchange agent addressed as follows:

BY CERTIFIED OR REGISTERED MAIL:
Wilmington Trust Company
DC-1626 Processing Unit
P.O. Box 8861
Wilmington, DE 19899-8861

BY OVERNIGHT COURIER OR HAND DELIVERY:
Wilmington Trust Company
Corporate Capital Markets
1100 North Market Street
Wilmington, DE 19890-1626

BY FACSIMILE:

(302) 636-4145

CONFIRM BY TELEPHONE:
(302) 636-6470

Delivery to an address or facsimile number other than those listed above will not constitute a valid delivery.

The trustee does not assume any responsibility for and makes no representation as to the validity or adequacy of this prospectus or the notes.

SOLICITATION OF TENDERS; FEES AND EXPENSES

We will pay all expenses of soliciting tenders pursuant to the exchange offer. We are making the principal solicitation by mail. Our officers and regular employees may make additional solicitations in person or by telephone or telecopier.

We have not retained any dealer-manager in connection with the exchange offer and will not make any payments to brokers, dealers or other persons soliciting acceptances of the exchange offer. We will, however, pay the exchange agent reasonable and customary fees for its services and will reimburse the exchange agent for its reasonable out-of-pocket costs and expenses in connection therewith.

We also may pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of this prospectus, letters of transmittal and related documents to the beneficial owners of the private notes and in handling or forwarding tenders for exchange.

We will pay the expenses to be incurred in connection with the exchange offer, including fees and expenses of the exchange agent and trustee and accounting and legal fees and printing costs.

We will pay all transfer taxes, if any, applicable to the exchange of private notes for new notes pursuant to the exchange offer. If, however, certificates representing new notes or private notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be registered or issued in the name of, any person other than the registered holder of the private notes tendered, or if tendered private notes are registered in the name of any person other than the person signing the letter of transmittal, or if a transfer tax is imposed for any reason other than the exchange of private notes pursuant to the exchange offer, then the amount of any such transfer taxes, whether imposed on the registered holder or any other persons, will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed by us directly to such tendering holder.

CONSEQUENCES OF FAILURE TO EXCHANGE

Participation in the exchange offer is voluntary. We urge you to consult your financial and tax advisors in making your decisions on what action to take. Private notes that are not exchanged for new notes pursuant to the exchange offer will remain restricted securities. Accordingly, those private notes may be resold only:

- to a person whom the seller reasonably believes is a qualified

institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act of 1933;

- in a transaction meeting the requirements of Rule 144 under the Securities Act of 1933;

- outside the United States to a foreign person in a transaction meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act of 1933;

- in accordance with another exemption from the registration requirements of the Securities Act of 1933 and based upon an opinion of counsel if we so request;

- to us; or

- pursuant to an effective registration statement.

In each case, the private notes may be resold only in accordance with any applicable securities laws of any state of the United States or any other applicable jurisdiction.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA OF
AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

The following unaudited pro forma consolidated balance sheet as of March 31, 2004 and the unaudited pro forma consolidated statements of earnings for the year ended December 31, 2003 and for the quarter ended March 31, 2004 of American Real Estate Partners, L.P. and Subsidiaries reflect an adjustment column for the notes offering and has been prepared from the historical consolidated financial statements of American Real Estate Partners, as adjusted to give effect to the pro forma adjustments as if such pro forma adjustments had occurred at the beginning of each of the periods presented for the statements of earnings and at March 31, 2004 for the balance sheet data. The unaudited pro forma financial data does not purport to be indicative of what the results of American Real Estate Partners, L.P. would have been had the transaction been completed on the dates assumed, nor is such financial data necessarily indicative of future results of operations of American Real Estate Partners, L.P. The unaudited pro forma financial data must be read in conjunction with the notes thereto and the historical consolidated financial statements and the related notes.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AS OF
MARCH 31, 2004 (IN $000'S)

	PRO FORMA ADJUSTMENTS	
	(1)	
HISTORICAL 2004	OFFERING	PROFORMA 2004
(UNAUDITED)		

ASSETS			
Real estate leased to others:			
Accounted for under the financing method	$ 131,413	$ --	$ 131,413
Accounted for under the operating method, net of accumulated depreciation	76,127	--	76,127
Properties held for sale	148,878	--	148,878
Cash and cash equivalents	483,872	342,505	826,377
Hotel, casino and resort operating properties (Net of accumulated depreciation)			
Stratosphere Corporation hotel and casino	171,405	--	171,405
Hotel and resort	35,358	--	35,358
Debt placement costs	--	7,904	7,904
Restricted cash	219,313	--	219,313
Other assets	560,591	--	560,591
TOTAL ASSETS	$1,826,957	$ 350,409	$2,177,366
LIABILITIES AND PARTNERS' EQUITY			
Mortgages payable	$ 179,251	$ --	$ 179,251
7.85% Senior Secured Notes payable	215,000	--	215,000
8.125% Senior Notes payable (net of discount)	--	350,409	350,409
Accounts payable, accrued expenses and other liabilities	115,084	--	115,084
Liability for preferred limited partnership units	102,863	--	102,863
Total liabilities	612,198	350,409	962,607
Partners' equity	1,214,759	--	1,214,759
TOTAL LIABILITIES AND PARTNERS' EQUITY	$1,826,957	$ 350,409	$2,177,366

See accompanying notes to unaudited proforma consolidated financial data.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED PROFORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 2003
(IN $000'S, EXCEPT UNIT AND PER UNIT AMOUNTS)

	HISTORICAL 2003	PRO FORMA ADJUSTMENTS (2) OFFERING	PRO FO 200
Revenues:			
Hotel and casino operating income	$ 163,701	$ --	$ 163
Other	112,855	--	112

	276,556	--	276
Expenses:			
Hotel and casino operating expenses	135,429	--	135
Interest expense	20,640	29,980	50
Depreciation and amortization	17,773	--	17
General and administrative expenses	14,081	--	14
Other	25,742	--	25
	213,665	29,980	243
Operating income	62,891	(29,980)	32
Other gains and (losses):			
Write-down of mortgages and notes receivable	(18,798)	--	(18
Gain on sales and disposition of real estate	7,121	--	7
Other gains and losses (net)	896	--	
Income from continuing operations before income taxes	52,110	(29,980)	22
Income tax benefit	6,495	--	6
Income from continuing operations	58,605	--	28
Income from discontinued operations	9,492	--	9
Net earnings	$ 68,097	$ (29,980)	$ 38
Net earnings attributable to:			
Limited partners	$ 59,360	$ (29,383)	$ 29
General partner	8,737	(597)	8
	$ 68,097	$ (29,980)	$ 38
Net earnings per limited partnership unit:			
Basic earnings:			
Income from continuing operations	$ 1.03	$ (0.64)	$
Income from discontinued operations	0.20	--	
Basic earnings per LP unit	$ 1.23	$ (0.64)	$
Weighted average limited partnership units outstanding	$ 46,098,284	--	$ 46,098
Diluted earnings:			
Income from continuing operations	$ 0.96	$ (0.54)	$
Income from discontinued operations	0.17	--	
Diluted earnings per LP unit	$ 1.13	$ (0.54)	$
Weighted average limited partnership units and equivalent partnership units outstanding	54,489,943	--	54,489

See accompanying notes to unaudited proforma consolidated financial data.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED PROFORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
THREE MONTHS ENDED MARCH 31, 2004 (UNAUDITED)

(IN $000'S, EXCEPT UNIT AND PER UNIT AMOUNTS)

	HISTORICAL	PRO FORMA ADJUSTMENTS (2) OFFERING	PR
Revenues:			
Hotel and casino operating income	$ 45,715	$ --	$
Other	29,107	--	
	74,822	--	
Expenses:			
Hotel and casino operating expenses	34,019	--	
Interest expense	5,919	7,495	
Depreciation and amortization	5,092	--	
General and administrative expenses	4,364	--	
Other	6,639	--	
	56,033	7,495	
Operating income	18,789	(7,495)	
Other gains and (losses):			
Gain on sale of marketable equity and debt securities	28,857	--	
Gain on sales and disposition of real estate	6,047	--	
Income from continuing operations before income taxes	53,693	(7,495)	
Income tax expense	(4,302)	--	
Income from continuing operations	49,391	(7,495)	
Income from discontinued operations	9,387	--	
Net earnings	$ 58,778	$ (7,495)	$
Net earnings attributable to:			
Limited partners	$ 57,608	$ (7,346)	$
General partners	1,170	(149)	
	$ 58,778	$ (7,495)	$
Net earnings per limited partnership unit:			
Basic earnings:			
Income from continuing operations	$ 1.05	$ (0.16)	$
Income from discontinued operations	0.20	--	
Basic earnings per LP unit	$ 1.25	$ (0.16)	$
Weighted average limited partnership units outstanding	46,098,284	--	46,
Diluted earnings:			
Income from continuing operations	$ 0.94	$ (0.14)	$
Income from discontinued operations	0.18	--	
Diluted earnings per LP unit	$ 1.12	$ (0.14)	$

Weighted average limited partnership units and equivalent partnership units outstanding.....	52,499,303	--	52,

See accompanying notes to unaudited proforma consolidated financial data.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA

(1) Represents the issuance of the 8 1/8% Senior Notes due 2012 in the amount of $353 million, less discount of $2.6 million and financing costs of $7.9 million.

(2) For the full year period:

Interest expense on $353,000,000 note payable at 8.125%	$ 28,681,000
Amortization of debt placement costs	978,000
Amortization of discount	321,000
Interest expense	$ 29,980,000

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table summarizes certain selected historical consolidated financial data of American Real Estate Partners, L.P., which you should read in conjunction with the financial statements and the related notes contained in this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected historical consolidated financial data as of December 31, 2003 and 2002, and for the years ended December 31, 2003, 2002 and 2001, have each been derived from our audited consolidated financial statements at those dates and for those periods, contained elsewhere in this prospectus. The selected historical consolidated financial data as of December 31, 2001, 2000 and 1999, and for the years ended December 31, 2000 and 1999, have each been derived from our audited consolidated financial statements at those dates and for those periods, not contained in this prospectus. Certain amounts have been reclassified as discontinued operations in accordance with Statement of Financial Accounting Standards No. 144. The selected historical consolidated financial data as of March 31, 2004 and for the three months ended March 31, 2004 and 2003 are unaudited. For the three month periods ended March 31, 2004 and 2003, all adjustments, consisting only of normal recurring adjustments, which are, in our opinion, necessary for a fair presentation of the interim combined financial statements, have been included. Results for the three months ended March 31, 2004 are not necessarily indicative of the results for the full year.

THREE MONTHS ENDED MARCH 31,		YEAR END	
2004	2003	2003	2002

OPERATING DATA:					
Total revenues	$ 74,822	$ 69,030	$ 276,556	$ 346,380	$
Operating income	$ 18,789	$ 14,524	$ 62,891	$ 83,730	$
Other gains and (losses):					
Provision for loss on real estate	--	(200)	(750)	(3,212)	
Gain on sale of marketable equity and debt securities	28,857	--	2,607	--	
Write-down of equity securities available for sale	--	(961)	(961)	(8,476)	
Write-down of mortgages and notes receivable	--	--	(18,798)	--	
Gain on sales and disposition of real estate	6,047	1,138	7,121	8,990	
(Loss) gain on limited partnership interests	--	--	--	(3,750)	
Minority interest in net earnings of Stratosphere Corporation	--	--	--	(1,943)	
Income from continuing operations before income taxes	53,693	14,501	52,110	75,339	
Income tax benefit (expense)	(4,302)	(2,878)	6,495	(7,480)	
Income from continuing operations	49,391	11,623	58,605	67,859	
Discontinued operations:					
Income from discontinued operations	2,458	1,629	6,139	6,007	
Gain on sales and disposition of real estate	6,929	--	3,353	--	
Income from discontinued operations	9,387	1,629	9,492	6,007	
Net earnings	$ 58,778	$ 13,252	$ 68,097	$ 73,866	$
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 483,872		$ 467,704	$ 54,871	$
U.S. government and agency obligations	122,650		61,573	336,051	
Marketable equity and debt securities	47,584		80,522	26,728	
Total assets	1,826,957		1,489,930	1,560,476	
Mortgages payable	179,251		180,989	171,848	
Liability for preferred limited partnership units (1)	102,863		101,649	--	
Partners' equity	1,214,759		1,153,448	1,130,176	

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

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

OVERVIEW

We are a diversified holding company engaged in a variety of businesses. Our primary business strategy is to seek to acquire undervalued assets and companies that are distressed or out of favor. Our businesses currently include rental real estate; real estate development; hotel and resort operations; hotel and casino operations; investments in equity and debt securities; and oil and gas exploration and production. We intend to continue to invest in our core businesses, including real estate, gaming and entertainment, and oil and gas. We may also seek opportunities in other sectors, including energy, industrial manufacturing and insurance and asset management.

Substantially all of our businesses and assets are held through AREH, in which we own a 99% limited partnership interest. For that reason, no separate "Management's Discussion and Analysis of Financial Conditions and Results of Operations for AREH is provided.

To capitalize on favorable real estate market conditions and the mature nature of our commercial real estate portfolio, we are offering for sale our rental real estate portfolio. As of March 31, 2004, we had sold eight properties for an aggregate sales price of approximately $18.7 million. No assurance can be given that either the attempt to market our real estate portfolio will be successful or that, if successful, the proceeds thereof can be used to acquire businesses and investments at prices or at projected returns which are deemed favorable.

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

Expenses relating to environmental clean-up have not had a material effect on our earnings, capital expenditures, or competitive position. We believe that substantially all such costs would be the responsibility of the tenants pursuant to lease terms. While most tenants have assumed responsibility for the environmental conditions existing on their leased property, there can be no assurance that we will not be deemed to be a responsible party or that the tenant will bear the costs of remediation. Also, as we acquire more operating properties, our exposure to environmental clean-up costs may increase. We have completed Phase I environmental site assessments on most of our properties through third-party consultants. Based on the results of these Phase I environmental site assessments, the environmental consultant has recommended that certain sites may have environmental conditions that should be further reviewed. We have notified each of the responsible tenants to attempt to ensure that they cause any required investigation and/or remediation to be performed and most tenants continue to take appropriate action. However, if the tenants fail to perform responsibilities under their leases referred to above, we could potentially be liable for these costs. Based on the limited number of Phase II environmental site assessments that have been conducted by the consultants, there can be no accurate estimation of the need for or extent of any required remediation, or the costs thereof. In addition, we have notified all tenants of the Resource Conservation and Recovery Act's, or RCRA, December 22, 1998 requirements for regulated underground storage tanks. We may, at our own cost,

have to cause compliance with RCRA's requirements in connection with vacated properties, bankrupt tenants and new acquisitions. Phase I environmental site assessments will also be performed in connection with new acquisitions and with such property refinancings as we may deem necessary and appropriate. We are in the process of updating our Phase I site assessments for certain of our environmentally sensitive properties including properties with open RCRA requirements. Approximately 75 updates were completed in 2003. No additional material environmental conditions were discovered.

We have in recent years made investments in the gaming industry through our ownership of Stratosphere Casino Hotel & Tower in Las Vegas, Nevada and through our purchase of securities of the entity which owns the Sands Hotel in Atlantic City, New Jersey. One of our subsidiaries, formed for this purpose, entered into an agreement in January 2004 to acquire two Las Vegas casino/hotels, 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. The closing of the acquisition was subject to certain conditions, including among other things, obtaining all approvals necessary under the Nevada gaming laws. Our subsidiary issued and sold debt securities aggregating $215.0 million in principal amount to finance the acquisition and the proceeds of this sale remained in escrow pending completion of the acquisition. The amount raised in excess of the acquisition cost and expenses was used to repay intercompany debt and make a distribution to us. We are considering additional gaming industry investments. These investments may include acquisitions from, or be made in conjunction with, our affiliates, provided that the terms thereof are fair and reasonable to us.

We recently made an investment in the oil and gas industry. In October 2003, we acquired and presently hold 50.01% of the outstanding equity and all of the outstanding debt securities of National Energy Group, Inc. which we acquired from an affiliate of Mr. Icahn.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THREE MONTHS ENDED MARCH 31, 2003

Gross revenues increased by $5.8 million, or 8.4%, during the three months ended March 31, 2004 as compared to the same period in 2003. This increase reflects increases of $5.1 million in hotel and casino operating income, $0.7 million in NEG management fees, $0.5 million in equity in earnings of GB Holdings, Inc., or GBH, $0.3 million in rental income, $0.3 million in interest income on U.S. government and agency obligations and other investments, $0.2 million in land, house and condominium sales and $31,000 in hotel and resort operating income partially offset by decreases of $0.8 million in accretion of investment in NEG Holding LLC, $0.5 million in financing lease income and $66,000 in dividend and other income. The increase in hotel and casino operating income is primarily attributable to an increase in casino, hotel, food and beverage and other revenues, NEG management fees increased primarily due to management fees received from the TransTexas Gas Corporation. The increase in equity in earnings of GBH is primarily due to increased casino revenue and decreased promotional allowances. Rental income increased primarily due to a property acquisition and rent increases from tenants. The decrease in accretion of investment in NEG Holding LLC is primarily due to a priority distribution amount received in 2003. The decrease in financing lease income is primarily due to property sales and normal lease amortization.

Expenses increased by $1.5 million, or 2.8%, during the three months ended March 31, 2004 as compared to the same period in 2003. This increase reflects increases of $1.3 million in hotel and casino operating expenses, $1.0 million

in general and administrative expenses, $0.5 million in depreciation and amortization and $93,000 in property expenses partially offset by decreases of $0.7 million in cost of land, house and condominium expenses, $0.4 million in interest expense and $0.2 million in hotel and resort operating expenses. The increase in hotel and casino operating expenses is primarily attributable to increased costs associated with increased revenues. Hotel and casino operating expenses as a percentage of revenues decreased from 80% in 2003 to 74% in 2004. The increase in general and administrative expenses is primarily due to expenses incurred in connection with the increase in NEG management fees. The increase in depreciation and amortization is primarily due to a property acquisition and reclassifications of financing leases. The decrease in cost of land, house and condominium expenses is primarily attributable to higher margin sales. Land, house and condominium expenses as a percentage of revenues decreased from 84% in 2003 to 67% in 2004. The decrease in interest expense is primarily attributable to the decrease in NEG interest expense partially offset by the increased interest expense related to the preferred limited partnership units and the senior secured notes payable of American Casino. NEG interest expense decreased primarily due to the Company's acquisition of NEG's debt in October 2003.

Operating income increased during the three months ended March 31, 2004 by $4.4 million as compared to the same period in 2003 as detailed above.

Earnings from land, house and condominium operations increased in the three months ended March 31, 2004 compared to the same period in 2003 due to the sale of higher margin properties. Based on current information, sales are expected to increase moderately during 2004 as compared to 2003. However, municipal approval of land inventory or the purchase of approved land is required to continue this upward trend into 2005 and beyond.

Earnings from hotel, casino and resort properties increased during the three months ended March 31, 2004 due to increased revenues throughout the property.

Gain on property transactions from continuing operations increased by $4.9 million during the three months ended March 31, 2004 as compared to the same period in 2003.

A provision for loss on real estate of $0.2 million was recorded in the three months ended March 31, 2003. No such provision was recorded in 2004.

A gain on sale of marketable equity securities of $28.9 million was recorded in the three months ended March 31, 2004. There were no such gains in the comparable period of 2003.

A write-down of equity securities available for sale of $1.0 million was recorded in the three months ended March 31, 2003. There was no such write-down in 2004.

Income from continuing operations before income taxes increased by $39.2 million in the three months ended March 31, 2004 as compared to the same period in 2003 as detailed above.

Income tax expense of $4.3 million was recorded in the three months ended March 31, 2004 as compared to $2.9 million in 2003.

Income from continuing operations increased by $37.8 million in the three months ended March 31, 2004 as compared to the same period in 2003 as detailed above.

Income from discontinued operations increased by $7.8 million in the three months ended March 31, 2004 as compared to the same period in 2003 due to gains on property dispositions.

Net earnings for the three months ended March 31, 2004 increased by $45.5 million as compared to the three months ended March 31, 2003 primarily due to a gain on sale of marketable equity securities ($28.9 million), increased income from discontinued operations ($7.8 million), increased gain on property dispositions from continuing operations ($4.9 million) and increased net hotel and casino operating income ($3.8 million).

CALENDAR YEAR 2003 COMPARED TO CALENDAR YEAR 2002

Gross revenues decreased by $69.8 million, or 20.2%, during the year ended December 31, 2003 as compared to the year ended December 31, 2002. This decrease reflects decreases of (1) $62.8 million in land, house and condominium sales, (2) $7.8 million in interest income on U.S. government and agency obligations and other investments, (3) $3.8 million in equity in earnings of GB Holdings, Inc., (4) $2.7 million in accretion of investment in NEG Holding LLC, (5) $1.6 million in financing lease income and (6) $0.3 million in hotel and resort operating income, partially offset by increases of $7.4 million in hotel and casino operating income, $1.1 million in rental income, $0.3 million in dividend and other income and $0.3 million in NEG management fee. The decrease in land, house and condominium sales is primarily due to a decrease in the number of units sold, as the Grassy Hollow, Gracewood and Stone Ridge properties were depleted by sales. During 2003, Hammond Ridge received necessary approvals and, along with Penwood, have commenced lot sales. As a result, we expect land, house and condominium sales to moderately increase in 2004 and additional increased sales in 2005. The decrease in interest income on U.S. government and agency obligations and other investments is primarily attributable to the prepayment of the loan to Mr. Icahn in 2003 and a decline in interest rates on U.S. government and agency obligations as higher rate bonds were called in 2002. The decrease in equity in earnings of GB Holdings, Inc. is due to decreased casino revenue primarily attributable to a reduction in the number of table games as new slot machines

were added in 2002. This business strategy had a negative effect on casino operations and was changed in 2003 to focus on the mid to high-end slot customer with a balanced table game business. The decrease in accretion of investment in NEG Holding is primarily attributable to priority distributions received from NEG Holding in 2003. The decrease in financing lease income is the result of lease expirations, reclassifications of financing leases and normal financing lease amortization. The increase in hotel and casino operating income is primarily attributable to an increase in hotel, food and beverage revenues and a decrease in promotional allowances. The average daily rate, or ADR, increased $3 to $51 and percentage occupancy increased approximately 0.2% to 89.8%. The increase in rental income is primarily attributable to a property acquisition and reclassifications of financing leases to operating leases.

Expenses decreased by $49.0 million or 18.7%, during the year ended December 31, 2003 as compared to the same period in 2002. This decrease reflects decreases of $45.5 million in the cost of land, house and condominium sales, $6.7 million in interest expense, $1.4 million in hotel and resort operating expenses and $0.1 million in general and administrative expenses partially offset by increases of $3.8 million in hotel and casino operating expenses, $0.8 million in rental property expenses and $0.1 million in depreciation and amortization. The decrease in the cost of land, house and condominium sales is due to decreased sales. Costs as a percentage of sales decreased from 72% in 2002 to 69% in 2003. The decrease in interest expense is primarily due to

repayment of debt by NEG and our purchase of the NEG notes in October 2003. The decrease in hotel and resort operating expenses is due to a decrease in payroll and related expenses. The increase in hotel and casino operating expenses is primarily attributable to increased costs associated with increased revenues. Costs as a percentage of sales decreased from 84% in 2002 to 83% in 2003.

Operating income decreased during the year ended December 31, 2003 by $20.8 million compared to the same period in 2002 as detailed above.

Earnings from land, house and condominium operations decreased significantly in the year ended December 31, 2003 compared to the same period in 2002 due to a decline in inventory of completed units available for sale. Based on current information, sales will increase moderately during 2004. However, municipal approval of land inventory or the purchase of approved land is required to continue this upward trend into 2005 and beyond.

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

Gain on property transactions from continuing operations decreased by $1.9 million during the year ended December 31, 2003 as compared to the same period in 2002 due to the size and number of transactions.

A provision for loss on real estate of $0.8 million was recorded in the year ended December 31, 2003 as compared to $3.2 million in 2002. In 2002, there were more properties vacated due to tenant bankruptcies than in 2003.

A write-down of marketable equity securities available for sale of $1.0 million was recorded in the year ended December 31, 2003 as compared to a write-down of $8.5 million in 2002. These write-downs relate to our investment in Philip Services Corp. which filed for bankruptcy protection in June 2003.

A write-down of mortgages and notes receivable of $18.8 million, pertaining to our investment in the Philip notes, was recorded in the year ended December 31, 2003. There was no such write-down in the comparable period of 2002. In 2003, we reviewed Philip's financial statements and other data and determined this investment to be impaired.

A write-down of a limited partnership investment of $3.8 million was recorded in the year ended December 31, 2002. There was no such write-down in 2003.

A gain on sale of marketable equity securities of $2.6 million was recorded in the year ended December 31, 2003. There was no such gain in the comparable period of 2002.

Minority interest in the net earnings of Stratosphere Corporation was $1.9 million during the year ended

December 31, 2002. As a result of the acquisition of the minority interest in December 2002, there was no minority interest in Stratosphere in 2003 and none thereafter.

Income from continuing operations before income taxes decreased by $23.2 million in the year ended December 31, 2003 as compared to the same period in 2002 as detailed above.

An income tax benefit of $6.5 million was recorded in the year ended December 31, 2003 as compared to an expense of $7.5 million in the comparable

period of 2002. The effective tax rate on earnings of taxable subsidiaries was positively affected in 2003 by a reduction in the valuation allowance in deferred tax assets. We expect our effective tax rate on earnings of taxable subsidiaries to increase significantly in 2004.

Income from continuing operations decreased by $9.3 million in the year ended December 31, 2003 as compared to the same period in 2002 primarily as detailed above.

Income from discontinued operations increased by $3.5 million in the year ended December 31, 2003 as compared to the same period in 2002 primarily due to gains on property dispositions.

Net earnings for the year ended December 31, 2003 decreased by $5.8 million as compared to the year ended December 31, 2002 primarily due to a write-down of mortgages and notes receivable of $18.8 million, decreased earnings from land, house and condominium operations of $17.2 million, decreased interest income of $7.8 million and decreased equity in earnings of GB Holdings of $3.8 million, partially offset by decreased income tax expense of $14.0 million, a decrease in write-down of equity securities available for sale of $7.5 million, decreased interest expense of $6.7 million, decreased write-down of limited partnership interests of $3.8 million, increased earnings from hotel and casino operations of $3.6 million, increased gain on the sale of marketable equity securities of $2.6 million and an increase in income from discontinued operations of $3.5 million.

CALENDAR YEAR 2002 COMPARED TO CALENDAR YEAR 2001

Gross revenues increased by $24.1 million, or 7.5%, during the year ended December 31, 2002 as compared to the same period in 2001. This increase reflects increases of $23.0 million in accretion of investment in NEG Holding, $20.5 million in land, house and condominium sales, $12.0 million in hotel and casino operating income, $4.9 million in NEG management fee, $2.6 million in hotel and resort operating income and $0.1 million in rental income partially offset by decreases of $33.2 million in oil and gas operating income, $2.2 million in financing lease income, $2.2 million in dividend and other income, $1.5 million in equity in earnings of GB Holdings and $23,000 in interest income on U.S. government and agency obligations and other investments. The increase in accretion of investment in NEG Holding and the management fee are due to the partial year of 2001 which began May 1 as a result of the bankruptcy reorganization. Prior to that time, NEG directly owned and operated oil and natural gas properties. The increase in land, house and condominium sales is primarily attributable to higher selling prices and an increase in the number of units sold, due to a strong residential housing market and low mortgage rates. The increase in hotel and casino operating income is primarily attributable to an increase in gaming and hotel revenues as a result of increased capacity brought about by the hotel expansion. ADR remained at $48 during the years ended December 31, 2002 and 2001; however, percentage occupancy decreased 4% to 89.6%. The increase in hotel and resort operating income is primarily attributable to increased revenues at New Seabury as prior year's revenues were negatively impacted by construction activities. The decrease in financing lease income is the result of lease expirations, reclassification of financing leases and normal financing lease amortization. The decrease in dividend and other income is primarily due to lease termination and deferred maintenance payments received from tenants in 2001. The decrease in equity earnings of GB Holdings is due to decreased casino revenue, primarily attributable to a reduction in the number of table games as new slot machines were added in 2002, which was partially offset by decreased promotional allowances and decreased casino expenses. In addition, GB Holdings recorded an impairment loss on certain property expansion costs determined to be unusable.

Expenses increased by $4.1 million, or 1.6%, during the year ended

December 31, 2002 as compared to the same period in 2001. This increase reflects increases of $12.0 million in the cost of land, house and condominium sales, $3.7 million in hotel and casino operating expenses, $1.7 million in rental property expenses, $1.8 million in hotel and resort operating expenses and $1.1 million in general and administrative expenses partially offset by decreases of $7.4 million in interest expense, $5.6 million in oil and gas operating expenses and $3.2 million in depreciation

and amortization. The increase in the cost of land, house and condominium sales is due to increased sales as explained above. Costs as a percentage of sales declined from 77% in 2001 to 72% in 2002 primarily due to higher margin sales in 2002. The increase in hotel and casino operating expenses is primarily attributable to increased costs associated with increased revenues. Costs as a percentage of sales declined from 89% in 2001 to 84% in 2002 as hotel and casino revenues increased at a greater rate than hotel and casino expenses due to the hotel expansion. The increase in property expenses is primarily due to an increase in expenses related to off-lease properties and expenses of the New Seabury development litigation of approximately $1 million. The increase in hotel and resort operating expenses is primarily attributable to increased costs associated with increased revenues at New Seabury. Costs as a percentage of sales decreased from 88% in 2001 to 84% in 2002. The decrease in interest expense is primarily due to the repayment of debt to affiliates in May 2002 in connection with the Sands repurchase obligation, as well as decreased interest rates prior to repayment of this debt. The decrease in oil and gas operating expenses is due to the partial year of 2001. The decrease in depreciation and amortization expense is primarily attributable to NEG contributing its operating properties to NEG Holding in May 2001.

Earnings from land, house and condominium operations increased in the year ended December 31, 2002 as compared to the same period in 2001. However, the decrease in land inventory in approved sub-divisions is expected to negatively impact earnings from this business segment.

As a result of the completion of Stratosphere's additional 1,000 rooms and related amenities in June 2001, hotel and casino operating revenues and expenses have increased. Increased room capacity provided more hotel guests thereby increasing revenues. Earnings from hotel, casino and resort properties are expected to be constrained by recessionary pressures, international tensions and competition.

Operating income increased during the year ended December 31, 2002 by $20.0 million as compared to the same period in 2001.

Gain on sale of real estate increased by $7.3 million, during the year ended December 31, 2002 as compared to the same period in 2001 due to the size and number of transactions,.

During the years ended December 31, 2002 and 2001, we recorded a provision for loss on real estate of $3.2 million. A substantial portion of the 2002 provision resulted from vacated properties where leases were not renewed or were rejected by tenants in bankruptcy.

A write-down of equity securities available for sale of $8.5 million was recorded in the year ended December 31, 2002. The market value of Philip's common stock has declined steadily since it was acquired by us. In 2002, based on a review of Philip's financial statements, we deemed the decrease in value to be other than temporary. As a result, we wrote down our investment in Philips' common stock by a charge to earnings. There was no such write-down in 2001.

Gain on sale of marketable equity and debt securities was $6.8 million, in the year ended December 31, 2001. There was no such income in 2002.

A write-down of a limited partnership investment of $3.8 million was recorded in the year ended December 31, 2002. We invested $6.0 million in an unaffiliated limited partnership. Upon review of this investment in 2002, we determined that the investment was impaired and wrote down its value by a charge to earnings. There was no such write-down in 2001.

Minority interest in the net earnings of Stratosphere increased by $1.5 million during the year ended December 31, 2002 as compared to the same period in 2001, due to an increase in Stratosphere's net hotel and casino operating income. As a result of the acquisition of the minority interest in December 2002, there will be no minority interest in net earnings of Stratosphere in 2003 and thereafter.

Income from operations before income taxes increased by $6.7 million in the year ended December 31, 2002 as compared to the same period in 2001 as detailed above.

The income tax expense was $7.5 million for the year ended December 31, 2002 as compared to an income tax

benefit of $30.1 million for the comparable period of 2001.

Income from continuing operations decreased by $30.9 million in the year ended December 31, 2002 as compared to the same period of 2001.

Income from discontinued operations decreased by $0.1 million for the year ended December 31, 2002 as compared to the same period of 2001.

Net earnings for the year ended December 31, 2002 decreased by $31.0 million as compared to the year ended December 31, 2001 primarily due to increased income tax expense of $37.6 million, a write-down of equity securities available for sale of $8.5 million, decreased gain on sale of marketable equity securities of $6.7 million and the write-down of a limited partnership investment of $3.8 million partially offset by increased earnings from land house and condominium operations of $8.4 million, increased earnings from hotel and casino operations of $8.3 million and increased gain on sale of real estate of $7.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $14.6 million for the three months ended March 31, 2004 as compared to $21.0 million used in operating activities in the comparable period of 2003. This increase resulted primarily from NEG's payment of accounts payable and accrued liabilities in 2003 ($37.7 million) partially offset by a decrease in cash flow from other operations ($2.1 million).

The following table reflects our contractual cash obligations, as of March 31, 2004, due during the indicated periods (dollars in millions):

	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS	TOTAL(

Mortgages payable	$ 6.5	$ 14.4	$ 72.2	$ 86.2	$ 179
Mezzanine loan commitments	15.0	--	--	--	15
Acquisition of debt securities	54.7	--	--	--	54
Senior secured notes payable 2012	--	--	--	215.0	215
Construction and development obligations	30.0	--	--	--	30
Total	$ 106.2	$ 14.4	$ 72.2	$ 301.2	$ 494

(1) In addition, see note 10 of notes to AREP consolidated financial statements for preferred limited partnership redemption.

On May 29, 2004, American Casino, our indirect wholly-owned subsidiary, acquired two Las Vegas casino/hotels, Arizona Charlie's Decatur and Arizona Charlie's Boulder, from Carl C. Icahn and an entity affiliated with Mr. Icahn, for aggregate consideration of $125.9 million. At the closing of those acquisitions, AREH transferred 100% of the common stock of Stratosphere to American Casino. As a result, American Casino owns and operates three gaming and entertainment properties in the Las Vegas metropolitan area.

On May 12, 2004, we issued senior notes due 2012 in a private placement transaction. The notes, in the aggregate principal amount of $353 million, and priced at 99.266%, bear interest at a rate of 8-1/8% per annum. Net proceeds from the offering will be used for general business purposes, including to pursue our primary business strategy of acquiring undervalued assets in either our existing lines of business or other businesses and to provide additional capital to grow our existing businesses.

During the three months ended March 31, 2004, we had sold eight rental properties for an aggregate sales price of $18.7 million. As of March 23, 2004, we have 40 additional properties under contract or as to which letters of intent had been executed by the potential purchaser, all of which contracts or letters of intent are subject to purchaser's due diligence and other closing conditions. Selling prices for the properties covered by the contracts or letters of intent would total approximately $323 million but the properties are encumbered by aggregate mortgage debt of approximately $142 million which would have to be repaid out of the proceeds of the sales or would be assumed by purchasers.

On March 15, 2004, we announced that no distributions on our depositary units are expected to be made in 2004. We continue to believe that we should continue to hold and invest, rather than distribute, cash. We intend to continue to apply available cash flow toward its operations, repayment of maturing indebtedness, tenant requirements, investments, acquisitions and other capital expenditures.

In January 2004, American Casino closed on its offering of senior secured notes due 2012. The notes, in the aggregate principal amount of $215 million, bear interest at the rate of 7.85% per annum. American Casino used the proceeds of the offering for the Arizona Charlie's acquisitions to repay intercompany indebtedness and for distributions to AREH.

Net proceeds from the sale or disposal of portfolio properties totaled approximately $18.7 million in the three months ended March 31, 2004. During the comparable period of 2003, sales proceeds totaled approximately $3.3 million. The Company intends to use asset sales, financing and refinancing proceeds for new investments.

Capital expenditures for real estate, and hotel, casino and resort operations were approximately $1.3 million and $1.2 million during the three months ended March 31, 2004 and 2003, respectively. In 2004, capital expenditures are currently expected to be approximately $10 million. In the three months ended March 31, 2004, we acquired a property for approximately $14.6 million.

During the three months ended March 31, 2004 and 2003, approximately $1.7 million and $2.0 million, respectively, of mortgage principal payments were repaid.

Our cash and cash equivalents and investment in U.S. government and agency obligations increased by $77.2 million during the three months ended March 31, 2004 primarily due to proceeds from the sale of marketable equity securities ($64.4 million), property sales proceeds ($18.7 million) and net cash flow from operations ($14.6 million) partially offset by rental real estate acquisition ($14.6 million), capital expenditures ($1.3 million) and miscellaneous other items ($4.6 million).

In 2003, 17 leases covering 17 properties and representing approximately $2.2 million in annual rentals expired. Twelve leases originally representing $1.6 million in annual rental income were renewed for $1.4 million in annual rentals. Such renewals are generally for a term of five years. Five properties with annual rental income of $0.6 million were not renewed.

In 2004, 11 leases covering 11 properties and representing approximately $1.8 million in annual rentals are scheduled to expire. Eight leases representing $1.5 million in annual rental income were renewed for $1.5 million in annual rentals. Such renewals are generally for a term of five years. Three properties with annual rentals of $0.3 million were not renewed.

On March 31, 2003, we distributed to holders of record of our preferred units as of March 14, 2003, 466,548 additional preferred units. Pursuant to the terms of the preferred units, on February 23, 2004, 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 of 489,657 preferred units was paid on March 31, 2004 to holders of record as of March 12, 2004. In February 2004, the number of authorized preferred units was increased to 10,400,000.

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.

The types of investments we are pursuing, including assets that may not be readily financeable or generating positive cash flow, such as development properties, non-performing mortgage loans or securities of companies which may be undergoing restructuring or require significant capital investments, require us to maintain a strong capital base in order to own, develop and reposition these assets.

Sales proceeds from the sale or disposal of portfolio properties totaled approximately $20.6 million in 2003. During 2002, such sales proceeds totaled approximately $20.5 million. In May 2003, we obtained mortgage

financing in the principal amount of $20 million on a distribution facility located in Windsor Locks, Connecticut. In 2002, mortgage financing proceeds were $12.7 million.

In October 2003, pursuant to a purchase agreement dated as of May 16, 2003, we acquired all of the debt and 50% of the equity securities of NEG from entities affiliated with Mr. Icahn for an aggregate consideration of approximately $148.1 million plus approximately $6.7 million of accrued interest on the debt securities.

Capital expenditures for real estate and hotel, casino and resort operations were approximately $20.1 million during 2003. During 2002, such expenditures totaled approximately $4.8 million. In 2004, capital expenditures are estimated to be approximately $13 million.

During the year ended December 31, 2003, approximately $10.3 million of principal payments were repaid. During the year ended December 31, 2002, approximately $7.6 million of principal payments were repaid.

Our cash and cash equivalents and investment in U.S. government and agency obligations increased by $138.3 million during the year ended December 31, 2003, primarily due to affiliate loan repayment of $250 million, property sales and refinancing proceeds of $40.6 million, priority distribution from NEG Holding of $40.5 million, net cash flow from operations of $18.5 million, guaranteed payment from NEG Holding of $18.2 million and other items of $14.9 million partially offset by the purchase of NEG interests of $148.1 million, purchase of debt securities of $45.1 million, increase in mezzanine loans of $31.1 million and capital expenditures for real estate and hotel, casino and resort operating properties of $20.1 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principals in the United States of America, 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 our 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 accounted for our acquisition of NEG as assets transferred between entities under common control which requires that they be accounted for at historical costs similar to a pooling of interests. NEG's investment in NEG Holding constitutes a variable interest entity. In accordance with generally accepted accounting principles, we have determined that NEG is not the primary beneficiary of NEG Holding and therefore we do not consolidate NEG Holding in our consolidated financial statements.

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 AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF

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.

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.

MARKETABLE EQUITY AND DEBT SECURITIES AND INVESTMENT IN U.S. GOVERNMENT AND AGENCY OBLIGATIONS

Investments in equity and debt securities are classified as either held-to-maturity or available for sale for accounting purposes. Investment in U.S. government and agency obligations are classified as available for sale. Available for sale securities are carried at fair value on our balance sheet. Unrealized holding gains and losses are excluded from earnings and reported as a separate component of partners' equity. Held-to-maturity securities are recorded at amortized cost.

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

MORTGAGES AND NOTES RECEIVABLE

We have generally not recognized any profit in connection with the property sales in which certain purchase money mortgages receivable were taken back. Such profits are being deferred and will be recognized when the principal balances on the purchase money mortgages are received.

We engage in real estate lending, including making second mortgage or secured mezzanine loans to developers for the purpose of developing single-family homes, luxury garden apartments or commercial properties. These loans are subordinate to construction financing and we target an interest rate in excess of 20% per annum. However interest is not paid periodically and is due

at maturity or earlier from unit sales or refinancing proceeds. We defer recognition of interest income on mezzanine loans pending receipt of principal and interest payments.

REVENUE RECOGNITION

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 Financial Accounting Standards Board (FASB) Statement No. 66, Accounting for Sales of Real Estate.

CASINO REVENUES AND PROMOTIONAL ALLOWANCES

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. Revenues include the retail value of 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 cost of such complimentaries is included in "Hotel and casino operating expenses."

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. Stratosphere and NEG, 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 2003, it concluded, based on the projected allocations of taxable income, our corporate subsidiaries, NEG and Stratosphere, more likely than not will realize a partial benefit from its deferred tax assets and loss carryforwards. Ultimate realization of the deferred tax asset is dependent upon, among other factors, their ability to generate sufficient taxable income within the carryforward periods and is subject to change depending on the tax laws in effect in the years in which the carryforwards are used.

PROPERTIES

Properties held for investment, other than those accounted for under the financing method, are carried at cost less accumulated depreciation unless declines in the value of the properties are considered other than temporary at which time the property is written down to net realizable value. A property is classified as held for sale at the time we determine that the criteria in SFAS 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 operations are included in discontinued operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The SEC requires that registrants include information about primary market risk exposures relating to financial instruments. Through its operating and investment activities, we are exposed to market, credit and related risks, including those described elsewhere in this prospectus. We may invest in debt or equity securities of companies undergoing restructuring or undervalued by the market. These securities are subject to inherent risks due to price fluctuations, and risks relating to the issuer and its industry, and the market for these securities may be less liquid and more volatile than that of higher rated or more widely followed securities.

Other related risks include liquidity risks, which arise in the course of our general funding activities and the management of our balance sheet. This includes both risks relating to the raising of funding with appropriate maturity and interest rate characteristics and the risk of being unable to liquidate an asset in a timely manner at an acceptable price. Real estate investments by their nature are often difficult or time-consuming to liquidate. Also, buyers of minority interests may be difficult to secure, while transfers of large block positions may be subject to legal, contractual or market restrictions. Other operating risks for us include lease terminations, whether scheduled terminations or due to tenant defaults or bankruptcies, development risks, and environmental and capital expenditure matters, as described elsewhere in this prospectus. Our mortgages payable are primarily fixed-rate debt and, therefore, are not subject to market risk.

We invest in U.S. government and agency obligations which are subject to interest rate risk. As interest rates fluctuate, we will experience changes in the fair value of these investments with maturities greater than one year. If interest rates increased 100 basis points, the fair value of these investments as of December 31, 2003, would decline by approximately $200,000.

Whenever practical, we employ internal strategies to mitigate exposure to these and other risks. We, on a case by case basis with respect to new investments, perform internal analyses of risk identification, assessment and control. We review credit exposures and seek to mitigate counterparty credit exposure through various techniques, including obtaining and maintaining collateral, and assessing the creditworthiness of counterparties and issuers. Where appropriate, an analysis is made of political, economic and financial conditions, including those of foreign countries. Operating risk is managed through the use of experienced personnel. We seek to achieve adequate returns

commensurate with the risk we assume. We use qualitative as well as quantitative information in managing risk.

BUSINESS

OUR COMPANY

We are a diversified holding company engaged in a variety of businesses. Our primary business strategy is to seek to acquire undervalued assets and companies that are distressed or out of favor. Our businesses currently include rental real estate; real estate development; hotel and resort operations; hotel

and casino operations; investments in equity and debt securities; and oil and gas exploration and production. We intend to continue to invest in our core businesses, including real estate, gaming and entertainment, and oil and gas. We may also seek opportunities in other sectors, including energy, industrial manufacturing and insurance and asset management.

BUSINESS STRATEGY

We believe that our core strengths include: identifying and acquiring undervalued assets and businesses, often through the purchase of distressed securities; increasing value through management, financial or other operational changes; and managing complex legal, regulatory or financial issues which may include bankruptcy or insolvency, environmental, zoning, permitting and licensing issues. We also believe that we have developed significant management strength, industry relationships and expertise in our core real estate, gaming and entertainment and oil and gas businesses. The key elements of our business strategy include the following.

CONTINUE TO INVEST IN AND GROW OUR EXISTING OPERATING BUSINESSES. We believe that we have developed a strong portfolio of businesses with experienced management teams. We may expand our existing businesses if appropriate opportunities are identified as well as use our established businesses as a platform for additional acquisitions in the same or other areas.

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

ACTIVELY MANAGE OUR INVESTMENTS AND BUSINESSES. We seek investments for which we can identify specific areas for financial or operational improvement and where we can act as a catalyst for change. Change may include, but not be limited to, replacing or supplementing management, restructuring the balance sheet, increasing liquidity, disposing assets or cutting costs. We believe that we can leverage off of our core businesses to better assess and increase the value of our acquisitions. For instance, our homebuilding expertise allows us to appropriately assess the risks of a real estate development prior to making a mezzanine loan and also to complete a development if it is necessary or profitable to do so.

DEPLOY OPERATING AND TRANSACTION STRUCTURING EXPERTISE OF EXISTING MANAGEMENT TEAM INTO RELATED FIELDS. Our senior management team has extensive experience in real estate and in identifying undervalued assets in general. We believe there is significant opportunity to use this experience by acquiring or starting businesses in asset-intensive sectors, including other real estate development activities, industrial manufacturing, energy and insurance and asset management, in which we have had no or limited experience to date, but which may be undervalued and have potential for growth.

RENTAL REAL ESTATE

Our rental real estate operations consist primarily of retail, office and industrial properties leased to single corporate tenants. As of December 31, 2003, we owned 128 separate real estate assets, primarily consisting of fee and

leasehold interests in 28 states. Historically substantially all of our real estate assets leased to others have been net-leased under long-term leases. With certain exceptions, these tenants are required to pay all expenses relating to

the leased property and, therefore, we are not typically responsible for payment of expenses, including maintenance, utilities, taxes, insurance or any capital items associated with such properties.

To capitalize on favorable real estate market conditions and the mature nature of our commercial real estate portfolio, we are offering for sale our rental real estate portfolio.

During the three months ended March 31, 2004 we had sold eight properties for an aggregate sales price of approximately $18.7 million. As of March 23, 2004, we had 40 additional properties under conditional sales contracts or letters of intent for an aggregate sales price of approximately $323 million. Mortgages with respect to these properties aggregate approximately $142 million, which we would pay from the sales proceeds or would be assumed by the purchasers. There can be no assurances that offers satisfactory to us will be received and if received that the properties will ultimately be sold at prices acceptable to us.

While we believe opportunities in real estate related acquisitions continue to remain available, there is increasing competition for these opportunities and the increased competition affects price and the ability to find quality assets that provide attractive returns. We will continue to invest in real estate assets if opportunities to do so at favorable prices are found.

REAL ESTATE DEVELOPMENT

Our residential home development operations focus primarily on the construction and sale of single-family homes, custom-built homes, multi-family homes and residential lots in subdivisions and in planned communities. Our home building business is managed by Bayswater Development L.L.C., our wholly owned subsidiary. Our long-term investment horizon and operational expertise allow us to acquire properties with limited current income and complex entitlement and development issues. We acquired Bayswater from Mr. Icahn in March 2000 for approximately $84.4 million. Approximately $100 million of cash has been generated from the sale of homes and lots to date from this acquisition.

Between 1993 and 1997, we and Bayswater acquired five residential subdivisions in New York that aggregated 864 acres and comprised 272 units. By 2003, we developed this land and built and sold 213 units. In addition, in April 1999, Bayswater acquired over 500 acres of land in San Antonio, Florida, which consisted of a 27-hole golf course, seven acres of commercial land and 1,161 condominium unit lots. By the end of 2002, we had sold all of the residential land we owned in San Antonio.

Bayswater is currently developing five residential subdivisions in New York, Florida and Massachusetts. In New York, Bayswater is developing two high-end residential subdivisions in Westchester County: Penwood, located in Bedford, and Hammond Ridge, located in Armonk and New Castle. Bayswater is also seeking approval to develop Pondview Estates which is located in Patterson and Kent in Putnam County, New York. In Naples, Florida, Bayswater is building, developing and selling Falling Waters, a condominium development. In addition, we are pursuing the development of our New Seabury property, a proposed luxury second-home waterfront community in Cape Cod, Massachusetts.

Penwood. Located in Bedford, New York, Penwood consists of 44 lots

situated on 297 acres. The development is approximately one hour from Manhattan. Homes are situated on lots that range from 2.1 acres to 14.5 acres and range in size from 5,400 square feet to 9,600 square feet. The average selling price of a Penwood home is $2.4 million, with a range of sales prices between $2.0 million and $3.4 million. As of April 12, 2004, we have sold 22 of the 44 units and 11 units are under contract.

Hammond Ridge. Located in Armonk and New Castle, New York, Hammond Ridge consists of 37 single-family lots situated on 220 acres. The development is approximately 40 minutes from Manhattan. We acquired the land through the purchase and foreclosure of a bank loan. At the time of acquisition, the land was unentitled. Purchasers of Hammond Ridge units are able to select one of many home designs with the capability of adding options and upgrades, as well as controlled customization. The average selling price of a Hammond Ridge home is $2.1 million, with a range of prices between $1.6 million and $2.8 million. From January 2004 when sales commenced through April 12, 2004, we have executed contracts for eight of the 37 homes.

Pondview Estates. Located in Patterson and Kent, New York, Pondview Estates is a townhouse condominium development on a 91-acre wooded hillside overlooking an on-site pond. We expect to build a 50-townhouse condominium once final approvals are granted. Sales are expected to begin in 2005. A two-bedroom townhouse condominium in Pondview Estates is expected to be priced at approximately $450,000.

Falling Waters. Located in Naples, Florida, Falling Waters is a 793 unit condominium development on 158 acres located approximately 10 minutes from downtown Naples, Florida. It is a gated community with 24-hour security. The average selling price is $200,000. As of April 12, 2004, there were 192 units remaining to be constructed, of which 69 remain to be sold, and we had pre-sold 123 units.

New Seabury. Located in Cape Cod, Massachusetts, New Seabury is a 381 acre resort community overlooking Nantucket Sound and Martha's Vineyard. The property originally was approved for development in the early 1960's, but development was delayed by the inability to service its debt. We acquired all of the first mortgages in 1998 and subsequently gained control of the property in bankruptcy, after community members voted in favor of our involvement. We believe we have the approval to develop up to 278 residential units and 145,000 square feet of commercial space in New Seabury.

In January 2002, the Cape Cod Commission, a Massachusetts regional planning body created in 1989, concluded that our New Seabury development is within its jurisdiction for review and approval. We believe that the proposed residential, commercial and recreational development is in substantial compliance with a special permit issued for the property in 1964 and is therefore exempt from the commission's jurisdiction and that the commission is barred from exercising jurisdiction pursuant to a 1993 settlement agreement between the commission and a prior owner of the New Seabury property.

In February 2002, New Seabury Properties L.L.C., our subsidiary and owner of the property, filed in Barnstable County Massachusetts Superior Court, a civil complaint appealing the decision by the commission, and a separate civil complaint to find the commission in contempt of the settlement agreement. The court subsequently consolidated the two complaints into one proceeding. In July 2003, New Seabury and the commission filed cross motions for summary judgment.

Also, in July 2003, in accordance with a court ruling, the commission reconsidered the question of its jurisdiction over the initial development

proposal and over a modified development proposal that New Seabury filed in March 2003. The commission concluded that both proposals are within its jurisdiction. In August 2003, New Seabury filed in Barnstable County Massachusetts Superior Court another civil complaint appealing the commission's second decision to find the commission in contempt of the settlement agreement.

In November 2003, the court ruled in New Seabury's favor on its July 2003 motion for partial summary judgment, finding that the special permit remains valid and that the modified development proposal is in substantial compliance with the special permit and therefore exempt from the commission's jurisdiction; the court has not yet ruled on the initial proposal. Under the modified development proposal, New Seabury could potentially develop up to 278 residential units and 145,000 square feet of commercial space. In February 2004, New Seabury and the commission jointly moved to consolidate the three complaints into one proceeding. The court subsequently consolidated the three complaints into one proceeding. In March 2004, New Seabury moved for summary judgment to dispose of remaining claims under all three complaints and to obtain a final judgment from the court. Under the initial proposal, New Seabury could potentially build up to 675 residential/hotel units and 80,000 square feet of commercial space. We are currently in settlement negotiations with the Cape Cod Commission but these discussions may not be successful. We cannot predict the effect on the development process if we lose any appeal or if the commission is ultimately successful in asserting jurisdiction over any of the development proposals.

We have invested and expect to continue to invest in undeveloped land and development properties. We are highly selective in making investments in residential home development. Currently we are reviewing a wide variety of potential developments in New York and Florida.

HOTEL AND RESORT OPERATIONS

NEW SEABURY

New Seabury is a resort community overlooking Nantucket Sound and Martha's Vineyard in Cape Cod, Massachusetts. In addition to our residential development at New Seabury, we operate a full-service resort. The property currently includes a golf club with two 18 hole championship golf courses, the Popponesset Inn, a well known casual waterfront dining and wedding facility, a villa rental program, a waterfront freshwater swimming pool, a private beach, a fitness center and a 16 court tennis facility.

We invested a total of $27 million to acquire our interest in New Seabury and have invested an additional $30 million in improvements to date. We have replaced an outdated clubhouse with a 42,000 square foot state of the art facility which includes indoor and outdoor dining, a clubroom, banquet facilities, conference capability, a pro shop, locker rooms, a snack bar and indoor cart storage. We have constructed a 300,000 gallon per day wastewater treatment plant for resort facilities and future development. We have built a new 2,500 square foot state of the art poolside fitness center. We have reconfigured and reconstructed the Dunes Golf Course. We have invested capital to reconfigure our two championship golf courses and maintain their status as a high-end private facility.

HOTEL AND CASINO OPERATIONS

Our primary hotel, casino and resort operations consist of our ownership of Stratosphere Casino Hotel & Tower, Arizona Charlie's Decatur and Arizona Charlie's Boulder in Las Vegas, Nevada. Since we acquired the Stratosphere in

1998, we have invested approximately an additional $118 million to among other things build a 1,000-room hotel tower. We acquired Arizona Charlie's Decatur and Arizona Charlie's Boulder from Mr. Icahn and his affiliates for approximately $125.9 million in May 2004. We also own approximately 36.3% of the common stock of the company that owns and operates the Sands Hotel and Casino.

STRATOSPHERE

The Stratosphere is situated on approximately 31 acres of land located at the northern end of the Las Vegas Strip. We believe the Stratosphere is one of the most recognized landmarks in Las Vegas. The Stratosphere offers the tallest free-standing observation tower in the United States and, at 1,149 feet, it is the tallest building west of the Mississippi River. The Tower boasts some of the most unique amenities in Las Vegas, including an award-winning 380-seat revolving restaurant with unparalleled views of Las Vegas, known as the Top of the World, and the highest indoor/outdoor observation deck in Las Vegas. The Tower also features the three highest amusement rides in the world, for which we charge a price of $5 to $9 per ride. In Spring 2005, we expect to launch a fourth thrill ride designed to spin passengers in a centrifugal motion at 40-miles per hour over the edge of the Tower. In addition, the Tower has a 175-seat cocktail lounge, a wedding chapel and event space.

The Stratosphere's casino contains approximately 80,000 square feet of gaming space, with approximately 1,416 slot machines, 50 table games and a 125-seat race and sports book. Eight themed restaurants and four bars, two of which feature live entertainment, are all located adjacent to the casino. These facilities have been designed to enable convenient access to the casino. For the years ended December 31, 2001, 2002 and 2003, approximately 71.0%, 72.4% and 70.0%, respectively, of the Stratosphere's gaming revenue was generated by slot machine play and 26.9%, 26.8% and 27.9%, respectively, by table games. The Stratosphere derives its other gaming revenue from the race and sports book, which primarily serves to attract customers for slot machines and table games.

The hotel has 2,444 rooms, including 120 suites. The hotel amenities include a 67,000 square foot pool and a recreation area with a new snack and cocktail bar, private cabana and a fitness center with views of the Las Vegas Strip.

The retail center, located on the second floor of the base building, occupies approximately 110,000 square feet of developed retail space. The retail center contains 43 shops, six of which are food venues, and 13 merchant kiosks. Adjacent to the retail center is the 640-seat showroom that currently offers afternoon and evening shows, which are designed to appeal to the wide spectrum of value-minded visitors who come to Las Vegas. The Stratosphere's entertainment includes American Superstars, a celebrity tribute featuring today's and yesterday's hottest stars, and

Viva Las Vegas, Las Vegas' longest-running daytime show now in its twelfth year, featuring singing, dancing, comedy and specialty acts. The retail center also includes a full-service salon. The parking facility accommodates approximately 4,000 cars.

The Stratosphere utilizes the unique amenities of its Tower to attract visitors. Gaming products, hotel rooms, entertainment and food and beverage products are priced to appeal to the value-conscious middle- market Las Vegas visitor. The Top of the World restaurant, however, caters to higher-end customers. Stratosphere offers competitive payout ratios for its slot machines and video poker machines and competitive odds for its table games and sports book products. Stratosphere offers attractive and often unique table games,

including Single Zero Roulette and Ten Times Odds Craps, that provide patrons with odds that are better than the standard odds at other Las Vegas casinos. The Stratosphere participates in our Ultimate Rewards Club which provides members with cash or complimentaries which can be used at the Stratosphere, Arizona Charlie's Decatur or Arizona Charlie's Boulder. Advertising and promotional campaigns are designed to maximize hotel room occupancy, visits to the Tower and attract and retain players on property.

ARIZONA CHARLIE'S DECATUR

Arizona Charlie's Decatur opened in April 1988 as a full-service casino and hotel geared toward residents of Las Vegas and surrounding communities. Arizona Charlie's Decatur is located on approximately 17 acres of land four miles west of the Las Vegas Strip in the heavily populated west Las Vegas area. The property is easily accessible from Route 95, a major highway in Las Vegas.

Arizona Charlie's Decatur contains approximately 52,000 square feet of gaming space with 1,516 slot machines, 14 table games, a 120-seat race and sports book, a 486-seat 24-hour bingo parlor, a 16-seat Keno lounge and a 16-seat poker lounge. Approximately 72% of the slot machines at Arizona Charlie's Decatur are video poker games. Arizona Charlie's Decatur emphasizes video poker because it is popular with local players and generates, as a result, high volumes of play and casino revenue. For the years ended December 31, 2001, 2002 and 2003, approximately 87.9%, 91.3% and 90.7%, respectively, of the property's gaming revenue was generated by slot machine play and 6.7%, 5.7% and 5.0%, respectively, by table games. Arizona Charlie's Decatur derives its other gaming revenue from bingo and the race and sports book, which primarily serve to attract customers for slot machines and table games.

Arizona Charlie's Decatur currently has 258 rooms, including eight suites. Hotel customers include local residents and their out-of-town guests, as well as those business and leisure travelers who, because of location and cost considerations, choose not to stay on the Las Vegas Strip or at other hotels in Las Vegas.

Arizona Charlie's Decatur provides complimentary entertainment as a component of its overall customer appeal. The Naughty Ladies Saloon, a 111-seat facility, features a variety of entertainment, including live bands, musician showcase nights and jam sessions. Arizona Charlie's Decatur has focused on the appeal of its entertainment programming in order to retain its customers and increase the play at its casino.

Arizona Charlie's Decatur markets its hotel and casino primarily to local residents of Las Vegas and the surrounding communities. We believe that the property's pricing and gaming odds make it one of the best values in the gaming industry and that its gaming products, hotel rooms, restaurants and other amenities attract local customers in search of reasonable prices, smaller casinos and more attentive service. Arizona Charlie's Decatur also tailors its selection of slot machines, including many diverse video poker machines, and table games, including double-deck hand-dealt blackjack, to local casino patrons. In addition, the casino features a selection of games that invite personal interaction and which we believe are set for higher payout rates than those at other Las Vegas casinos generally.

ARIZONA CHARLIE'S BOULDER

Arizona Charlie's Boulder opened in 1988 as a stand-alone hotel and RV park. The full-service casino opened in May 2000. Arizona Charlie's Boulder is situated on approximately 24 acres of land located on Boulder Highway, in an established retail and residential neighborhood in the eastern metropolitan area of Las Vegas. The property is easily accessible from I-515, the most heavily traveled east/west highway in Las Vegas.

Arizona Charlie's Boulder contains approximately 41,000 square feet of gaming space with 835 slot machines, 13 table games, a 43-seat race and sports book and a 500-seat 24-hour bingo parlor. Approximately 66% of the slot machines at Arizona Charlie's Boulder are video poker games. Arizona Charlie's Boulder emphasizes video poker because it is popular with local players and generates, as a result, high volumes of play and casino revenue. For the years ended December 31, 2001, 2002 and 2003, approximately 87.2%, 92.9% and 87.2%, respectively, of gaming revenue was generated by slot machine play and 11.4%, 10.4% and 9.2%, respectively, by table games. Arizona Charlie's Boulder derives its other gaming revenue from bingo and the race and sports book, which primarily serve to attract customers for slot machines and table games.

Arizona Charlie's Boulder currently has 303 rooms, including 219 suites. Hotel customers include local residents and their out-of-town guests, as well as those business and leisure travelers who, because of location and cost considerations, choose not to stay on the Las Vegas Strip or at other hotels in Las Vegas. We recently renovated our hotel room interiors.

Arizona Charlie's Boulder provides complimentary entertainment as a component of its overall customer appeal. Palace Grand, a 112-seat facility, features live bands at no charge.

Arizona Charlie's Boulder also has an RV park. With 30- to 70-foot pull through stations and over 200 spaces, it is one of the largest short-term RV parks on the Boulder Strip. The RV park offers a range of services, including laundry facilities, game and exercise rooms, swimming pool, whirlpool and shower facilities, which are included in the nightly, weekly or monthly rates.

Arizona Charlie's Boulder markets its hotel and casino primarily to residents of Las Vegas and the surrounding communities. We believe that its pricing and gaming odds make it one of the best values in the gaming industry and that its gaming products, hotel rooms, restaurants, and other amenities attract local customers in search of reasonable prices, smaller casinos and more attentive service. Arizona Charlie's Boulder also tailors its selection of slot machines, including many diverse video poker machines, and table games, including double-deck hand-dealt blackjack, to local casino patrons. In addition, the casino features a selection of games that invite personal interaction and which we believe are set for higher payout rates than those at other Las Vegas casinos generally.

SANDS HOTEL AND CASINO

We own approximately 3.6 million shares of common stock of GB Holdings, Inc., or GBH. GBH is a holding company of the Sands Hotel and Casino.

The Sands is located in Atlantic City, New Jersey on approximately 6.1 acres of land one-half block from the Boardwalk at Brighton Park between Indiana Avenue and Dr. Martin Luther King, Jr. Boulevard. The Sands facility currently consists of a casino and simulcasting facility with approximately 79,000 square feet of gaming space, a hotel with 637 rooms, and related amenities.

On July 22, 2004, GBH, along with its wholly-owned indirect subsidiary, Atlantic Coast Entertainment Holdings, Inc., or Atlantic Holdings, consummated an Exchange Offer in which Atlantic Holdings exchanged its secured notes due September 2008 bearing an interest rate of 3% per annum payable at maturity, for $110 million in 11% secured notes due September 2005 of GB Property Funding, Inc., a wholly-owned subsidiary of GBH. In the Exchange Offer, holders of 60.2% of the outstanding principal amount of the 11% secured notes due September 2005,

including the 58.2% held by Mr. Icahn and affiliated companies, exchanged those notes. The 3% notes due September 2008 may be paid in full, at the option of the holders of a majority of their principal amount, with common stock of Atlantic Holdings. The transaction also included the following:

- The indenture for the 11% secured notes due September 2005 was amended to remove certain provisions and covenants and release the liens on the Sands' assets;

- The Sands' assets were transferred to a wholly-owned subsidiary of Atlantic Holdings, ACE Gaming, LLC; and

- The 3% notes due September 2008 are secured by a pledge of all of the assets of ACE Gaming, LLC, including the Sands.

The GBH common stockholders received warrants (that are exercisable following the occurrence of certain events) for 27-1/2% of the common stock of Atlantic Holdings (on a fully diluted basis) outstanding at the date of the issuance of the warrants.

INVESTMENTS

We also seek to purchase undervalued securities to maximize our returns. Undervalued securities are those which we believe may have greater inherent value than indicated by their then current trading price and may present the opportunity for "activist" bondholders or shareholders to act as catalysts to realize value. The equity securities in which we may invest may include common stocks, preferred stocks and securities convertible into common stocks, as well as warrants to purchase these securities. The debt securities and obligations in which we may invest include bonds, debentures, notes, mortgage-related securities and municipal obligations. Certain of these securities may include lower rated securities which may provide the potential for higher yields and therefore may entail higher risks. In addition, we may engage in various investment techniques, including options and futures transactions, foreign currency transactions and leveraging for either hedging or other purposes.

The undervalued securities in which we invest may be undervalued due to market inefficiencies, may relate to opportunities in which economic or market trends have not been identified and reflected in market value, or may include complex or not readily followed securities. Less favorable financial reports, lowered credit ratings, revised industry forecasts or sudden legal complications may result in market inefficiencies and undervalued situations. We may determine to establish an ownership position through the purchase of debt or equity securities of such entities and then negotiate for the ownership or effective control of some or all of the underlying equity in such assets.

As of March 31, 2004, we had investments of approximately $47.6 million in marketable equity and debt securities, including approximately $26.9 million of $110 million principal amount Sands notes and $17.8 million of corporate debt securities.

In April 2004, we entered into a trade confirmation to purchase approximately $63.5 million principal amount of secured bank indebtedness of a bankrupt company for a purchase price of approximately $54.8 million. The trade settled on April 30, 2004.

We owned equity and debt securities of Philip Services Corp. In June 2003, Philip announced that it and most of its wholly-owned U.S. subsidiaries filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code.

In 2003, prior to the bankruptcy filing, we determined that it was appropriate to write-off the balance of our investment in Philip common stock by a charge to earnings of approximately $1.0 million.

We also owned Philip term and payment-in-kind notes in the principal amount of approximately $32.7 million; the cost basis of the notes was approximately $22.1 million. For the second quarter of 2003, we reviewed Philip's financial statements, bankruptcy documents and the prices of recent purchases and sales of the notes and determined this investment to be impaired. Based upon this review, we concluded the fair value of the notes to be approximately $3.3 million; therefore, we recorded a write-down of approximately $18.8 million by a charge to earnings in the second quarter of 2003. In December 2003, we sold to an unaffiliated third party approximately $20 million in principal amount of the notes for approximately $2.6 million recognizing a gain on sale of approximately $0.4 million. Philip emerged from bankruptcy on December 31, 2003 as a private company controlled by an Icahn affiliate. Effective as of December 31, 2003, our remaining interest in the notes was exchanged for approximately 443,000 common shares representing a 4.4% equity interest in the new Philip valued at the carrying value of the debt as of December 31, 2003 of approximately $1.1 million.

Our real estate lending operations consist of making second mortgage or secured mezzanine loans to developers and existing property owners for the purpose of developing single-family homes, luxury garden apartments or commercial properties. This financing may provide for a contractual rate of interest to be paid as well as providing for a participation in the profits of the development. The security for these loans is a pledge of the developers'

ownership interest in the properties and may also include a second mortgage on the property. These loans are subordinate to construction financing and are generally referred to as mezzanine loans. Our mezzanine loans accrue interest at approximately 22% per annum. Bayswater's home building infrastructure and expertise allow us to evaluate financing opportunities relating to residential properties and complete developments when necessary.

As of March 31, 2004, we had second mortgage and mezzanine loans for approximately $49 million of principal amount, consisting of $31 million, excluding accrued interest, for a Florida condominium development, $11 million, excluding accrued interest, for a New York City hotel with approximately 200 rooms which was completed in November 2003 and $7 million for Ocean Place Resort and Conference Center, located in Long Branch, New Jersey. As of March 31, 2004, accrued interest of approximately $13.9 million has been deferred for financial statement purposes, pending receipt of principal and interest payments. These loans mature at various dates between 2004 and 2006. In addition, we have commitments to fund, under certain conditions, additional loans of approximately $15 million.

On October 17, 2003, Mr. Icahn, the chairman of our board of directors, repaid the $250 million loan which we made to him on December 27, 2001. We made the two-year $250 million loan to Mr. Icahn, secured by securities consisting of approximately $250 million aggregate market value of our units owned by Icahn and shares of a private company owned by Mr. Icahn, which shares have an aggregate book value of at least $250 million, together with an irrevocable proxy on sufficient additional shares of the private company so that the pledged shares and the shares covered by the proxy equal in excess of 50% of the private company's shares. We returned the collateral on October 17, 2003, the date the loan was repaid. The interest on the loan was payable semi-annually, at a per annum rate equal to the greater of 3.9% and 200 basis points over 90-day LIBOR

to be reset each calendar quarter. The applicable rate in 2003 was 3.9% and in 2002 ranged from 3.9% to 4.03%. Interest income of approximately $7.9 million and $9.9 million was earned by us on this loan in 2003 and 2002, respectively. We entered into this transaction to earn interest income on a secured investment. The terms of this transaction were reviewed and approved by our audit committee.

We conduct our activities in a manner so as not to be deemed an investment company under the Investment Company Act. Generally, this means that we do not intend to invest in securities as our primary business and that no more than 40% of our total assets will be invested in investment securities as such term is defined in the Investment Company Act. In addition, we intend to structure our investments so as 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 of 1986, as amended.

OIL AND GAS

In October 2003, pursuant to a purchase agreement dated as of May 16, 2003, we acquired certain debt and equity securities of National Energy Group, Inc., or NEG, from entities affiliated with Mr. Icahn for an aggregate consideration of approximately $148.1 million plus approximately $6.7 million of accrued interest on the debt securities. The agreement was reviewed and approved by our audit committee which was advised by its independent financial advisor and legal counsel. The securities acquired were $148,637,000 in principal amount of outstanding 10 3/4% senior notes due 2006 of NEG, representing all of NEG's outstanding debt securities, 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 own 50.01% of the outstanding common stock of NEG.

NEG owns a 50% interest in NEG Holding LLC. The other 50% interest in NEG Holding is held by Gascon Partners, an affiliate of Mr. Icahn, Gascon is the managing member of NEG Holding. NEG Holding owns NEG Operating LLC which is engaged in the business of oil and gas exploration and production with properties located on-shore in Texas, Louisiana, Oklahoma and Arkansas. NEG Operating owns operating oil and gas properties managed by NEG. Under the NEG Holding operating agreement, NEG is to receive guaranteed payments of approximately $47.9 million and a priority distribution of approximately $148.6 million before Gascon receives any distributions. The NEG Holding operating agreement contains a provision that allows Gascon, or its successor, at any time, in its sole discretion, to redeem NEG's membership interest in NEG Holding at a price equal to the fair market value of the interest determined as if NEG Holding had sold all of its assets for fair market values and liquidated. A determination of the fair market value of such assets shall be made by an independent third party jointly engaged by Gascon and NEG. Due to the substantial uncertainty that NEG will receive any distribution

above the priority and guaranteed payments amounts, NEG accounts for its investment in NEG Holding as a preferred investment. We consolidate NEG in our financial statements. In accordance with generally accepted accounting principles, assets transferred between entities under common control are accounted for at historical costs similar to a pooling of interests. In August 2003, NEG entered into an agreement to manage TransTexas Gas Corporation, an affiliate of Mr. Icahn, for a fee of $312,500 per month.

REAL ESTATE LEASING ACTIVITIES

In 2003, 17 leases covering 17 properties and representing approximately

$2.2 million in annual rentals expired. Twelve leases originally representing $1.6 million in annual rental income were renewed for $1.4 million in annual rentals. Such renewals are generally for a term of five years. Five properties with annual rental income of $0.6 million were not renewed.

In 2004, 11 leases covering 11 properties representing approximately $1.8 million in annual rentals are scheduled to expire. Eight leases representing approximately $1.5 million in annual rentals were renewed for approximately $1.5 million. Such renewals are generally for a term of five years. Three properties with annual rentals of approximately $0.3 million have not been renewed.

By the end of the year 2006, net leases representing approximately 22% of our net annual rentals from our real estate portfolio, or approximately 3.2% of our total revenues for 2003, will be due for renewal, and by the end of the year 2008, net leases representing approximately 31% of our net annual rentals, or approximately 4.6% of our total revenues for 2003, will be due for renewal. In many of these leases, the tenant has an option to renew at the same rents it is currently paying and in many of the leases the tenant also has an option to purchase the property. We believe that tenants acting in their best interests will renew those leases which are at below market rents, and permit leases for properties that are less marketable, either as a result of the condition of the property or its location, or are at above-market rents to expire. We expect that it may be difficult and time consuming to re-lease or sell those properties that existing tenants decline to re-let or purchase and that we may be required to incur expenditures to renovate such properties for new tenants. We also may become responsible for the payment of certain operating expenses, including maintenance, utilities, taxes, insurance and environmental compliance costs associated with such properties which are presently the responsibility of the tenant.

BANKRUPTCIES AND DEFAULTS

We are aware that 19 of our present and former tenants have been or are currently involved in some type of bankruptcy or reorganization. Under the U.S. Bankruptcy Code, a tenant may assume or reject its unexpired lease. In the event a tenant rejects its lease, the U.S. Bankruptcy Code limits the amount of damages a landlord is permitted to claim in the bankruptcy proceeding as a result of the lease termination. Generally, a claim resulting from a rejection of an unexpired lease is a general unsecured claim. When a tenant rejects a lease, there can be no assurance that we will be able to relet the property at an equivalent rental. As a result of tenant bankruptcies, we have incurred and expect, at least in the near term, to continue to incur certain property expenses and other related costs. Thus far, these costs have consisted largely of legal fees, real estate taxes and property operating expenses. Of our 19 present and former tenants known to be involved in bankruptcy proceedings or reorganization, 14 have rejected their leases, affecting 37 properties, all of which have been vacated. These rejections have had an adverse impact on annual net cash flow, including both the decrease in revenues from lost rents, as well as increased operating expenses.

INSURANCE

We carry customary insurance for our properties and business segments. However, we do not insure net lease properties where the tenant provides appropriate amounts of insurance. We determine on a property by property basis whether or not to obtain terrorism insurance coverage.

EMPLOYEES

At December 31, 2003, we had approximately 3,000 full and part-time employees, which number of employees fluctuates due to the seasonal nature of certain of our businesses. Most of the employees are employed by our

consolidated subsidiaries. Approximately 1,300 employees of Stratosphere are covered by three collective

bargaining agreements. We believe we currently have sufficient staffing to operate effectively our day-to-day business.

COMPETITION

REAL ESTATE

Competition in leasing and buying and selling real property remains strong. Many of our tenants have rights to renew at prior rental rates. Our experience is that tenants will renew below market leases and permit leases that are less marketable or at above market rents to expire, making it difficult for us to re-let or sell on favorable terms properties vacated by tenants.

Competition for the acquisition of approved land for development has intensified and we have not been able to replenish our approved land inventory. Competition for the sale of developed land, houses and condominiums is also strong in certain areas of the country. We compete in these areas with national real estate developers, some of which have greater financial resources than us.

Competition for investments of the types we intend to pursue has been increasing in recent years, including that from a number of investment funds and REITS that have raised capital for such investments, resulting in, among other things, higher prices for such investments. Such investments have become competitive to source and the increased competition may have an adverse impact on the spreads and our ability to find quality assets at appropriate yields. While we believe our capital base may enable us to gain a competitive advantage over certain other purchasers of real estate by allowing us to respond quickly and make all cash transactions without financing contingencies where appropriate, there can be no assurance that this will be the case.

HOTEL, CASINO AND RESORT OPERATIONS

Investments in the gaming and entertainment industries involve significant competitive pressures and political and regulatory considerations. In recent years, there have been many new gaming establishments opened as well as facility expansions, providing increased supply of competitive products and properties in the industry, which may adversely affect our operating margins and investment returns. The casino/hotel industry is highly competitive. Hotels located on or near the Las Vegas Strip compete primarily with other Las Vegas Strip hotels and with a few major hotels in downtown Las Vegas. Stratosphere also competes with a large number of hotels and motels located in and near Las Vegas. Stratosphere's Tower competes with all other forms of entertainment, recreational activities and other attractions in and near Las Vegas and elsewhere. Many of our competitors offer more products than us and have greater name recognition and may have greater resources.

PROPERTIES

As of December 31, 2003, we owned 128 separate real estate assets, excluding Stratosphere, Bayswater and the Sands. These primarily consist of fee and leasehold interests and, to a limited extent, interests in real estate mortgages in 28 states. Most of these properties are net-leased to single corporate tenants. Approximately 81% of these properties are currently net-leased, 9% are operating properties and 10% are vacant.

The following table summarizes the type, number per type and average net

effective rent per square foot of such properties:

TYPE OF PROPERTY	NUMBER OF PROPERTIES	AVERAGE NET EFFECTIVE RENT PER SQUARE FOOT(1)
Retail.....	51	$ 4.34
Industrial.....	19	$ 2.08
Office.....	28	$ 7.71
Supermarkets.....	12	$ 2.67
Banks.....	5	$ 3.20
Other.....	13	N/A

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(1) Based on net-lease rentals.

The following table summarizes the number of such properties in each region specified below:

LOCATION OF PROPERTY	NUMBER OF PROPERTIES
Southeast.....	55
Northeast.....	31
South Central.....	4
Southwest.....	4
North Central.....	30
Northwest.....	4

From January 1, 2004 through March 2004, we sold or otherwise disposed of eight properties. In connection with such sales and dispositions, we received an aggregate of approximately $18.7 million in cash, net of closing costs and amounts used to satisfy mortgage indebtedness which encumbered such properties.

As previously discussed, we are marketing for sale our rental real estate portfolio. As of March 23, 2004, we had 40 properties under conditional sales contracts or letters of intent which are subject to purchaser's due diligence and other closing conditions. Selling prices for these properties total approximately $323 million. The properties are individually encumbered by mortgage debt aggregating approximately $142 million which would have to be paid by us out of the sale proceeds or would be assumed by the purchasers. In accordance with generally accepted accounting principles, only the real estate operating properties under contract or letter of intent, but not the financing lease properties were reclassified to "Properties Held for Sale" and the related income and expense reclassified to "Income from Discontinued Operations."

For each of the years ended December 31, 2003, 2002, and 2001, no single real estate asset or series of assets leased to the same lessee accounted for more than 10% of our gross revenues. However, as of December 31, 2003, 2002, and 2001, PGEC occupied a property, which represented approximately 14% of the carrying value of our total real estate assets leased to others. PGEC is an

electric utility engaged in the generation, purchase, transmission, distribution and sale of electricity. All of PGEC's common stock is owned by Enron Corp. which has filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. PGEC is not included in the filing. In November 2003, Enron agreed to sell PGEC to a newly created company named Oregon Electric Utility Company, LLC. In February 2004, the Bankruptcy Court approved the sale, which will require certain regulatory approvals. We are not aware of any conditions of the sale that will affect PGEC's lease obligation.

PGEC's property is an office complex consisting of three buildings containing an aggregate of approximately 803,000 square feet on an approximate 2.7 acre parcel of land located in Portland, Oregon. PGEC's property is net-leased to a wholly-owned subsidiary of PGEC through September 30, 2018, with two ten-year and one five-year renewal options. The annual rental is $4.9 million until 2018 and $2.5 million during each renewal option. PGEC has guaranteed the performance of its subsidiary's obligations under the lease. The lessee has an option to purchase PGEC's property in September 2008, 2013 and 2018 at a price equal to the fair market value of PGEC's property determined in accordance with the lease and is required to make a rejectable offer to purchase PGEC's property in September 2018 for a price of $15 million. A rejection of such offer will have no effect on the lease obligations or the renewal and purchase options.

We own 100% of Stratosphere. Stratosphere owns and operates the Stratosphere Casino Hotel & Tower, located in Las Vegas, Nevada, which is centered around the Stratosphere Tower, the tallest free-standing observation tower in the United States. The hotel and entertainment facility has 2,444 rooms and suites, a 80,000 square foot casino and related amenities.

As of May 26, 2004, we own Arizona Charlie's Decatur and Arizona Charlie's Boulder. Arizona Charlie's Decatur has 258 hotel rooms and a 52,000 square foot casino and related amenities. Arizona Charlie's Boulder has 303 hotel rooms and a 41,000 square foot casino and related amenities.

We own, primarily through our Bayswater subsidiary, residential development properties. Bayswater focuses primarily on the acquisition, development, construction and sale of single-family homes, custom-built homes, multi-family

homes and lots in subdivisions and planned communities and entitling raw subdivisions and planned communities.

We own a resort property in New Seabury, Massachusetts. In addition to residential development, New Seabury currently includes a golf club with two 18 hole championship golf courses, the Popponesset Inn, a casual waterfront dining and wedding facility, a villa rental program, a waterfront freshwater swimming pool, a private beach, a fitness center and a 16 court tennis facility.

We own a 36.3% equity interest in GB Holdings, the parent company of the Sands. The Sands, located in Atlantic City, New Jersey, contains 637 rooms and suites, a 79,000 square foot casino and related amenities.

LEGAL PROCEEDINGS

We are from time to time parties to various legal proceedings arising out of our businesses. We believe, however, that, other than the proceedings discussed below, there are no proceedings pending or threatened against us which, if determined adversely, would have a material adverse effect on our business, financial condition, results of operations or liquidity.

NEW SEABURY

In January 2002, the Cape Cod Commission, a Massachusetts regional planning body created in 1989, concluded that our New Seabury development is within its jurisdiction for review and approval. We believe that the proposed residential, commercial and recreational development is in substantial compliance with a special permit issued for the property in 1964 and is therefore exempt from the commission's jurisdiction and that the commission is barred from exercising jurisdiction pursuant to a 1993 settlement agreement between the commission and a prior owner of the New Seabury property.

In February 2002, New Seabury Properties L.L.C., our subsidiary and owner of the property, filed in Barnstable County Massachusetts Superior Court, a civil complaint appealing the decision by the commission, and a separate civil complaint to find the commission in contempt of the settlement agreement. The court subsequently consolidated the two complaints into one proceeding. In July 2003, New Seabury and the commission filed cross motions for summary judgment.

Also, in July 2003, in accordance with a court ruling, the commission reconsidered the question of its jurisdiction over the initial development proposal and over a modified development proposal that New Seabury filed in March 2003. The commission concluded that both proposals are within its jurisdiction. In August 2003, New Seabury filed in Barnstable County Massachusetts Superior Court another civil complaint appealing the commission's second decision to find the commission in contempt of the settlement agreement.

In November 2003, the court ruled in New Seabury's favor on its July 2003 motion for partial summary judgment, finding that the special permit remains valid and that the modified development proposal is in substantial compliance with the special permit and therefore exempt from the commission's jurisdiction; the court has not yet ruled on the initial proposal. Under the modified development proposal, New Seabury could potentially develop up to 278 residential units and 145,000 square feet of commercial space. In February 2004, New Seabury and the commission jointly moved to consolidate the three complaints into one proceeding. The court subsequently consolidated the three complaints into one proceeding. In March 2004, New Seabury moved for summary judgment to dispose of remaining claims under all three complaints and to obtain a final judgment from the court. Under the initial proposal, New Seabury could potentially build up to 675 residential/hotel units and 80,000 square feet of commercial space. We cannot predict the effect on the development process if we lose any appeal or if the commission is ultimately successful in asserting jurisdiction over any of the development proposals.

STRATOSPHERE

In December 2001, Tiffiny Decorating Company, a subcontractor to Great Western Drywall, Inc. commenced an action against Stratosphere Corporation, Stratosphere Development, LLC, AREH, Great Western, Nevada Title and Safeco Insurance in the Eighth Judicial District Court of the State of Nevada. The action asserts claims that include

breach of contract, unjust enrichment and foreclosure of lien. We filed a cross-claim against Great Western in that action. Additionally, Great Western has filed a separate legal action against the Stratosphere parties setting forth the same disputed issues and claiming additional damages. That s