

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-9516

AMERICAN REAL ESTATE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

DELAWARE

13-3398766

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

90 South Bedford Road, Mt. Kisco, New York

10549

(Address of principal executive offices)

(Zip Code)

(914) 242-7700

(AREP's telephone number, including area code)

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

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

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

None

Indicate by check mark whether AREP (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

YES X NO
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Based upon the closing price of Depository Units on March 17, 1995, as reported on the New York Stock Exchange Composite Tape (as reported by The Wall Street Journal), the aggregate market value of AREP's Depository Units held by nonaffiliates of AREP as

of such date was \$91,796,861.

Trading in the Preferred Units has not yet commenced but is expected to begin on March 31, 1995 on a when issued basis.

Number of Depositary Units outstanding as of March 17, 1995:
13,812,800.<F1>

Number of Preferred Units outstanding as of March 17, 1995: 0.<F1>
<FN>

<F1> Subject to the terms of the Subscription Guaranty Agreement (as defined herein), as of the date hereof there were no Preferred Units outstanding. AREP expects that there will be up to approximately 2,000,000 Preferred Units outstanding and approximately an additional 12,000,000 Depositary Units outstanding following the closing of the rights offering referenced in this Form 10-K.

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PART I

Item 1. Business.

Introduction

American Real Estate Partners, L.P. ("AREP") was formed in Delaware on February 17, 1987. Pursuant to an exchange offer (the "Exchange Offer") which was consummated on July 1, 1987, AREP acquired the real estate and other assets, subject to the liabilities, of thirteen limited partnerships (the "Predecessor Partnerships"). The Predecessor Partnerships acquired such assets between 1972 and 1985. A registration statement on Form S-4 relating to the Exchange Offer (Registration No. 33-13943) was filed with the Securities and Exchange Commission (the "SEC") and declared effective May 18, 1987.

AREP's general partner is American Property Investors, Inc. (the "General Partner"), a Delaware corporation which is wholly owned by Carl C. Icahn ("Icahn"). The General Partner's principal business address is 90 South Bedford Road, Mt. Kisco, New York 10549. AREP's business is conducted through a subsidiary limited partnership, American Real Estate Holdings Limited Partnership (the "Subsidiary"), in which AREP owns a 99% limited partnership interest. The General Partner also acts as the general partner for the Subsidiary. The General Partner has a 1% general partnership interest in each of AREP and the Subsidiary. References to AREP herein include the Subsidiary, unless the context otherwise requires.

During the end of March and early April 1995, AREP anticipates completing a rights offering (the "Rights Offering"), pursuant to which it will raise approximately \$109,000,000, net of related expenses. High Coast Limited Partnership, a Delaware limited partnership which is controlled by Icahn, has acted as guarantor of the offering (the "Guarantor"). Through the Guarantor, Icahn will exercise certain subscription rights and an over-subscription privilege to acquire additional depositary units representing limited partner interests (the "Depositary Units") and 5% cumulative pay-in-kind redeemable preferred units representing limited partner interests (the "Preferred Units"). As of March 17, 1995, Icahn, through the Guarantor, beneficially owned 9.89% of the Depositary Units then outstanding prior to giving effect to the Rights Offering. In addition, as a result of the Guarantor's participation in the Rights Offering, AREP expects that Icahn will increase his percentage ownership in AREP and obtain a substantial portion of the Preferred Units being offered. A registration statement on Form S-3 relating to the Rights Offering (Registration No. 33-54767) was filed with the SEC and declared effective February 23, 1995. See "Business --

Description of Business

AREP is in the business of acquiring and managing real estate and activities related thereto. Historically, the properties owned by AREP have been primarily office, retail, industrial, residential and hotel properties. Most of the real estate assets currently owned by AREP were acquired from the Predecessor Partnerships and such assets are generally net-leased to single, corporate tenants. As of March 17, 1995, AREP owned 249 separate real estate assets primarily consisting of fee and leasehold interests in 35 states and Canada (one property). As discussed below, AREP is seeking to acquire new investments to take advantage of investment opportunities it believes exist in the current real estate market to further diversify its portfolio and to mitigate against lease expirations.

For each of the years ended December 31, 1994, 1993 and 1992, no single real estate asset or series of assets leased to the same lessee accounted for more than 10% of the gross revenues of AREP. However, at December 31, 1994 and 1993, Portland General Electric Company ("PGE") occupied a property (the "PGE Property") which represented more than 10% of AREP's total assets. See ITEM 2 -- "Properties."

Certain of AREP's investments may be owned by special purpose subsidiaries formed by AREP or by joint ventures (including joint ventures with affiliates of the General Partner) in which AREP, or AREP together with an affiliate, has a controlling interest. For example, AREP entered into two joint ventures with unaffiliated co-venturers in June 1994 for the purpose of developing two luxury garden apartment complexes. The first joint venture, formed as an Alabama limited liability company, is developing a 240-unit multi-family project in Hoover, Alabama. The second joint venture, a Delaware limited partnership, is developing a 288-unit multi-family project in Cary, North Carolina.

In addition to holding real property, AREP may originate or purchase mortgage loans including non-performing mortgage loans. AREP will normally acquire non-performing mortgage loans with a view to acquiring title to or control over the underlying properties and in 1993 it acquired two such loans on two residential apartment complexes located in Lexington, Kentucky. AREP foreclosed on one of these loans in 1993 and one in 1994 and now holds title to the underlying properties.

AREP also may retain purchase money mortgages in connection with its sale of portfolio properties, with such terms as the General Partner deems appropriate at the time of sale, and may indirectly acquire interests in real estate by acquiring the securities of entities which own real estate.

All decisions with respect to the improvement, expansion, acquisition, disposition, development, management, financing or

refinancing of properties or other investments are at the sole discretion of the General Partner.

Rights Offering

During the end of March and early April 1995 AREP anticipates completing the Rights Offering through which it will raise approximately \$109,000,000, net of related expenses. Pursuant to the terms of the Rights Offering, holders of

Depository Units on the record date received one transferable subscription right (each, a "Right") for each seven Depository Units held. Each Right was exercisable for a combination of securities consisting of six Depository Units and one Preferred Unit.

AREP conducted the Rights Offering to raise funds to increase its assets available for investment, thereby better positioning it to take further advantage of investment opportunities in the real estate market, to further diversify its portfolio and to mitigate against the impact of lease expirations. Most of AREP's real estate assets are net-leased to single corporate tenants. By the end of the year 2000, net leases representing approximately 26% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2002, net leases representing approximately 40% of AREP's net annual rentals will be due for renewal. In many of these leases, the tenant has an option to renew at the same rents they are currently paying and in many of the leases the tenant also has an option to purchase. AREP believes 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. AREP expects 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 AREP may be required to incur expenditures to renovate such properties for new tenants. In addition, AREP 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. As a result, AREP could experience an adverse impact on net cash flow from such properties in the next decade and is seeking to acquire new investments to mitigate against such a possibility and diversify its portfolio.

The General Partner believes that, because of overdevelopment in certain real estate markets and the desire of certain real estate holders, including financial institutions, to dispose of real estate assets, there are significant opportunities available to acquire new investments that are undervalued, including commercial properties, land parcels, residential development projects and non-performing loans. Such properties may not be generating positive cash flow in the near term; however, the General Partner believes that in the current market,

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properties requiring some degree of management or development activity has the greatest potential for growth, both in terms of capital appreciation and the generation of cash flow. A substantial portion of the proceeds from the Rights Offering will be used to fund the acquisition of such properties. The General Partner believes that the acquisition by AREP of properties requiring some degree of management or development activity is consistent with AREP's historical investment objectives of reinvesting the proceeds of sales and refinancings in properties that offer greater growth potential and portfolio diversification.

Following the closing of the Rights Offering, there will be approximately 2,000,000 Preferred Units and approximately an additional 12,000,000 Depository Units outstanding (subject to rounding). The Preferred Units represent limited partner interests in AREP and have certain rights and designations, generally as follows. Each Preferred Unit will have a liquidation preference of \$10.00 and will entitle the holder thereof to receive distributions thereon, payable solely in additional Preferred Units, at the rate of \$.50 per Preferred Unit per annum (which is equal to a rate of 5% of the liquidation preference thereof), payable annually on March 31 of each year (each, a "Payment Date"), commencing March 31, 1996. On any Payment Date commencing with the Payment Date on March 31, 2000, AREP, with the approval of the Audit Committee of the Board of

Directors of the General Partner (the "Audit Committee"), may opt to redeem all, but not less than all, of the Preferred Units for a price, payable either all in cash or by issuance of additional Depository Units, equal to the liquidation preference of the Preferred Units, plus any accrued but unpaid distributions thereon. On March 31, 2010, AREP must redeem all, but not less than all, of the Preferred Units on the same terms as any optional redemption. Holders of Preferred Units will have no voting rights except as mentioned in ITEM 10 -- "Directors and Executive Officers of AREP," below.

Recent Acquisitions

In June 1994, AREP entered into two joint ventures with unaffiliated co-venturers for the purpose of developing luxury garden apartment complexes. Both of these joint ventures have been consolidated in the accompanying financial statements.

The first joint venture, formed as an Alabama limited liability company, will develop a 240-unit multi-family project situated on approximately twenty acres currently owned by the joint venture, located in Hoover, Alabama, a suburb of Birmingham. AREP, which owns a seventy percent (70%) majority interest in the joint venture, contributed \$1,750,000 in June 1994, and the co-venturer contributed \$250,000. Distributions will be made in proportion to ownership interests. Construction financing has been obtained by the joint venture in the amount of \$8,760,000 and is guaranteed by the co-venturer and personally by its principals. The development costs are expected to total approximately

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\$11,350,000. As of December 31, 1994, approximately \$5,529,000 of development costs have been incurred, including the acquisition of land valued at approximately \$1,138,000. Construction loan funding at December 31, 1994 was approximately \$2,400,000. The first units were completed and available for occupancy in February 1995 and project completion is scheduled for August 1995. An affiliate of AREP's co-venturer will manage the property. A reinvestment incentive fee of approximately \$40,000 is due to the General Partner upon completion of the project.

The second joint venture, a Delaware limited partnership, will develop a 288-unit multi-family project situated on approximately thirty-three acres in Cary, North Carolina (Raleigh-Durham area). AREP, which owns a ninety percent (90%) majority interest in the partnership, has contributed approximately \$3,744,000 as of December 31, 1994 and is a limited partner. The co-venturer is the general partner and also has a limited partner interest. AREP is entitled to a cumulative annual preferred return of 12% on its investment before cash distributions are made in proportion to ownership interests. AREP made its final contribution which totalled approximately \$278,000 in January 1995. Construction financing has been obtained by the joint venture in the amount of \$12,205,000 and is guaranteed by the joint venture general partner and personally by its principals. The development costs are expected to total approximately \$16,100,000. As of December 31, 1994, approximately \$3,891,000 of development costs had been incurred, including the acquisition of land valued at approximately \$1,600,000. The first units are expected to be available for occupancy on or about July 1995 and project completion is scheduled for February 1996. An affiliate of AREP's co-venturer will manage the property. A reinvestment incentive fee of approximately \$70,000 is due to the General Partner upon completion of the project.

Investment Opportunities and Strategies

In selecting future investments, AREP intends to focus on

assets that it believes are undervalued in the current real estate market, such as development properties and non-performing loans, which the General Partner believes have the potential to diversify and enhance the long-term value of AREP's portfolio. Such investments may require active management, which could result in higher operating expenses for AREP. The cash flow generated by an asset will be a consideration, but AREP may acquire assets that are not generating positive cash flow. While this may impact cash flow in the near term and there can be no assurance that any property acquired by AREP will increase in value or generate positive cash flow, management intends to focus on assets that it believes may provide opportunities for long-term growth and diversification of its portfolio. Investment by the Partnership in certain types of assets that may be regarded as non-income producing, such as land or non-performing loans, is currently restricted under AREP's \$50 million senior unsecured debt financing (the "Senior Unsecured Debt"). The holders of the

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Senior Unsecured Debt have agreed, however, to waive this restriction with respect to additional capital raised by AREP in the Rights Offering and the Partnership may, subject to negotiating terms favorable to the Partnership, prepay in full the Senior Unsecured Debt with a portion of the proceeds from the Rights Offering.

Management will seek to identify and evaluate opportunities that could permit an investment to be made on favorable terms. For example, management believes that such attractive investment opportunities will be available in the context of assets held or controlled by persons who do not intend to hold such assets for long-term investment (such as assets of failed financial institutions sold in connection with their interim management by federal or state regulators and similar assets which management believes will be available from insurance companies or financial institutions under regulatory pressure to sell). AREP will also consider investments in properties encumbered by indebtedness that are in default, are not performing or are believed by management to be likely to be subject to future default, and properties performing at a level believed by management to be substantially below their potential, due to identifiable management weaknesses or temporary market conditions such as oversupply of comparable space or stagnant or recessionary local or regional economies.

AREP may also elect to establish an ownership position by first acquiring debt secured by targeted assets and then negotiating for the ownership of some or all of the underlying equity in such assets. For example, properties in Lexington, Kentucky were purchased at substantial discounts through the acquisition of the mortgages secured by these properties. See "Financing Activities" below and Notes 7 and 8 to the Financial Statements contained herein. AREP also may seek to establish a favorable economic and negotiating position through the acquisition of other rights or interests that provide it with leverage in negotiating the acquisition of targeted assets. AREP also will seek to acquire assets that are not in financial distress but which, due to the particular circumstances of their ownership, use or locations, present substantial opportunities for development or long-term growth.

Financing Activities

During 1994 AREP had approximately \$10,000,000 in maturing balloon mortgages due, approximately \$6,700,000 of which has been repaid and approximately \$3,300,000 of which has been refinanced. Approximately \$5,700,000 and \$16,000,000 are due in 1995 and 1996, respectively. During the period 1997 through 1998 approximately \$9,100,000 in balloon mortgages will come due. AREP will seek to refinance a portion of these maturing mortgages, although it does not expect to be able to refinance all of them and may be required to repay them from cash flow and reserves created from time to time, thereby reducing cash flow

otherwise available for other uses. See Note 8 to the Financial Statements contained herein.

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AREP also has significant maturing debt requirements under its two unsecured note agreements (the "Note Agreements") that it entered into in May 1988. Under the Note Agreements, AREP is required to make semi-annual interest payments and annual principal payments. In May 1994, AREP repaid \$10,000,000 of the outstanding principal balance under the Note Agreements. Prior to 1994, AREP was not required to pay principal under the Note Agreements. Principal payments of approximately \$11,308,000 are due under such agreements annually from 1995 through 1998. Subject to negotiating terms favorable to AREP, the Senior Unsecured Debt may be prepaid in full with a portion of the proceeds from the Rights Offering. See ITEM 2 -- "Properties."

A balloon payment of approximately \$6,266,000 was originally due June 1, 1994 on a nonrecourse mortgage which encumbered the Holiday Inn in Phoenix, Arizona; however, AREP paid off approximately \$2,966,000 on that date and subsequently refinanced the remaining balance with a nonrecourse mortgage loan in the amount of \$3,330,000. See Note 8(i) to the Financial Statements contained herein.

On July 25, 1994 AREP obtained financing on the two apartment complexes located in Lexington, Kentucky. The two nonrecourse mortgage loans are in the amount of \$5,500,000 and \$4,500,000, respectively. See Note 8(j) to the Financial Statements contained herein. Under the terms of the loans, \$100,000 was initially funded on each loan, with the balance funded on January 19, 1995.

Leasing Activities

In 1994, fourteen leases covering fourteen properties and representing approximately \$810,000 in annual rentals expired. Seven of these fourteen leases, originally representing approximately \$513,000 in annual rental income, were re-let or renewed for approximately \$593,000 in annual rentals. One property, with an approximate annual rental income of \$112,000, has been renewed at \$175,000, which amount has been determined by a market appraisal. Three properties with an approximate annual rental income of \$69,000 are currently being marketed for sale or lease. Three properties with an approximate annual rental income of \$116,000 were sold in 1994.

In 1995, 24 leases covering 24 properties and representing approximately \$832,000 in annual rentals are scheduled to expire. Eleven of these 24 leases, originally representing approximately \$492,000 in annual rental income, have been or will be re-let or renewed for approximately \$507,000 in annual rentals. Thirteen leases with an approximate annual rental income of \$340,000 will be marketed for sale or lease when the current lease terms expire.

By the end of the year 2000, net leases representing approximately 26% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2002, net

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leases representing approximately 40% of AREP's net annual rentals will be due for renewal. See "Business -- Rights Offering" above.

Bankruptcies and Defaults

AREP is aware that eleven of its present and former tenants

have been or are currently involved in some type of bankruptcy or reorganization. Under the Bankruptcy Code, a tenant may assume or reject its unexpired lease. In the event a tenant rejects its lease, the Bankruptcy Code limits the amount of damages a landlord, such as AREP, 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 AREP will be able to re-let the property at an equivalent rental. As a result of tenant bankruptcies, AREP has incurred and expects -- 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 AREP's eleven present and former tenants involved in bankruptcy proceedings or reorganization, eight have rejected their leases, affecting 27 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).

The two most significant bankruptcies which affected AREP involved Days Inn and Integra. In August 1993, AREP reached a settlement of its bankruptcy claim against Days Inn of America (now known as Buckhead America Corporation ("Buckhead")). On September 27, 1991, the debtor filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code and rejected its lease effective July 31, 1992. In August 1993, AREP reached a settlement of its claim against Buckhead. Pursuant to the settlement, AREP received approximately \$184,000 and \$1,035,000 in cash and stock in Buckhead in the years ended December 31, 1994 and 1993, respectively. Such amounts were recognized as "other income" in the years then ended. See Note 7(d) to the Financial Statements contained herein. AREP engaged a management company to perform on-site and supervisory management services for the former Buckhead's property. Management estimates that AREP will incur costs of approximately \$3.2 million over the next three years, as leases are executed, to renovate, build-out and re-lease the property.

Buckhead's rejection of the lease adversely impacted AREP's cash flow by approximately \$110,000 per month. As a result of Buckhead's rejection of the lease, management wrote down the value of the Buckhead property to what it believed was its recoverable value in the year ended December 31, 1991.

Integra, which leased two hotel properties located in Miami, Florida and Phoenix, Arizona filed a voluntary petition for

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reorganization pursuant to the provisions of Chapter 11 of the Bankruptcy Code on July 14, 1992. The tenant's petition to reject the leases of those properties was approved on August 7, 1992, and AREP assumed operation of the properties on that date.

AREP has entered into a management agreement for the operation of the two hotel properties with a national management organization. Since August 7, 1992, both properties have been classified as Hotel Operating Properties and their revenues and expenses have been separately disclosed in the Consolidated Statements of Earnings. Income from hotel operations ("Hotel Operating Income" minus "Hotel Operating Expenses," as defined in the Financial Statements contained herein) was approximately \$1,781,000, \$1,195,000 and \$795,000 for the years ended December 31, 1994, 1993 and 1992, respectively. This was approximately \$379,000, \$965,000 and \$100,000 less than the rent that would have been payable pursuant to the rejected leases.

AREP has also entered into a ten-year licensing agreement with Holiday Inn Franchising, Inc. for these two hotel properties. According to the terms of the agreement, AREP will make a monthly payment for royalties, marketing and reservation fees of approximately 7.5% of gross revenues and a one-time licensing fee of approximately \$185,000. Additionally, pursuant

to a property improvement plan accepted by AREP in connection with this agreement, AREP has incurred capital expenditures of approximately \$2,550,000 for these two properties, most of which was paid in 1993. See Note 7(e) to Financial Statements contained herein.

AREP has claims against Integra for damages arising out of the rejection of the leases and deferred maintenance costs. A claim was submitted to the Bankruptcy Court in 1992. There can be no assurance that AREP will be able to recover all or any portion of this claim. As a result of the lease rejection, AREP wrote down the value of the Phoenix property to reflect what management believed to be the recoverable value of the property by incurring a provision for loss on real estate in the amount of approximately \$4,538,000 for the year ended December 31, 1992.

AREP has recently been informed that Grand Union, a tenant leasing eight of AREP's properties, representing approximately \$1,450,000 in annual rentals (including two properties which are sublet, representing approximately \$58,000 in annual rentals), is currently involved in bankruptcy proceedings. AREP is not yet aware of any plans the tenant may have to seek to accept or reject any or all of such leases. See Note 16(a) to the Financial Statements contained herein.

For a description of certain other tenant and mortgagor bankruptcies affecting AREP, please refer to Notes 7, 12 and 16 to the Financial Statements contained herein. The General Partner monitors all tenant bankruptcies and defaults and may, when it deems it necessary or appropriate, establish additional reserves for such contingencies.

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Environmental Matters

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 released on or in its property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances. If any such substances were found in or on any property invested in by AREP, AREP 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. AREP will generally require that properties in which AREP invests have been subject to a Phase I environmental audit, which involves record review, visual site assessment and personnel interviews, but does not involve invasive procedures such as soil sampling or groundwater analysis. There can be no assurance, however, that these audits will reveal all potential liabilities or that future uses or conditions or changes in applicable environmental laws and regulations will not result in the creation of environmental liabilities with respect to a property.

Most of AREP's properties continue to be net-leased to single corporate tenants, and AREP believes these tenants would be responsible for any environmental conditions existing on the properties they lease. Normally, therefore, such conditions should not have a material adverse effect on the financial statements or competitive position of AREP. Many of the properties acquired by AREP in connection with the Exchange were not subjected to any type of environmental site assessment at the time of the acquisition. Consequently, AREP recently has undertaken to have certain properties (approximately 81) in its portfolio, which were not inspected at the time of acquisition, subjected to Phase I Environmental Site Assessment by a third-party consultant. AREP believes that under the terms of its net leases with its tenants, the costs of any environmental problems

that may be discovered on these properties generally would be the responsibility of such tenants. However, while most tenants have assumed responsibility for the environmental conditions existing on their leased property, there can be no assurance that AREP would not be deemed to be a responsible party or that the tenant could bear the costs of remediation.

The Phase I Environmental Assessments received on these properties inconclusively indicate that certain sites may have environmental conditions that should be further reviewed. Based on the results of these Phase I Environmental Site Assessments, the environmental consultant has recommended that limited Phase II Environmental Site Investigations be conducted for approximately 29 of the

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sites in order to ascertain whether there are any environmental conditions and the anticipated cost of any remediation. At the conclusion of AREP's environmental site investigations, AREP will seek to coordinate with the tenants to attempt to ensure that they cause any required remediation to be performed. As no Phase II Environmental Site Investigations have been conducted by the consultant, there can be no accurate estimation of the need for or extent of any required remediation, or the cost thereof.

In addition to conducting such Phase I Environmental Site Assessments, AREP has developed a site inspection program. This program is being conducted by an in-house employee (who is an experienced construction manager and registered architect) who visits AREP's properties and visually inspects the premises in an effort to determine whether there is any indication that tenants are engaged in any practices which would potentially expose AREP to liability and to ensure that the property is being maintained properly. There is no assurance, however, that this program will in fact minimize any potential environmental or other cost exposure to AREP.

AREP could also become liable for environmental clean-up costs if a bankrupt tenant were unable to pay such costs. Environmental problems may also delay or impair AREP's ability to sell, refinance or re-lease particular properties, resulting in decreased income and increased cost to AREP.

Lockheed Missile & Space Company ("Lockheed"), a tenant of AREP's leasehold property in Palo Alto, California, has entered into a consent decree to undertake certain environmental remediation at this property. Although Lockheed was found responsible for approximately 75% of the costs of such remediation and AREP was allocated no responsibility for any such costs, Lockheed has indicated that it may exercise its statutory right to have its liability reassessed in a binding arbitration proceeding. See ITEM 3 -- "Legal Proceedings" and Note 12(f) to the Financial Statements contained herein.

Other Property Matters

Under Title III of the Americans with Disabilities Act of 1990 and the rules promulgated thereunder (collectively, the "ADA"), in order to protect individuals with disabilities, owners and certain tenants of public accommodations (such as hotels, restaurants and shopping centers) must remove architectural and communication barriers which are structural in nature from existing places of public accommodation to the extent "readily achievable" (as described in the ADA). In addition, under the ADA, alterations to a place of public accommodation or a commercial facility are to be made so that, to the maximum extent feasible, such altered portions are readily accessible to and usable by disabled individuals.

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Except for certain properties operated by AREP, the General

Partner believes that the existing net leases require the tenants of the majority of AREP's properties to comply with the ADA. If a tenant does not comply with the ADA or rejects its lease in bankruptcy without complying with the ADA, AREP may ultimately have to bear the expense of complying with the ADA. The General Partner is aware of one pending complaint alleging failure to comply with the ADA in connection with a property that is net-leased to Gino's of Pennsylvania, Inc. The General Partner notified the tenant that it is obligated for such compliance and the tenant has now notified AREP that all required action has been taken.

As AREP acquires more operating properties, it may be required to make expenditures to bring such properties into compliance with the ADA and other applicable laws.

Employees

Seventeen people, including three who are officers of the General Partner, presently perform services for AREP on a full-time basis. These people perform administrative services for AREP, including accounting, legal, financial, investor services, secretarial, real estate management and other services. Management believes it currently has sufficient staffing to operate effectively the day-to-day business of AREP.

Competition

Competition in the real estate industry remains strong as current economic and real estate conditions have made it more difficult to re-let upon favorable terms properties vacated by tenants who have rejected their leases in bankruptcy or whose leases have expired. The real estate market continues to be weak in certain areas of the country, particularly in certain usage categories, including the office and hotel areas. While vacancy rates have declined somewhat, commercial real estate continues to suffer from a combination of oversupply and continuing corporate consolidation and contraction. This has intensified the existing competition among landlords for creditworthy tenants and resulted in making it significantly more difficult to lease space at rates equal to or greater than the rates payable by former tenants. In addition, it is anticipated that any rental property owned by AREP (whether retail, residential, office or industrial) will have substantial competition from similar properties in the vicinity in which it is located. However, the value of certain quality net-leased properties in AREP's portfolio appears to be withstanding such pressures somewhat better than other types of real estate properties. AREP believes it is one of the largest real estate entities of its kind and that it will continue to compete effectively with other similar real estate companies, although there are real estate entities with greater financial resources than AREP. In addition, competition for investments of the type

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AREP intends to pursue has been increasing in recent years, resulting in, among other things, higher prices for such assets.

Item 2. Properties.

As of March 17, 1995, AREP owned 249 separate real estate assets (primarily consisting of fee and leasehold interests and, to a limited extent, interests in real estate mortgages) in 35 states and Canada (one property). These properties are generally net-leased to single corporate tenants. Approximately 98% of AREP's properties are currently net-leased. See Note 8 to the Financial Statements contained herein for information on mortgages payable.

The following table summarizes the type, location and average net effective rent per square foot of AREP's properties:

Type of Property	Number of Properties	Average Net Effective Rent Per Square Foot
Retail	121	\$4.15<F1>
Industrial	25	\$2.38<F1>
Office	34	\$7.69<F1>
Supermarkets	21	\$3.39<F1>
Banks	8	\$5.10<F1>
Other:		
Properties That		
Collateralize Purchase		
Money Mortgages	15	N/A
Land	15	N/A
Truck Terminals	4	\$1.69<F1>
Hotels	4	N/A
Apartment Complexes	2	N/A

<FN>

<F1> Based on net-lease rentals.

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Location of Property	Number of Properties
US: Southeast	109
Northeast	54
South Central	11
Southwest	20
North Central	46
Northwest	8
Canada:	1

From January 1, 1994 through March 17, 1995, AREP sold or otherwise disposed of 34 properties. In connection with such sales and dispositions, AREP received an aggregate of approximately \$16,000,000 in cash, net of amounts utilized to

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satisfy mortgage indebtedness which encumbered such properties. As of December 31, 1994, AREP owned four properties that were being actively marketed for sale. The aggregate net realizable value of such properties is estimated to be approximately \$413,000.

Furthermore, AREP has executed a contract for the sale of a property located in Taylor, Michigan which is tenanted by Pace Membership Warehouse, Inc. AREP expects to complete the sale by the end of March 1995. The sales price is \$9,300,000 and AREP expects to record a gain of approximately \$3,300,000 in the three months ended March 31, 1995. The property is encumbered by a nonrecourse mortgage payable of approximately \$4,346,000, which the purchaser will assume. In addition, the purchaser is obligated to pay AREP \$50,000 should it default on its obligations under the contract.

For each of the years ended December 31, 1994, 1993 and 1992, no single real estate asset or series of assets leased to the same lessee accounted for more than 10% of the gross revenues of AREP. However, at December 31, 1994 and 1993, PGEC occupied a property, which represented more than 10% of AREP's total assets. PGEC is an electric utility engaged in the generation, purchase, transmission, distribution and sale of electricity, whose shares are traded on the New York Stock Exchange, Inc. (the "NYSE").

The PGEC 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. The Predecessor Partnership originally purchased the PGEC Property on September 11, 1978 for a price of approximately \$57,143,000.

The PGEC Property is subject to two underlying mortgages, which in the aggregate as of December 31, 1994, had an outstanding principal balance of \$36,190,135. The first mortgage bears interest at 8.5% per annum, provides for aggregate annual debt service of \$2,856,960 and matures on October 1, 2002, at which time a balloon payment of \$19,304,091 will be due and payable. By its terms, this mortgage is prepayable at any time subject to certain restrictions. The second mortgage bears interest at 10% per annum, provides for interest-only payments during its term (an aggregate of \$1,000,000 per annum) and matures in October 1996, at which time a balloon payment of \$10,000,000 will be due and payable. By its terms, this second mortgage was not prepayable until September 1989, and then only with a 6% penalty, which penalty decreases by .5% each year thereafter.

The PGEC Property is net-leased to a wholly owned subsidiary of PGEC for forty (40) years, with two ten-year and one five-year renewal options. The annual rental is \$5,137,309 until 2003, \$4,973,098 until 2018 and \$2,486,549 during each renewal option. PGEC has guaranteed the performance of its subsidiary's obligations under the lease. The lessee has an option to purchase the PGEC

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Property in September of 2003, 2008, 2013 and 2018 at a price equal to the fair market value of the PGEC Property determined in accordance with the lease and is required to make a rejectable offer to purchase the PGEC Property in September 2018 for a price of \$15,000,000. A rejection of such offer will have no effect on the lease obligations or the renewal and purchase options.

In June 1994, AREP entered into two joint ventures with unaffiliated co-venturers for the purpose of developing luxury garden apartment complexes. See ITEM 1 -- "Business -- Recent Acquisitions" above.

AREP's most significant acquisition in 1993 was the purchase of two non-performing mortgage loans for a combined price of \$13,000,000. AREP foreclosed on these loans in 1993 and 1994, and now holds title to the underlying properties. On July 25, 1994, AREP obtained financing on these two properties. See ITEM 1 -- "Business -- Financing Activities."

AREP is continuing to seek opportunities to refinance upon favorable terms and sell certain of its properties to generate proceeds for future investments, in addition to the proceeds anticipated from the Rights Offering. In the current real estate environment, management continues to seek to improve the long-term value of AREP's portfolio by, among other means, using the proceeds of the Rights Offering and reinvesting capital transaction proceeds to maximize capital appreciation and diversification of the portfolio. AREP believes that the continuing weakness in the real estate market presents opportunities to acquire significantly undervalued properties, including commercial properties, residential development projects and non-performing loans, thereby enhancing AREP's portfolio and its return on investments. In selecting investments, AREP intends to focus on assets that it believes are undervalued in the current real estate market, such as development properties and non-performing loans, which the General Partner believes have the potential to diversify and enhance the long-term value of AREP's portfolio. Such investments may require active management which could result in higher operating expenses for AREP. The cash flow generated by an asset will be a consideration, but AREP may acquire assets that are not generating positive cash flow. While this may impact cash flow in the near term and there can be

no assurance that any property acquired by AREP will increase in value or generate positive cash flow, management intends to focus on assets that it believes may provide opportunities for long-term growth and diversification of its portfolio.

Item 3. Legal Proceedings.

Unitholder Litigation

On August 15 and 16, 1994, AREP was served with two class action complaints, both filed with the Delaware Court of Chancery,

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New Castle County, in connection with the Rights Offering, Steven Yavers v. American Real Estate Partners, L.P., American Property Investors, Inc., and Carl C. Icahn, C.A. No. 13682, and Allan Haymes, I.R.A. v. American Real Estate Partners, L.P., American Property Investors, Inc., and Carl C. Icahn, C.A. No. 13687. An additional complaint relating to the Rights Offering was filed with the Delaware Court of Chancery, New Castle County, and all three have been consolidated into one action (the "Consolidated Action").

Plaintiffs in the Consolidated Action claim that defendants have breached fiduciary and common law duties owed to plaintiffs and plaintiffs' putative class by engaging in self-dealing and by failing to disclose all relevant facts regarding the Rights Offering. Plaintiffs seek declaratory and injunctive relief declaring the action properly maintainable as a class action, declaring that defendants breached their fiduciary and other duties, enjoining the Rights Offering, ordering defendants to account for all damages suffered by the class as a result of the alleged acts and awarding further relief as the court deems appropriate.

By agreement among AREP and the above mentioned plaintiffs, AREP's time to respond to the consolidated complaint has been extended to April 7, 1995. AREP believes the allegations are without merit and intends to vigorously defend the Consolidated Action. The allegations in the consolidated complaint relate to previous superseded terms of the Rights Offering and, hence, AREP believes they are moot.

Defaulted Mortgages

As of December 31, 1994, AREP held a mortgage note receivable in the principal amount of approximately \$463,000. The mortgage encumbers four properties together with a collateral assignment of ground leases and rents. The properties are tenanted by Gino's and Foodarama. The mortgage had been taken back by a Predecessor Partnership in connection with the sale of these properties. The tenants remained current in their lease obligations.

The terms of the mortgage called for a balloon payment of \$1,100,000 on January 1, 1992, which was not received. On January 9, 1992, AREP gave written notice of default to Sheldon Lowe and Joseph T. Comras, the mortgagors and the current owners of the properties. As of December 31, 1994, AREP is in the process of foreclosing on the four properties. See Note 12(d) to the Financial Statements contained herein.

Property Litigation

Simultaneously with the acquisition of property in East Syracuse, New York, AREP entered into a general construction

contract (the "GC Agreement") pursuant to which the seller was required to construct the property for a guaranteed maximum amount of \$2,327,802. However, the construction of the BJ's Warehouse Store was subject to delays and the seller did not meet all of its construction obligations under the GC Agreement and failed to cure such defaults. AREP sent a notice, dated February 19, 1993, terminating the GC Agreement. AREP contacted the surety of the GC Agreement to make a claim pursuant to the terms of the surety bond and was unsuccessful. AREP has determined at this point that it will not pursue any potential claims that it may have against the surety, because after due inquiry, it believes that such claims will not be able to be satisfied. Additionally, in connection with certain alleged agreements between related entities and principals of the seller, and a brokerage company, the broker filed an action in the amount of \$250,000. AREP did not agree to assume the obligation to pay such commission and is defending such action. Furthermore, another broker has instituted an action against AREP and certain other co-defendants regarding a \$224,500 brokerage claim with respect to such property, as well as punitive damages of \$1,000,000; this action was settled in January 1995 with dismissal of the action with prejudice and with a reservation of AREP's rights against its co-defendants.

Environmental Litigation

On September 16, 1991, AREP brought suit against Alco Standard Corporation and its affiliates, a former tenant of an industrial facility located in Rome, Georgia whose lease expired in October 1990. The action was brought against the defendants in the United States District Court for the Northern District of Georgia, Rome Division, for reimbursement of costs that could be incurred for clean-up of hazardous materials on the site and certain deferred maintenance. In July 1994, this litigation was settled and the property was sold for \$525,000. A gain of approximately \$100,000 was recognized in the third quarter of 1994. In addition, Alco reimbursed AREP for \$150,000 of expenses incurred and indemnified AREP against any future liability in connection with any site contamination.

Lockheed, a tenant of AREP's leasehold property in Palo Alto, California, has entered into a consent decree with the California Department of Toxic Substances ("CDTS") to undertake certain environmental remediation at this property. Lockheed has estimated that the environmental remediation costs may be up to approximately \$14,000,000. In a non-binding determination by CDTS, Lockheed was found responsible for approximately 75% of such costs and the balance was allocated to other parties. AREP was allocated no responsibility for any such costs.

Lockheed has served a notice that it may exercise its statutory right to have its liability reassessed in a binding arbitration proceeding. In this notice of arbitration, Lockheed stated that it will attempt to have allocated to AREP and to AREP's ground-lessor (which may claim a right of indemnity against AREP)

approximately 9% and 17%, respectively, of the total remediation costs. AREP believes that it has no liability for any of such costs and, in any proceeding in which such liability is asserted against AREP, AREP intends to contest such liability vigorously. In the event any of such liability is allocated to AREP, AREP intends to seek indemnification for any such liability from Lockheed in accordance with its lease.

Bankruptcies

AREP is aware that eleven of its present and former tenants

have been or are currently involved in some type of bankruptcy or reorganization during the three-year period ended December 31, 1994, affecting a total of forty-one of AREP's properties. See also Notes 7(c), (d), (e), (g) and 12(a), (c), (d), (e) and 16(a) to the Financial Statements contained herein describing various tenant and mortgagor bankruptcies for which AREP has filed claims.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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PART II

Item 5. Market for AREP's Common Equity and Related Security Holder Matters.

Market Information

AREP's Depositary Units are traded on the NYSE under the symbol "ACP." Trading on the NYSE commenced July 23, 1987, and the range of high and low market prices for the Depositary Units on the New York Stock Exchange Composite Tape (as reported by The Wall Street Journal) from January 1, 1993 through December 31, 1994 is as follows:

	High ----	Low ---
Quarter ended:		
March 31, 1993	\$ 9.38	\$6.63
June 30, 1993	8.25	7.50
September 30, 1993	9.00	8.00
December 31, 1993	9.50	7.00
March 31, 1994	\$ 8.375	\$7.375
June 30, 1994	8.50	7.375
September 30, 1994	8.625	7.375
December 31, 1994	8.00	7.25

On March 17, 1995, the last sales price of the Depositary Units, as reported by the New York Stock Exchange Composite Tape (as reported by The Wall Street Journal) was \$7.375.

As of March 17, 1995, there were approximately 23,400 record holders of the Depositary Units.

Since January 1, 1993, AREP has made the following cash distributions with respect to the Depositary Units<F1>:

Record Date -----	Payable Date -----	Amount -----	
		Distribution Per Unit -----	Return of Capital<F2> -----
March 31, 1993	May 14, 1993	.125	.00
June 30, 1993	August 13, 1993	.125	.00
September 30, 1993	November 12, 1993	.125	.00
December 31, 1993	February 14, 1994	.125	.00

<FN>

<F1> No distributions were declared for the calendar year 1994.

<F2> Represents the portion of total distributions representing a return of capital on a basis consistent with generally accepted accounting principles.

</FN>

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Trading in the Preferred Units on the NYSE under the symbol "ACP PR" is expected to commence on March 31, 1995 on a when issued basis.

Distributions

After evaluating the contingencies facing AREP, its anticipated cash flows, liquidity needs, maturing debt obligations and capital expenditure requirements, the Board of Directors of the General Partner reduced the quarterly distributions in 1993 from \$.25 to \$.125 per quarter. This reduction permitted management to continue to establish reserves for AREP's maturing debt obligations and other contingencies. In 1994, the General Partner determined that it was necessary for AREP to conserve cash and increase reserves from time to time in order to meet capital expenditures and maturing debt obligations. As a result, distributions to Unitholders were suspended. On March 16, 1995, the Board of Directors of the General Partner announced that a distribution for the fiscal quarter ended March 31, 1995 would not be made. In making its announcement, AREP noted that, consistent with previously announced estimates, net operating cash flow in 1994 was only break-even, after payment of periodic principal payments and maturing debt obligations, capital expenditures and the creation of additional cash reserves. AREP also noted that cash reserves had been set aside for its scheduled approximately \$11.3 million principal payment due in May 1995 on its Senior Unsecured Debt and for the repayment of approximately \$3.6 million of balloon mortgages coming due by May 1995. See ITEM 7 -- "Management's Discussion and Analysis of the Financial Condition and Results of Operations -- Capital Resources and Liquidity." Following the Rights Offering, a substantial portion of the proceeds from the Rights Offering will be used to fund the acquisition of additional properties by AREP, which the General Partner believes have the potential to diversify and enhance the long-term value of AREP's investment portfolio. Each Unitholder will be taxed on the Unitholder's allocable share of AREP's taxable income and gains and accrued guaranteed payments, whether or not any cash is distributed to the Unitholder.

Repurchase of Depositary Units

AREP announced in 1987 its intention to purchase up to one million Depositary Units. On June 16, 1993, AREP increased the amount of shares authorized to be repurchased to 1,250,000 Depositary Units. As of March 17, 1995, AREP had purchased 1,037,200 Depositary Units at an aggregate cost of approximately \$11,184,000. In light of the existing cash needs of the Partnership, management recently has not been acquiring Depositary Units for AREP, although AREP may from time to time acquire additional Depositary Units. Under the terms of the Note Agreements for the Senior Unsecured Debt, distributions and the amounts used to repurchase Depositary Units cannot exceed net cash flow, as defined therein, plus \$15,000,000. See ITEM 7 -- "Management's Discussion and Analysis of the Financial Condition and Results of Operations -- Capital Resources and Liquidity." To

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date this restriction has not impaired the ability of AREP to make distributions.

Item 6. Selected Financial Data.

(Dollars in Thousands Except Per Unit Amounts)
Year Ended December 31,

	1994*	1993*	1992*	1991*	1990*
	-----	-----	-----	-----	-----
Total revenues	\$ 61,551	\$ 60,157	\$ 57,781	\$ 56,571	\$ 58,876
Earnings before gain (loss) on property transactions and extraordinary item	\$ 19,577	\$ 18,379	\$ 20,581	\$ 22,252	\$ 24,344
Gain (loss) on sales and disposition of real estate	4,174	4,760	342	893	(2,104)
Provision for loss on real estate	(582)	(462)	(8,847)	(4,252)	(4,134)
Earnings before extraordinary item	23,169	22,677	12,076	18,893	18,106
(Loss) gain from early extinguishment of debt	-	-	(784)	543	-
Net earnings	\$ 23,169	\$ 22,677	\$ 11,292	\$ 19,436	\$ 18,106
Net earnings per limited partnership unit:					
Earnings before extraordinary item	\$ 1.64	\$ 1.60	\$.84	\$ 1.31	\$ 1.23
Extraordinary item	-	-	(.05)	.04	-
Net Earnings	\$ 1.64	\$ 1.60	\$.79	\$ 1.35	\$ 1.23
Distributions to partners	\$ -	\$ 7,078	\$ 14,333	\$ 28,755	\$ 29,284
At year end:					
Real estate leased to others	\$ 437,699	\$ 444,409	\$ 435,959	\$ 474,859	\$ 491,611
Hotel operating properties	\$ 13,654	\$ 14,070	\$ 12,459	-	-
Mortgages receivable	\$ 8,301	\$ 20,065	\$ 22,447	\$ 22,491	\$ 24,157
Total assets	\$ 492,868	\$ 502,981	\$ 503,262	\$ 517,100	\$ 536,715
Senior indebtedness	\$ 45,231	\$ 55,231	\$ 54,684	\$ 53,607	\$ 52,551
Mortgages payable	\$ 174,096	\$ 195,274	\$ 205,938	\$ 213,503	\$ 223,269
Partners' equity	\$ 259,237	\$ 236,068	\$ 221,855	\$ 225,693	\$ 235,293

* To the extent financial information pertaining to AREP is reflected, such information is consolidated for AREP and its Subsidiary.

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

General

Historically, substantially all of AREP's real estate assets 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 AREP is not typically responsible for payment of expenses, such as maintenance, utilities, taxes and insurance associated with such properties. AREP has experienced an increase in its property expenses in recent years, due principally to tenant bankruptcies and defaults as well as the acquisition of operating properties. Management

expects that AREP's property ownership and management expenses will continue to be higher for the next several years as properties vacated by tenants are re-leased or held for sale and development and operating properties are acquired. Moreover, as AREP's various debt obligations come due, including the Senior Unsecured Debt, there will be increasing demands on cash flow.

By the end of the year 2000, net leases representing approximately 26% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2002, net leases representing approximately 40% of AREP's net annual rentals will be due for renewal. In many of these leases, the tenant has an option to renew at the same rents they are currently paying and in many of these leases the tenant also has an option to purchase. AREP believes that tenants acting in their best interest may be expected to renew those leases which will be at below market rents and to permit leases for properties that are less marketable (either as a result of the condition of such property or its location) or provide for renewal at above-market rents to expire. Since most of AREP's properties are net-leased to single, corporate tenants, it is expected 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 AREP may be required to incur expenditures to renovate such properties for new tenants. In addition, AREP 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. As a result, AREP could experience an adverse impact on net cash flow from such properties in the next decade.

In the past AREP has generated cash flow from operations, primarily through net-lease transactions, for the purpose of making distributions to Unitholders; however, the recession and real estate downturn that occurred in the early 1990's led the General Partner to re-examine AREP's cash needs and investment opportunities. As a result of tenant defaults, including the bankruptcy of a number of tenants, and lease expirations, AREP's property management and operating expenses increased, as well as

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its expenditures relating to the re-leasing of properties (such expenditures including capital expenditures necessary to refurbish vacated properties and to build out properties to meet the specifications of new tenants) and rental revenues decreased. In addition, the availability of acceptable financing to re-finance maturing mortgage debt and AREP's Senior Unsecured Debt became increasingly scarce. Consequently, the General Partner determined that it was necessary to conserve cash and establish reserves from time to time in order to meet capital expenditures and maturing debt obligations. As a result, there was insufficient cash flow from operations to pay distributions to Unitholders and such distributions were reduced and finally suspended. As of December 31, 1994, AREP had approximately \$13,000,000 in cash reserves.

At the same time that the recession was imposing cash flow constraints on AREP, it was also creating what the General Partner perceived as significant investment opportunities to acquire undervalued properties. As discussed under ITEM 1 -- "Business -- Rights Offering," during the next decade AREP expects net leases representing approximately 40% of its net annual rentals to expire and it is possible that AREP's investment portfolio will become stagnant. In order to enhance AREP's investment portfolio (and ultimately its asset values and cash flow prospects), AREP is seeking to acquire investments in undervalued properties. The General Partner believes that because of overdevelopment in certain real estate markets and the desire of certain real estate holders, including financial institutions, to dispose of real estate assets, there are assets available which are performing at a level, or may be available at a price, which may be substantially below their potential value (due to management weaknesses or temporary market conditions such as oversupply of comparable space or stagnant or recessionary local regional economies). Such properties may not be generating a positive cash flow in the near term; however, the General Partner believes that the acquisition of properties requiring some degree of management or development activity have the greatest potential for growth, both in terms of capital appreciation and the generation of cash flow. With the implementation of improved asset management, debt restructuring and capital improvements, for example, AREP would seek to maximize the performance and value of any such undervalued properties. Where opportunities exist, AREP may acquire such properties with proceeds of the Rights Offering or, as has been the case with acquisitions made by AREP over

the last several years, sale or refinancing proceeds which AREP retains for reinvestment (rather than for distribution to Unitholders). The General Partner believes the acquisition of such investments is consistent with AREP's historical objectives of reinvesting proceeds of sales and refinancings in properties that offer greater growth potential and diversification. In addition, to the extent such investments enhance AREP's portfolio, AREP may be able to reinstate distributions to holders of Depositary Units, although there can be no assurances thereof.

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As a consequence of the foregoing, AREP decided to raise funds through the Rights Offering to increase its assets available for investment so that it will be in a better position to take further advantage of the investment opportunities in the real estate market and to further diversify its portfolio and mitigate against the impact of potential lease expirations. See ITEM 1 -- "Business -- Rights Offering" for a further discussion of the Rights Offering.

During 1994 AREP had approximately \$10,000,000 in maturing balloon mortgages due, approximately \$6,700,000 of which have been repaid and approximately \$3,300,000 of which have been refinanced. Approximately \$5,700,000 and \$16,000,000 of balloon mortgages are due in 1995 and 1996, respectively. During the period 1997 through 1998, approximately \$9,100,000 in maturing balloon mortgages come due. AREP will seek to refinance a portion of these maturing mortgages, although it does not expect to be able to refinance all of them and may be required to repay them from cash flow and reserves created from time to time, thereby reducing cash flow otherwise available for other uses. AREP also has significant maturing debt requirements under the note agreements. In particular, AREP is required to make semi-annual interest payments and annual principal payments. In May 1994, AREP repaid \$10,000,000 of the outstanding principal balance under the Note Agreements. Prior to 1994, AREP was only required to make payments of interest on such debt. Principal payments of approximately \$11,308,000 are due under such agreements annually from 1995 through 1998. See ITEM 1 -- "Business -- Financing Activities" and ITEM 2 -- "Properties."

Expenses relating to environmental clean-up have not had a material effect on the earnings, capital expenditures, or competitive position of AREP. Management believes 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 AREP will not be deemed to be a responsible party or that the tenant will bear the costs of remediation. In addition, environmental clean-up costs could become the responsibility of AREP to the extent that tenants file for bankruptcy or otherwise fail to fulfill their lease obligations. See ITEM 1 -- "Business -- Environmental Matters." Environmental problems may also delay or impair AREP's ability to sell, refinance or re-lease particular properties, resulting in decreased income and increased costs to AREP. In addition, as AREP acquires more operating properties, its exposure to environmental clean-up costs may increase. In light of the potential impact of environmental clean-up costs, AREP recently has undertaken to have certain properties (approximately 81) in its portfolio which were not inspected at the time of acquisition to be subjected to Phase I Environmental Site Assessment by a third-party consultant. Based on the results of these Phase I Environmental Site Assessments, the environmental consultant has recommended that limited Phase II Environmental Site Investigations be conducted for approximately 29 of the

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sites in order to ascertain whether there are any environmental conditions and the anticipated cost of any remediation. At the conclusion of AREP's environmental site investigations, AREP will seek to coordinate with the tenants to attempt to ensure that they undertake any required remediation. As no Phase II Environmental Site Investigations have been conducted by the consultant, there can be no accurate estimation of the need for or extent of any required remediation, or the cost thereof. See also the discussion of the Lockheed property in ITEM 3 -- "Legal Proceedings."

Results of Operations

CALENDAR YEAR 1994 COMPARED TO CALENDAR YEAR 1993. Gross revenues increased by approximately \$1,394,000, or 2.3%, during calendar year 1994 as compared to calendar year 1993. This increase reflects approximate increases of \$3,393,000, or 21.6%, in rental income and \$405,000, or 4.8%, in hotel operating income, partially offset by decreases of approximately \$861,000, or 2.6%, in financing lease income, \$571,000, or 28.4%, in other interest income, and \$972,000, or 84.1%, in other income. The increase in rental income is primarily attributable to the two apartment complexes in Lexington, Kentucky acquired in 1993, increases in rents from a property formerly occupied by Amdura and rents received from BJ's Warehouse Store. The hotel operating revenues were generated by two hotels formerly leased to Integra. AREP has been operating these hotel properties through a third-party management company since August 7, 1992. The decrease in financing lease income is primarily attributable to normal amortization of financing leases partially offset by increased income from the Toy's "R" Us properties reacquired as a result of foreclosure on defaulted purchase money mortgages. The decrease in other interest income is primarily attributable to less interest received on defaulted purchase money mortgages and payments of balloon balances due. The decrease in other income related primarily to the settlement of the Days Inn bankruptcy claim, most of which was recognized in 1993.

Expenses increased by approximately \$196,000, or .5%, during calendar year 1994 compared to calendar year 1993. This increase reflects increases of approximately \$1,833,000, or 71.1%, in property expenses, \$600,000, or 13.8%, in depreciation and amortization and \$336,000, or 13.7%, in general and administrative expenses, offset by decreases of approximately \$2,392,000, or 9.5%, in interest expense and \$181,000, or 2.5%, in hotel operating expenses. The increase in property expenses is primarily attributable to costs associated with the newly acquired operating properties mentioned previously, as well as the former Days Inn and Amdura properties now operated by the Company. The decrease in interest expense is primarily attributable to normal loan amortization and reductions due to certain loan refinancings and the repayments of maturing balloon debt obligations, including the Senior Unsecured Debt.

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Earnings before property transactions increased during the calendar year 1994 by approximately \$1,198,000, or 6.5%, from calendar year 1993.

Gain on property transactions decreased by approximately \$586,000 during the calendar year 1994 as compared to calendar year 1993, due to differences in the size and number of transactions.

During calendar year 1994, AREP recorded a provision for loss on real estate of \$582,000 as compared to \$462,000 in 1993.

Net earnings for the calendar year 1994 increased by approximately \$492,000, or 2.2%, as compared to net earnings for the calendar year 1993. This increase is attributable to the approximate \$1,198,000 increase in earnings before property transactions, offset by the decrease in gain on sales of real estate and the increase in provision for loss on real estate.

CALENDAR YEAR 1993 COMPARED TO CALENDAR YEAR 1992. Gross revenues, including revenues from hotel operating properties, increased by approximately \$2,375,000, or 4.1%, during calendar year 1993 as compared to calendar year 1992. This increase reflects approximate increases of \$4,745,000, or 128.1%, in hotel operating revenues and \$498,000, or 75.8%, in other income, partially offset by decreases of approximately \$1,270,000, or 3.7%, in financing lease income, \$1,373,000, or 8.0%, in rental income, and \$224,000, or 10.0%, in other interest income. The hotel operating revenues were generated by two hotels formerly leased to Integra and accounted for as financing leases. AREP has been operating these hotel properties through a third-party management company since August 7, 1992. The other income reflects partial settlements of bankruptcy claims against Days Inn and National Convenience Stores. See Note 7 to the Financial Statements contained herein. The decrease in financing lease income was primarily attributable to normal amortization of financing leases and the reclassification of rent from Integra and certain National Convenience Stores due to the filings by such tenants of voluntary petitions for reorganization pursuant to the provisions of Chapter 11 of the Bankruptcy

Code, which leases were subsequently rejected in 1992. As a result of lease rejections, financing lease income decreased by approximately \$740,000. The decrease in other interest income was primarily attributable to less interest received on two purchase money mortgages due to defaults and payments of balloon balances due. The decrease in rental income was primarily attributable to the loss of income resulting from property sales (approximately \$1,200,000), the rejection of its lease by Days Inn, the Occidental lease expiration and decreases caused by re-letting properties at lower rentals, partially offset by increases primarily attributable to rents received from BJ's Warehouse Store and the Stoney Falls apartment complex in Lexington, Kentucky, both newly acquired operating properties in 1993. As a result of lease rejections, AREP's rental income decreased by approximately \$480,000.

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Expenses increased by approximately \$4,578,000, or 12.3%, during calendar year 1993 compared to calendar year 1992. This increase reflects an increase of approximately \$4,344,000, or 149.3%, in hotel operating expenses, \$802,000, or 45.1%, in property expenses and \$136,000, or 5.9%, in general and administrative expenses, partially offset by a decrease of approximately \$731,000, or 2.8%, in interest expense. The hotel operating expenses were generated by the two hotels mentioned previously. The increase in property expenses is primarily attributable to expenses from several properties, including the former Days Inn and Amdura properties, AREP is now operating through third-party management companies, as well as off-lease properties and the newly acquired apartment complex in Lexington, Kentucky. The decrease in interest expense is primarily attributable to normal loan amortization, reductions due to certain loan refinancings and repayments, and the capitalization of interest in connection with the construction of the BJ's Warehouse Store, partially offset by increases in mortgage interest due to the foreclosure of properties tenanted by Toys R Us.

Earnings before property transactions decreased during the calendar year 1993 by approximately \$2,202,000, or 10.7%, from calendar year 1992.

Gain on property transactions increased by approximately \$4,418,000 during the calendar year 1993 as compared to calendar year 1992, due to differences in the size and number of transactions.

During calendar year 1993, AREP recorded a provision for loss on real estate of \$462,000 as compared to approximately \$8,847,000 in 1992.

During calendar year 1992, a loss from early extinguishment of debt was incurred of approximately \$785,000. No such loss was incurred during calendar year 1993.

Net earnings for the calendar year 1993 increased by approximately \$11,385,000, or 100.8%, as compared to net earnings for the calendar year 1992. This increase is attributable to the approximately \$4,418,000 increase in gain on property transactions and the decreases of approximately \$8,385,000 and \$785,000 in provision for loss on real estate and loss from early extinguishment of debt, respectively, partially offset by the decrease in earnings before property transactions of approximately \$2,202,000.

Capital Resources and Liquidity

Generally, the cash needs of AREP for day-to-day operations have been satisfied from cash flow generated from current operations. The cash flow generated from day-to-day operations (before payment of maturing debt

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obligations) has decreased in recent years, although it improved in 1994 due to the acquisition and foreclosure of certain operating properties and the repayment of debt. Cash flow has been negatively impacted by a reduction in operating cash flow caused by, among other things, tenant defaults and the termination of existing leases (due to expiration, rejection in bankruptcy or otherwise). Furthermore, AREP has experienced an increase in operating expenses with respect to vacated properties and has been required to perform maintenance and repair work in order to re-let such properties. AREP also has had to apply a larger portion of its cash flow to the repayment of

maturing debt obligations. Cash flow from day-to-day operations represents net cash provided by operating activities (excluding working capital changes and non-recurring other income) plus principal payments received on financing leases, as well as principal receipts on mortgages receivable reduced by periodic principal payments on mortgage debt.

As a result of tenant bankruptcies, AREP has incurred and expects -- 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. As of December 31, 1994, the total of such expenses relating to tenants who rejected their leases during the three-year period then ended was approximately \$1,400,000 net of rent received from re-let properties. Of AREP's eleven present and former tenants involved in bankruptcy proceedings or reorganization, eight have rejected their leases, affecting 27 properties, all of which have been vacated. During 1992, AREP began operating some of these properties through third-party management companies. The rejections have had an adverse impact on annual cash flow (including both the decrease in revenues from lost rents, as well as increased operating expenses). The aggregate annual rent lost from tenants who rejected their leases during the three-year period ended December 31, 1994 was approximately \$4,000,000. See Notes 7(c), (d), (e), (g) and 12(a), (c), (d), (e) and 16(a) to the Financial Statements contained herein. Currently AREP has one tenant in bankruptcy which occupies eight of AREP's properties.

In 1994, fourteen leases covering fourteen properties and representing approximately \$810,000 in annual rental income expired. Seven of these fourteen leases originally representing approximately \$513,000 in annual rental income were renewed or re-let for approximately \$593,000 in annual rental income. One property, which had an approximate annual rental income of \$112,000, has been renewed at \$175,000, which amount has been determined by a market value appraisal. Three properties, with an approximate annual rental income of \$69,000, are currently being marketed for sale or lease. Three properties, with an approximate annual rental of \$116,000, were sold in 1994.

In 1995, 24 leases covering 24 properties and representing approximately \$832,000 in annual rentals are scheduled to expire. AREP anticipates that eleven of these 24 leases originally representing

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approximately \$492,000 in annual rental income have been or will be re-let or renewed for approximately \$507,000 in annual rentals. Thirteen leases, with an approximate annual rental income of \$340,000, will be marketed for sale or lease when the current lease terms expire.

AREP may not be able to re-let certain of its properties at current rentals. As discussed above, net leases representing approximately 40% of AREP's net annual rentals will be due for renewal by the end of the year 2002. Moreover, it is expected 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 AREP may be required to incur expenditures to renovate such properties for new tenants. In addition, AREP will 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. As a result, AREP could experience an adverse impact on net cash flow from such properties in the next decade. There are also certain below-market leases with renewal options which are likely to be exercised.

During 1994, AREP generated approximately \$22 million in cash flow from day-to-day operations and approximately \$200,000 from the Days Inn bankruptcy claim settlement. During the comparable period in 1993, AREP generated approximately \$19 million in cash flow from day-to-day operations and approximately \$1,200,000 from the Days Inn and SNG bankruptcy claims' settlements. During the comparable period of 1992, AREP generated approximately \$23.5 million in cash flow from day-to-day operations and approximately \$700,000 from the settlement of the Amdura Corp. bankruptcy claim. See Note 7(d) to the Financial Statements contained herein.

Capital expenditures for real estate, excluding new acquisitions, were approximately \$2,300,000 during 1994. During 1993, such expenditures, excluding new acquisitions, totalled approximately \$2,500,000. During 1992,

such expenditures totalled approximately \$200,000.

During 1994, AREP had approximately \$10,000,000 in maturing balloon mortgages due, approximately \$6,700,000 of which have been repaid and approximately \$3,300,000 of which have been refinanced. Repayment of balloon mortgages out of AREP's cash flow totalled approximately \$3,800,000 in 1993 and \$1,100,000 in 1992, net of refinancings and exclusive of debt placement costs. Approximately \$5,700,000 and \$16,000,000 of maturing balloon mortgages are due in 1995 and 1996, respectively, and during the period 1997 through 1998 approximately \$9,100,000 in maturing balloon mortgages come due. AREP will seek to refinance a portion of these maturing mortgages, although it does not expect to be able to refinance all of them and may be required to repay them from cash flow and increase reserves from time to time, thereby reducing cash flow otherwise available for other uses.

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AREP also has significant maturing debt requirements under the Note Agreements. As of December 31, 1994, AREP had \$45,231,106 of Senior Unsecured Debt outstanding. Pursuant to the Note Agreements, AREP is required to make semi-annual interest payments and annual principal payments. The interest rate charged on the Senior Unsecured Debt is 9.6% per annum. Under the terms of the Note Agreements, AREP deferred and capitalized 2% annually of its interest payment through May 1993. In May 1994, AREP repaid \$10 million of its outstanding Senior Unsecured Debt under the Note Agreements and principal payments of approximately \$11,308,000 are due annually from 1995 through the final payment date of May 27, 1998. As of December 31, 1994, AREP was in compliance with the terms of the Note Agreements.

The Note Agreements contain certain covenants restricting the activities of AREP. Under the Note Agreements, AREP must maintain a specified level of net annual rentals from unencumbered properties (as defined in the Note Agreements) and is restricted, in certain respects, in its ability to create liens and incur debts. Investment by AREP in certain types of assets that may be regarded as non-income producing, such as land or non-performing loans, is restricted under the Note Agreements. The holders of the Senior Unsecured Debt have agreed, however, to waive this restriction with respect to any additional capital raised by AREP in the Rights Offering. While the restrictions in the Note Agreements generally have not adversely affected AREP's operations in any material manner, if AREP encountered severe operating difficulties, certain options that management might otherwise elect, such as seeking additional secured financing, might be limited or prohibited.

The Note Agreements contain certain prepayment penalties which AREP would be required to pay if it extinguishes any portion of the outstanding principal prior to its annual due date. The Note Agreements require that such prepayment consist of 100% of the principal amount to be prepaid plus a premium based on a formula described therein. As of March 17, 1995 the premium required in order to prepay the Note Agreement in full would have been approximately \$2,600,000. Subject to negotiating terms favorable to AREP, the Senior Unsecured Debt may be prepaid in full with a portion from the proceeds of the Rights Offering. Prepayment would release AREP from certain covenants which restrict its operating and investment activities, including, among others, covenants relating to the level of net annual rentals from unencumbered properties and the ability to create liens and incur additional debt. AREP believes that this prepayment and the resulting release from the covenants in the Note Agreements could further permit it to take advantage of the investment opportunities that exist in the real estate market.

After evaluating the contingencies facing AREP, its anticipated cash flows, liquidity needs, maturing debt obligations and capital expenditure requirements, the Board of Directors of the General Partner reduced the quarterly distributions in 1993 from \$.25 to \$.125 per quarter. This reduction permitted management to continue to establish reserves for AREP's

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maturing debt obligations and other contingencies. In 1994, the General Partner determined that it was necessary for AREP to conserve cash and increase reserves from time to time in order to meet capital expenditures and maturing debt obligations. As a result, distributions to Unitholders were

reduced and finally suspended. On March 16, 1995, the Board of Directors of the General Partner announced that a distribution for the fiscal quarter ended March 31, 1995 would not be made. In making its announcement, AREP noted that, consistent with previously announced estimates, net operating cash flow in 1994 was only breakeven, after payment of periodic principal payments and maturing debt obligations, capital expenditures and the creation of additional cash reserves. AREP also noted that cash reserves had been set aside for its scheduled approximately \$11.3 million principal payment due in May 1995 on its Senior Unsecured Debt and for the repayment of approximately \$3.6 million of balloon mortgages coming due by May 1995.

There were no distributions due to Unitholders for the year ended December 31, 1994. Distributions paid during 1994 totalled approximately \$1,869,000, representing distributions due to Unitholders for the fourth quarter of 1993 and to Unitholders who exchanged their limited partner interests during 1994. Distributions due to Unitholders for the year ended December 31, 1993 were approximately \$7.1 million. Distributions paid during the year ended December 31, 1993 totalled approximately \$9.3 million, representing distributions due to Unitholders for the fourth quarter of 1992 and the first three quarters of 1993 and to Unitholders who exchanged their limited partner interests during 1993. Distributions due to Unitholders for the year ended December 31, 1992 were approximately \$14.3 million. Distributions paid during 1992 totalled approximately \$18.8 million, representing distributions due to Unitholders for the fourth quarter of 1991 and the first three quarters of 1992 and to Unitholders who exchanged their limited partner interests during 1992.

The proceeds from the Rights Offering are anticipated to be approximately \$109,000,000 after the payment of offering expenses of approximately \$1,000,000. The net proceeds of the Rights Offering will be used to further diversify and expand AREP's investment portfolio and, subject to negotiating terms favorable to AREP, the balance may be used to prepay its Senior Unsecured Debt. If the Senior Unsecured Debt is not prepaid, such funds will be used for additional portfolio investments. See ITEM 1 -- "Investment Opportunities and Strategies."

Sales proceeds from the sale or disposal of portfolio properties totalled approximately \$12.6 million, including \$1.4 million of net proceeds from balloon payments of mortgages receivable in 1994. During the comparable period of 1993, sales proceeds totalled approximately \$14 million, including \$2.4 million of net proceeds from balloon payments of mortgages receivable. AREP entered into two joint ventures with unaffiliated co-venturers in June 1994 for the purpose of developing luxury garden apartment complexes in Hoover, Alabama, and Cary, North Carolina. In

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the year ended December 31, 1994, AREP invested approximately \$5,500,000 in these joint ventures. In May 1993, AREP completed the construction of the BJ's Warehouse in Syracuse, New York for an aggregate cost of approximately \$7,900,000, and an approximate \$1.2 million cost for the adjacent parcel. In June 1993 AREP also acquired two non-performing mortgage loans on two residential apartment complexes located in Lexington, Kentucky for approximately \$13 million. AREP foreclosed on each of these loans (one in 1993 and one in 1994) and now holds title to the underlying properties. See Notes 7(h) and (l) of the Financial Statements contained herein.

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ITEM 8. FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of American Real Estate Partners, L.P. and subsidiary as of December 31, 1994 and 1993, and the related consolidated statements of earnings, partners' equity and cash flows for each of the years in the three year period ended December 31, 1994. In

connection with our audits of the consolidated financial statements, we also have audited the 1994 financial statement schedule as listed in the Index at Item 14 (a) 2. These consolidated financial statements and the financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Real Estate Partners, L.P. and subsidiary as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 1994, in conformity with generally accepted accounting principles. Also in our opinion the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

New York, New York
March 16, 1995

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AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1994 and 1993

	1994	1993
	-----	-----
ASSETS		

REAL ESTATE LEASED TO OTHERS:		
Accounted for under the financing method (Notes 2, 4 and 7)	\$314,260,786	\$327,470,322
Accounted for under the operating method, net of accumulated depreciation (Notes 2, 5 and 7)	123,438,444	116,939,331
CASH AND CASH EQUIVALENTS (Note 2)	18,615,572	14,932,560
HOTEL OPERATING PROPERTIES, net of accumulated depreciation (Notes 5 and 7)	13,654,442	14,070,278
MORTGAGES RECEIVABLE (Notes 6, 7, 12 and 14)	8,301,090	20,064,920
CONSTRUCTION-IN-PROGRESS (Note 7)	6,681,333	--
RECEIVABLES AND OTHER ASSETS (Note 14)	5,373,553	5,345,912
DEBT PLACEMENT COSTS - Net of accumulated amortization (Note 2)	2,130,003	1,831,258
PROPERTY HELD FOR SALE (Notes 2, 7 and 13)	412,717	2,326,737
	-----	-----

TOTAL	\$492,867,940	\$502,981,318
	=====	=====
LIABILITIES AND PARTNERS' EQUITY		

MORTGAGES PAYABLE (Note 8)	\$174,095,697	\$195,274,201
SENIOR INDEBTEDNESS (Notes 9 and 14)	45,231,106	55,231,106
ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES (Note 14)	6,496,410	5,370,456
DEFERRED INCOME (Note 6)	3,637,398	7,392,138
CONSTRUCTION LOAN PAYABLE (Note 7)	2,393,954	--
DISTRIBUTIONS PAYABLE (Notes 3 and 15)	1,776,482	3,645,088
	-----	-----
	233,631,047	266,912,989
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 3, 12 and 16)		
PARTNERS' EQUITY (Notes 2, 3 and 16)	259,236,893	236,068,329
	-----	-----
TOTAL	\$492,867,940	\$502,981,318
	=====	=====

See notes to consolidated financial statements.

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AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

	1994	1993	1992
	-----	-----	-----
REVENUES:			
Interest income:			
Financing leases	\$31,990,262	\$32,851,135	\$34,121,308
Other	1,438,491	2,009,598	2,234,035
Rental income	19,084,506	15,691,513	17,064,641
Hotel operating income (Note 7)	8,853,480	8,448,879	3,704,308
Other income (Note 7)	183,987	1,155,674	657,251
	-----	-----	-----
	61,550,726	60,156,799	57,781,543
	-----	-----	-----
EXPENSES:			
Interest expense	22,735,908	25,127,931	25,859,176
Depreciation and amortization	4,960,704	4,360,933	4,333,940
General and administrative expenses (Note 3)	2,791,123	2,454,786	2,318,856
Property expenses	4,413,651	2,580,259	1,778,614
Hotel operating expenses (Note 7)	7,072,641	7,254,119	2,909,747
	-----	-----	-----
	41,974,027	41,778,028	37,200,333
	-----	-----	-----
EARNINGS BEFORE PROPERTY TRANSACTIONS AND EXTRAORDINARY ITEM			
PROVISION FOR LOSS ON REAL ESTATE (Notes 7 and 12)	(582,000)	(462,000)	(8,847,165)
GAIN ON SALES AND DISPOSITION OF REAL ESTATE (Note 7)	4,173,865	4,759,983	342,372
	-----	-----	-----
EARNINGS BEFORE EXTRAORDINARY ITEM			
LOSS FROM EARLY EXTINGUISHMENT OF DEBT (Note 8)	--	--	(784,540)
	-----	-----	-----
NET EARNINGS	\$23,168,564	\$22,676,754	\$11,291,877

	=====	=====	=====
NET EARNINGS ATTRIBUTABLE TO (Note 3):			
Limited partners	\$22,707,510	\$22,225,487	\$11,067,169
General partner	461,054	451,267	224,708
	-----	-----	-----
	\$23,168,564	\$22,676,754	\$11,291,877
	=====	=====	=====
NET EARNINGS PER LIMITED PARTNERSHIP UNIT (Note 2):			
Earnings before extraordinary item	\$ 1.64	\$ 1.60	\$.84
Extraordinary item	--	--	(.05)
	-----	-----	-----
NET EARNINGS	\$ 1.64	\$ 1.60	\$.79
	=====	=====	=====
LIMITED PARTNERSHIP UNITS OUTSTANDING AT YEAR-END	13,812,800	13,812,800	13,981,300
	=====	=====	=====

See notes to consolidated financial statements.

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AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY
YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

	GENERAL PARTNERS' EQUITY	LIMITED PARTNERS' EQUITY	HELD IN TREASURY		TOTAL PARTNERS' EQUITY
			AMOUNT	UNITS	
BALANCE, DECEMBER 31, 1991	\$ 4,670,423	\$230,023,894	\$ (9,000,915)	758,800	\$225,693,402
Net earnings	224,708	11,067,169	--	--	11,291,877
Distributions to partners (Notes 2 and 3)	(285,226)	(14,047,730)	--	--	(14,332,956)
Purchase of treasury units	--	--	(797,759)	109,900	(797,759)
	-----	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1992	\$ 4,609,905	\$227,043,333	\$ (9,798,674)	868,700	\$221,854,564
Net earnings	451,267	22,225,487	--	--	22,676,754
Distributions to partners (Notes 2 and 3)	(140,848)	(6,936,950)	--	--	(7,077,798)
Purchase of treasury units	--	--	(1,385,191)	168,500	(1,385,191)
	-----	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1993	\$ 4,920,324	\$242,331,870	\$ (11,183,865)	1,037,200	\$236,068,329
Net earnings	461,054	22,707,510	--	--	23,168,564
	-----	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1994	\$ 5,381,378	\$265,039,380	\$ (11,183,865)	1,037,200	\$259,236,893
	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

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AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

	1994	1993	1992
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 23,168,564	\$ 22,676,754	\$ 11,291,877
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	4,960,704	4,360,933	4,333,940
Deferred interest expense	--	546,842	1,077,496
Amortization of deferred income	(26,218)	(26,218)	(26,218)
Gain on sales and disposition of real estate	(4,173,865)	(4,759,983)	(342,372)

Provision for loss on real estate	582,000	462,000	8,847,165
Early extinguishment costs	--	--	(784,540)
Loss on early extinguishment of debt	--	--	784,540
Changes in:			
Increase in accounts payable and accrued expenses	1,139,297	131,638	636,119
(Decrease) increase in deferred income	(3,640)	(100,269)	307,825
Increase in receivables and other assets	(177,434)	(1,440,793)	(1,171,011)
	-----	-----	-----
Net cash provided by operating activities	25,469,408	21,850,904	24,954,821
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease (increase) in mortgages receivable	116,524	(5,391,052)	--
Net proceeds from the sales and disposition of real estate	11,171,802	11,667,845	1,035,413
Principal payments received on leases accounted for under the financing method	6,708,644	6,066,011	5,592,462
Construction in progress	(6,681,333)	--	(3,961,656)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

	1994	1993	1992
	-----	-----	-----
Principal receipts on mortgages receivable	275,459	251,857	70,082
Property acquisitions	(3,336,145)	(12,074,542)	--
Capitalized expenditures for real estate	(2,331,380)	(2,490,061)	(159,449)
Balloon payment on mortgage receivable	1,392,649	2,411,698	--
	-----	-----	-----
Net cash provided by investing activities	7,316,220	441,756	2,576,852
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Partners' equity:			
Purchase of treasury units	--	(1,385,191)	(797,759)
Distribution to partners	(1,868,607)	(9,268,892)	(18,787,736)
Debt:			
Increase in mortgages payable	282,391	4,036,933	4,581,617
Early extinguishment of mortgages payable	(3,364,023)	(3,038,346)	--
Periodic principal payments	(9,241,669)	(9,032,917)	(7,754,590)
Balloon payments	(6,682,984)	(3,808,767)	(4,190,851)
Senior debt principal payment	(10,000,000)	--	--
Increase in construction loan payable	2,393,954	--	--
Debt placement costs	(621,678)	(502,558)	(718,042)
	-----	-----	-----
Net cash used in financing activities	(29,102,616)	(22,999,738)	(27,667,361)
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,683,012	(707,078)	(135,688)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,932,560	15,639,638	15,775,326
	-----	-----	-----
CASH AND CASH			

EQUIVALENTS, END OF YEAR	\$ 18,615,572	\$ 14,932,560	\$ 15,639,638
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AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

	1994	1993	1992
SUPPLEMENTAL INFORMATION:			
Cash payments for interest	\$ 22,762,631	\$ 25,492,543	\$ 25,479,241
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Property acquired in satisfaction of mortgages:			
Additions to property accounted for under the financing method	\$ --	\$ 4,141,930	\$ --
Additions to property accounted for under the operating method	6,645,589	1,812,319	--
Additions to mortgages payable	--	(2,904,481)	--
Decrease in mortgages receivable	(9,109,376)	(3,550,365)	--
Increase to property held for sale	300,530	--	--
Decrease in deferred income	2,163,257	500,597	--
	\$ --	\$ --	\$ --
Reclassification of real estate to operating lease	\$ --	4,686,419	3,804,998
Reclassification of real estate from operating lease	(840,844)	(1,018,735)	(7,331,421)
Reclassification of real estate from financing lease	--	(808,667)	(21,902,382)
Reclassification of real estate to hotel operating properties	--	--	17,114,660
Reclassification of real estate from construction in progress	--	(3,961,656)	--
Reclassification of real estate to property held for sale	840,844	1,102,639	8,314,145
	\$ --	\$ --	\$ --

See notes to consolidated financial statements.

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AMERICAN REAL ESTATE PARTNERS, L.P. AND
SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

1. ORGANIZATION AND BASIS OF PRESENTATION

On July 1, 1987, American Real Estate Holdings Limited Partnership (the "Subsidiary"), in connection with an exchange offer (the "Exchange"), entered into merger

agreements with American Real Estate Partners, L.P. (the "Company") and each of American Property Investors, L.P., American Property Investors II, L.P., American Property Investors III, L.P., American Property Investors IV, L.P., American Property Investors V, L.P., American Property Investors VI, L.P., American Property Investors VII, L.P., American Property Investors VIII, L.P., American Property Investors IX, L.P., American Property Investors X, L.P., American Property Investors XI, L.P., American Property Investors 82, L.P. and American Property Investors 83, L.P. (collectively, the "Predecessor Partnerships"), pursuant to which the Subsidiary acquired all the assets, subject to the liabilities (known and unknown) of the Predecessor Partnerships.

The limited partners of the Predecessor Partnerships received limited partner interests in the Subsidiary. The number of such limited partner interests received by a limited partner was determined based upon his percentage ownership interest in the Predecessor Partnerships, the value of the Predecessor Partnerships' net assets and the number of limited partner interests allocable to the Predecessor Partnerships' general partners and their affiliates. The limited partner interests in the Subsidiary were contributed to the Company in exchange for limited partner interests therein. Limited partnership interests were allocable to the Predecessor Partnerships' general partners and their affiliates as a result of their rights: (i) to receive a portion of the cash flow of the Predecessor Partnerships by virtue of their ownership of interests in such partnerships and their entitlement to receive management fees and nonaccountable expense reimbursements and (ii) to share in the proceeds from the sale or liquidation of the assets of the Predecessor Partnerships and to receive real estate commissions with respect to the sale of properties by the Predecessor Partnerships. These rights of the Predecessor Partnerships' general partners and their affiliates were valued in connection with the Exchange. As a result of such valuation, and the assignment of the interests receivable by the corporate affiliates to American Property Investors, Inc. (the "General Partner"), an aggregate of 1,254,280 units and a 1% general partner interest in the Company were issued to the General Partner and 5,679 units were issued to noncorporate affiliates of the Predecessor Partnerships' general partners. In addition, the General Partner also received a 1% general partner interest in the Subsidiary.

By virtue of the Exchange, the Subsidiary owns the assets, subject to the liabilities, of the Predecessor Partnerships. The Company owns a 99% limited partner interest in the Subsidiary. The General Partner owns a 1% general partner interest in both the Subsidiary and the Company representing an aggregate 1.99% general partner interest in the Company and the Subsidiary.

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The participation in the transaction by a Predecessor Partnership was conditioned upon obtaining the approval of a majority-in-interest of the limited partners in such Predecessor Partnership. Such approvals were obtained with respect to each of the Predecessor Partnerships prior to July 1, 1987.

During 1989, Integrated Resources, Inc. ("Integrated"), the former parent of the General Partner, experienced serious financial difficulties and, on February 13, 1990, it filed in the Bankruptcy Court for the Southern District of New York a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code (the "Filing"). The General Partner was a separate entity

and neither the General Partner nor any other subsidiary of Integrated was included in the Filing.

On September 13, 1990, in connection with its voluntary petition for reorganization pursuant to Chapter 11 of the Bankruptcy Code, Integrated entered into an agreement whereby it agreed to sell all of its stock in the General Partner to Meadowstar Holding Company, Inc. ("Meadowstar"). Neither the Company nor the General Partner was a party to such agreement. The sale of the stock of the General Partner to Meadowstar was approved by the Bankruptcy Court on October 22, 1990. On November 15, 1990, pursuant to the terms of the Acquisition Agreement, Meadowstar purchased all of the outstanding shares of Common Stock of the General Partner. In May 1993, Carl C. Icahn acquired all of Meadowstar's interest in the General Partner.

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2. SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL STATEMENTS AND PRINCIPLES OF CONSOLIDATION - The consolidated financial statements are prepared on the accrual basis of accounting and include only those assets, liabilities and results of operations which relate to the Company and the Subsidiary. All material intercompany accounts and transactions have been eliminated in consolidation.

REGISTRATION COSTS AND EXPENSES OF THE EXCHANGE - Registration costs of the Predecessor Partnerships were charged against partners' equity upon the closing of the public offerings in accordance with prevalent industry practice. Expenses of the Exchange were charged against partners' equity upon consummation of the Exchange.

NET EARNINGS AND DISTRIBUTIONS PER LIMITED PARTNERSHIP UNIT - For financial reporting purposes, the weighted average number of units assumed outstanding for the years ended December 31, 1994, 1993 and 1992 was 13,812,800, 13,889,667 and 14,058,153, respectively. There were no distributions in 1994. Distributions were \$.50 per unit in 1993 and \$1.00 per unit in 1992.

UNIT OPTION PLAN - The Company adopted a Nonqualified Unit Option Plan (the "Plan") in 1987, which was further amended in 1989, under which options to purchase an aggregate of 1,416,910 Units may be granted to officers and key employees of the General Partner and the Company who provide services to the Company. To date, no options have been granted under the Plan.

CASH AND CASH EQUIVALENTS - The Company considers short-term investments, which are highly liquid with original maturities of three months or less from date of issuance, to be cash equivalents.

Included in cash and cash equivalents at December 31, 1994 and 1993 are investments in government backed securities of approximately \$17,155,000 and \$13,772,000, respectively.

INCOME TAXES - No provision has been made for Federal, state or local income taxes since the Company is a partnership and, accordingly, such taxes are the responsibility of the partners.

LEASES - The Company leases to others substantially all its real property under long-term net leases and accounts for these leases in accordance with the provisions of Financial Accounting Standards Board Statement No. 13, "Accounting

for Leases," as amended. This Statement sets forth specific criteria for determining whether a lease is to be accounted for as a financing lease or operating lease.

- a. FINANCING METHOD - Under this method, minimum lease payments to be received plus the estimated value of the property at the end of the lease are considered the gross investment in the lease. Unearned income, representing the difference between gross investment and actual cost of the leased property, is amortized to income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease.
- b. OPERATING METHOD - Under this method, revenue is recognized as rentals become due and expenses (including depreciation) are charged to operations as incurred.

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PROPERTIES - Properties, other than those accounted for under the financing method, are carried at cost less accumulated depreciation unless declines in the values of the properties are considered other than temporary.

For each of the years ended December 31, 1994, 1993 and 1992 no individual real estate or series of assets leased to the same lessee accounted for more than 10% of the gross revenues of the Company. At December 31, 1994 and 1993, Portland General Electric Company occupied a property, consisting of corporate offices, which represented more than 10% of the Company's total assets.

DEPRECIATION - Depreciation on properties accounted for under the operating method is computed using the straight-line method over the estimated useful life of the particular property or property components, which range from 5 to 45 years. When properties are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the property account and the accumulated depreciation account, and any gain or loss on such sale or disposal is generally credited or charged to income (see Note 7).

DEBT PLACEMENT COSTS - Debt placement costs are amortized on a straight-line basis over the term of the respective indebtedness.

Assets Held for Sale - Assets held for sale are carried at the lower of cost or net realizable value.

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3. CONFLICTS OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES

- a. The General Partner and its affiliates may realize substantial fees, commissions and other income from transactions involving the purchase, operation, management, financing and sale of the Partnership's properties, subject to certain limitations relating to properties acquired from the Predecessor Partnerships in the Exchange. Some of such amounts may be paid regardless of the overall profitability of the Partnership and whether any distributions have been made to Unitholders. As

new properties are acquired, developed, constructed, operated, leased, financed and sold, the General Partner or its affiliates may perform acquisition functions, development and construction oversight and other land development services, property management and leasing services, either on a day-to-day basis or on an asset management basis, and other services and be entitled to fees and reimbursement of expenses relating thereto, including the Reinvestment Incentive Fee, property management fees, real estate brokerage and leasing commissions, fees for financing either provided or arranged by the General Partner and its affiliates, development fees, general contracting fees and construction management fees. The terms of any transactions between the Company and the General Partner or its affiliates must be fair and reasonable to the Company and customary to the industry.

Reinvestment incentive fees as payment for services rendered in connection with the acquisition of properties from July 1, 1987 through July 1, 1997 were 1% of the purchase price for the first five years and are 1/2% for the second five years.

Reinvestment incentive fees are only payable on an annual basis if the sum of (x), the sales price of all Predecessor Partnerships' properties (net of associated debt which encumbered such properties at the consummation of the Exchange) sold through the end of such year, and (y), the appraised value of all Predecessor Partnerships' properties which have been financed or refinanced (and not subsequently sold), net of the amount of any refinanced debt, through the end of such year determined at the time of such financings or refinancings, exceeds the aggregate values assigned to such Predecessor Partnerships' properties for purposes of the Exchange. If the subordination provisions are not satisfied in any year, payment of reinvestment incentive fees for such year will be deferred. At the end of each year, a new determination will be made with respect to subordination requirements (reflecting all sales, financings and refinancings from the consummation of the Exchange through the end of such year) in order to ascertain whether reinvestment incentive fees for that year and for any prior year, which have been deferred, may be paid.

From the commencement of the Exchange through December 31, 1994, the Company (i) sold or disposed of an aggregate of 126 properties of the Predecessor Partnerships for an aggregate of approximately \$56,879,000, net of associated indebtedness which encumbered such properties at the consummation of the Exchange and (ii) refinanced 25 Predecessor Partnership properties with an aggregate appraised value, net of the amount of the refinanced debt, of approximately \$44,431,000 for a sum total of approximately \$101,310,000. Aggregate appraised values attributable to such properties for purposes of the Exchange were approximately \$88,322,000. Fifteen properties have been acquired since the commencement of the Exchange, including two joint ventures entered into in 1994, for aggregate purchase prices of approximately \$52,000,000. Reinvestment incentive fees of approximately \$354,000 have previously been paid to the General Partner, and approximately \$113,000 are payable to the General Partner for the 1994 acquisitions. The property acquired in 1992 was subject to a

conditional sale agreement (see Note 7); therefore, no reinvestment incentive fee was due at December 31, 1992.

- b. The Company entered into a lease, effective June 1, 1991, for approximately 6,900 square feet of office space with an affiliate of the General Partner. The lease is for a ten year term and provides for initial monthly rent (inclusive of charges for utilities) of \$11,642, which amount increased to \$12,936 on June 1, 1994 and increases to \$14,804 on June 1, 1997. The terms of the lease agreement were reviewed for fairness by the Audit Committee of the Board of Directors of the General Partner which determined that the terms of such transaction were fair and reasonable to the Company. In evaluating the transaction, the Audit Committee consulted with an independent appraiser regarding the terms of the lease. For the year ended December 31, 1992, the Company paid \$139,704 in rent.

On December 29, 1992, the affiliate of the General Partner assigned its interest in the lease to an unaffiliated third party.

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4. REAL ESTATE LEASED TO OTHERS ACCOUNTED FOR UNDER THE FINANCING METHOD

Real estate leased to others accounted for under the financing method is summarized as follows:

	December 31,	
	----- 1994 -----	----- 1993 -----
Minimum lease payments receivable	\$446,943,110	\$497,100,936
Unguaranteed residual value	171,636,874	175,214,737
	-----	-----
	618,579,984	672,315,673
Less unearned income	304,319,198	344,845,351
	-----	-----
	\$314,260,786	\$327,470,322
	=====	=====

The following is a summary of the anticipated future receipts of the minimum lease payments receivable at December 31, 1994:

Year ending December 31,	Amount
-----	-----
1995	\$ 38,439,834
1996	38,397,613
1997	38,366,876
1998	38,293,967
1999	37,214,924
Thereafter	256,229,896

	\$ 446,943,110
	=====

At December 31, 1994, approximately \$244,463,000 of the net investment in financing leases was pledged to collateralize the payment of nonrecourse mortgages payable.

5. REAL ESTATE LEASED TO OTHERS ACCOUNTED FOR UNDER THE OPERATING METHOD

Real estate leased to others accounted for under the operating method is summarized as follows:

	December 31,	
	1994	1993
Land	\$ 57,411,117	\$ 53,446,863
Commercial building	112,762,861	107,809,870
	-----	-----
	\$170,173,978	\$ 161,256,733
Less accumulated depreciation	46,735,534	44,317,402
	-----	-----
	\$123,438,444	\$ 116,939,331
	=====	=====

As of December 31, 1994 and 1993, accumulated depreciation on the hotel operating properties (not included above) amounted to approximately \$1,499,000 and \$723,000, respectively (see Note 7).

The following is a summary of the anticipated future receipts of minimum lease payments under noncancelable leases at December 31, 1994:

Year ending December 31,	Amount
-----	-----
1995	\$14,413,774
1996	13,554,598
1997	11,872,170
1998	10,650,677
1999	9,174,571
Thereafter	36,548,268

	\$96,214,058
	=====

At December 31, 1994, approximately \$91,029,000 of real estate leased to others was pledged to collateralize the payment of nonrecourse mortgages payable.

6. MORTGAGES RECEIVABLE

Collateralized by Property Tenanted by -----	Interest Rate	Maturity Date	Balance at Maturity	Monthly Payment Amount	Balance at December 31,	
					1994	1993
Gino's Inc. and Foodarama Supermarkets, Inc.	8.051%	1/92	\$1,005,237	\$ - (a)	\$462,712	1,005,237
Hardee's Food Systems, Inc.	9.00 (b)	11/05	-	735	153,460	153,460
Bank of Virginia	9.00 (c)	1/06	847,902	1,436	341,955	336,171
Best Products Co., Inc.	9.00 (d)	9/01	-	- (d)	249,170	271,538

Data 100 Corp.	9.00	12/10	-	9,589	974,890	1,021,363
	11.6087	12/19	-	- (e)	496,230	455,362
Easco Corp.	8.875	2/97(f)	3,586,940	27,800(f)	3,536,384	3,555,204
Webcraft Technologies Co. (a)	9.70	6/92	1,863,365	16,607	-	1,889,138
The Wickes Corp. (a)	10.3937	1/93	3,691,873	31,977	-	3,691,873
Winchester Partnership	9.00	11/01	-	33,857	2,086,289	2,294,520
Stoney Brooke (a)	-	-	-	-	-	5,391,054
					-----	-----
					\$8,301,090	20,064,920
					=====	=====

- (a) See Note 7.
- (b) 5.75% is paid currently and 3.25% is deferred. The principal and deferred interest is payable in monthly installments from March 1999 until November 2005.
- (c) 4.5% is paid currently and 4.5% is deferred until maturity.
- (d) Payments (with interest only at 9%) are \$46,931 through November 1, 1996 and \$54,276 through September 1, 2001 (See Note 12a).
- (e) Interest only will accrue until December 1, 2010; commencing January 1, 2011, monthly payments of \$39,035 will be due, which will self-amortize the outstanding principal and current and deferred interest, with the final payment due December 1, 2019. Increased rentals on the property, if any, during the renewal term of the underlying lease will be applied against accrued interest and then the outstanding principal.
- (f) On January 16, 1992, the purchase money mortgage was amended. The maturity date was extended to November 1994 and the monthly payments decreased to \$27,800 commencing February 1, 1992. Under the terms of the amendment, the maturity date has been further extended to February 1997 to coincide with Easco's renewal of its lease for an additional ten years.

The Company has generally not recognized any profit in connection with the property sales in which the above 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.

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7. SIGNIFICANT PROPERTY TRANSACTIONS

Information on significant property transactions during the three-year period ended December 31, 1994 is as follows:

- a. On March 27, 1991, The Public Building Commission of Chicago ("Public Building Commission") commenced a condemnation proceeding against a property leased by The TJX Companies, Inc. The condemnation proceeding was settled on March 12, 1993 when the Company received approximately \$4,305,000 from the tenant who purchased the property in accordance with their lease obligations. A net gain of approximately \$1,575,000 was recognized on this transaction in the year ended December 31, 1993.
- b. The lease on a property formerly tenanted by Occidental Petroleum Corp. initially expired June 30, 1992 and was extended to March 1993 on a month-to-month basis. Based on existing conditions, the Company believed the carrying value at December 31, 1992 to be substantially in excess of the property's value, and as a result, wrote the asset down to its recoverable value by incurring a provision for loss on real estate in the amount of \$1,400,000 for the year then ended. This asset has a carrying value of approximately \$2,242,000 and is encumbered by a nonrecourse mortgage payable of approximately \$2,182,000 as of December 31, 1994.

The Company has obtained zoning approval which will enable the re-development of the site into a 67,000 square foot retail center with two out parcels totaling 11,000 square feet of rentable area.

- c. On April 2, 1990, Amdura Corp., formerly American Hoist and Derrick Co., and certain of its subsidiaries, including Amdura National Distribution Company, a tenant of a property owned by the Company, filed voluntary petitions for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. The Company and the tenant previously executed an agreement which permitted the tenant to assume the lease and pursue assignment of said lease, subject to the Company's approval, during a specified time period. The tenant was unsuccessful in assigning the lease and, as a result, the lease was terminated and the Company took possession of the premises effective August 1, 1992. In accordance with this agreement, the Company was entitled to and recognized approximately \$657,000 of income in full settlement of all claims against the tenant. This was included in "Other income" for the year ended December 31, 1992. The lease termination initially adversely impacted day-to-day operating cash flow by approximately \$35,000 per month. During the year ended December 31, 1994, operating rental income exceeded expenses by approximately \$575,000. During the year ended December 31, 1993, operating expenses exceeded rental income by approximately \$280,000. As of December 31, 1994, the property is 100% leased. The property has a carrying value of approximately \$3,699,000 and is encumbered by a nonrecourse mortgage payable of approximately \$1,554,000 as of December 31, 1994. Based on current circumstances, the Company believes that the carrying value of the asset

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is fairly stated. The Company engaged and continues to use a management company to perform supervisory management and leasing services, including the leasing of any vacant portions of the premises.

- d. On September 27, 1991, Days Inn of America, Inc. ("Days Inn"), a tenant of a property owned by the Company, located in Atlanta, Georgia, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. The tenant, by order of the Bankruptcy Court, rejected the lease effective July 31, 1992. As of December 31, 1992, the tenant was in arrears by approximately \$250,000 in rent and real estate taxes, both of which were pre-petition obligations. Subsequent to the filing, the tenant was current in its lease obligations. The Company previously wrote the asset down to what it believed was the recoverable value by incurring a provision for loss on real estate in the amount of approximately \$4,252,000 for the year ended December 31, 1991. The asset whose carrying value at December 31, 1994 is approximately \$4,537,000 is unencumbered by any mortgage.

The Company submitted a claim to the Bankruptcy Court and in August 1993, it reached a settlement of this claim against Days Inn, now known as Buckhead America Corporation ("Buckhead"). As a result, the Company has received cash in the amounts of approximately \$184,000 and \$730,000 in the years ended December 31, 1994 and 1993, respectively. In addition, stock in Buckhead valued at approximately \$305,000 was received in the year ended December 31, 1993. These amounts of approximately \$184,000 and \$1,035,000 have been included in "Other income" for the years ended December 31, 1994 and 1993,

respectively. The Buckhead stock was disposed of in 1994 with a nominal gain.

Effective August 1, 1992 the Company engaged a management company to perform on-site and supervisory management services. The lease rejection has adversely impacted operating cash flow by approximately \$110,000 per month. In addition, the Company expects to incur costs of approximately \$3,200,000, as leases are executed, to renovate, build-out and re-lease the property.

- e. On July 14, 1992, Integra, A Hotel and Restaurant Company ("Integra"), which leased two hotel properties located in Miami, Florida and Phoenix, Arizona filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Bankruptcy Code. The tenant's petition, previously filed with the Bankruptcy Court, to reject the aforementioned leases, was approved on August 7, 1992 and the Company assumed operation of the properties on that date. As of December 31, 1992, the tenant was in arrears by approximately \$720,000 for which an allowance of approximately \$543,000 was provided in the year then ended. In addition, real estate taxes representing a pre-petition obligation were paid or accrued in the amount of approximately \$425,000. These taxes were included in "Property expenses" for the year ended December 31, 1992. The Company has submitted a claim to the Bankruptcy Court.

At December 31, 1994, the property located in Miami, Florida has a carrying value of approximately \$5,774,000 and is encumbered by nonrecourse mortgages payable of approximately \$46,000. This property is subject to a ground lease. Based on current conditions, management

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believes the carrying value of the Miami property is reasonably stated.

Based on existing conditions and discussions with certain operators and managers of hotels, management believed the recoverable value of the Phoenix property to be substantially less than its carrying value. As a result, the Company wrote the property down by incurring a provision for loss on real estate in the amount of \$4,538,000 in the year ended December 31, 1992. At December 31, 1994, this property has a carrying value of approximately \$7,880,000 and is encumbered by a nonrecourse mortgage payable of approximately \$3,286,000.

This mortgage was refinanced during the year ended December 31, 1994 (see Note 8).

During the year ended December 31, 1993, the Company completed major renovations at the Miami and Phoenix Holiday Inns with capital expenditures totalling approximately \$1,700,000 and \$400,000, respectively. In connection with these renovations, approximately \$250,000 of nonrecurring maintenance expenses were incurred at the Miami location. These expenses were included in hotel operating expenses for the year ended December 31, 1993. During the year ended December 31, 1994, additional capital expenditures of approximately \$190,000 and \$240,000 were incurred at the Miami and Phoenix Holiday Inns, respectively.

The Company has entered into a management agreement for the operation of the hotels with a national management organization. Since August 7, 1992, the hotels have been classified as Hotel Operating Properties and their

revenues and expenses separately disclosed in the Consolidated Statements of Earnings. From August 7 through December 31, 1992, net hotel operations (hotel operating revenues less hotel operating expenses) totalled approximately \$795,000. This was \$100,000 less than the rent would have been from the rejected leases for the same period. Net hotel operations totalled approximately \$1,781,000 and \$1,195,000 for the years ended December 31, 1994 and 1993, respectively. This was approximately \$379,000 and \$965,000 less than the rent would have been from the rejected leases for the years then ended, respectively. Hotel operating expenses include all expenses except for approximately \$215,000 of depreciation and \$322,000 of interest expense for the period commencing August 7, 1992 through year end and approximately \$776,000 and \$509,000 of depreciation and \$456,000 and \$742,000 of interest expense for the years ended December 31, 1994 and 1993, respectively. These amounts are included in their respective captions in the Consolidated Statements of Earnings. The results for the year ended December 31, 1994 are not necessarily indicative of future operating results.

- f. During 1992, leases on two properties formerly tenanted by Petrolane, Inc. located in Belle Chasse, LA and Nisku, Alberta, Canada, expired and were re-let at rents substantially less than the previous leases. The new lease on the former location expires April 1996 and includes a purchase option for \$575,000. The latter location's new lease expires March 1995. After evaluating the existing market conditions and the

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potential use of the facilities, the Company believed the Belle Chasse property's carrying value at September 30, 1992 of approximately \$1,267,000 to exceed the recoverable value in the amount of \$517,000 and the Nisku property's carrying value at September 30, 1992 of approximately \$1,020,000 to exceed the recoverable value in the amount of \$270,000. As a result, the Company recorded a provision for loss on real estate in the amount of \$787,000 for the year ended December 31, 1992. In addition, after further evaluation and review, the Company believed the Belle Chasse property's carrying value at June 30, 1994 to exceed the recoverable value in the amount of \$237,000. As a result, the Company recorded a provision for loss on real estate in the amount of \$237,000 for the year ended December 31, 1994.

- g. On December 9, 1991, Stop N Go Markets of Texas, Inc. (National Convenience Stores, Inc.) filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Bankruptcy Code. The tenant, who previously leased twenty-three locations, filed a motion with the Bankruptcy Court to assume four leases and reject the remaining leases. Pursuant to a stipulation by the Bankruptcy Court on February 4, 1993, the tenant's motion was approved effective as of August 31, 1992. The tenant was in arrears in the approximate amount of \$6,000 rent and \$34,000 of real estate taxes as of December 31, 1992. On March 19, 1993, the Company filed a proof of claim with the Bankruptcy Court. In November 1993, the Company received stock of the debtor valued at approximately \$123,000 in partial settlement of its claim. This total has been included in "Other income" for the year ended December 31, 1993. In May of 1994 additional stock of the debtor was received. The total value of the stock at December 31, 1994 of \$102,000 is based on the lower of cost or market.

In 1994, all four of the leased locations were sold. The

remaining nineteen properties, whose rents totaled approximately \$217,000 per year, were actively marketed for sale by the Company. Based on existing market conditions, the Company believed the carrying value of approximately \$1,781,000 at December 31, 1992 to exceed the estimated net realizable value by \$780,000, for which a provision for loss on real estate was recorded during the year then ended. During the years ended December 31, 1994 and 1993, the Company sold ten and nine of these locations, respectively. A nominal gain was recognized on the disposal of all twenty-three properties.

- h. On November 2, 1992, the Company purchased approximately fifteen acres of land in East Syracuse, New York for approximately \$3,500,000 and contracted to build a 116,000 square foot BJ's Warehouse Store ("BJ's") upon the site. The Company has entered into a twenty year lease with Waban, Inc. ("Waban"), the parent company of BJ's Warehouse Club. Construction was substantially completed on May 22, 1993 and Waban took possession of the premises, which is situated on approximately ten acres of land, and commenced rental payments on that date. The lease provides for an initial annual net rental of \$659,262 with CPI increases every five years, not to exceed 8.77%. Under the lease, Waban is responsible for any required structural repairs. Of the remaining five acres of adjacent land approximately 3.6 acres is available for future development by the Company.

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Simultaneously with the acquisition of the property, the Company entered into a general construction contract with the seller (the "GC Agreement") pursuant to which the seller (the "Seller") was required to construct BJ's in accordance with the terms and conditions of the lease for a guaranteed maximum amount of \$2,327,802. However, the construction of BJ's was subject to delays and the Seller did not meet all of its construction obligations under the GC Agreement and failed to cure such defaults. The Company sent a notice, dated February 19, 1993, terminating the GC Agreement and assumed the construction obligations. The Company contacted the surety of the GC Agreement pertaining to the site work. The surety was not responsive to the Company. The Company has determined at this point to not pursue any potential claims it may have because after further investigation, it believes such claims will not be able to be satisfied.

At December 31, 1994, the BJ's land, including related improvements, cost a total of approximately \$4,996,000 and the building cost a total of approximately \$3,105,000. The adjacent land available for future development, including related improvements, cost a total of approximately \$1,256,000. Approximately \$268,000 of interest was capitalized which included \$210,000 and \$58,000 during the years ended December 31, 1993 and 1992, respectively.

A reinvestment incentive fee was paid to the General Partner of approximately \$45,000 pertaining to this acquisition and development.

The Company received permanent financing of \$4,000,000 on the BJ's parcel and improvements. (see Note 8).

- i. At December 31, 1992, the Company owned fifteen properties tenanted by Nationsbank, formerly NCNB National Bank of South Carolina. The leases on fourteen of these properties expired in December 1992 and one

expired in March 1993; however, nine leases were extended to March 1993 in connection with an executed agreement (the "Agreement") entered into between the Company and the tenant to purchase and/or lease any one or more of ten locations, including the property whose lease expired in March 1993. The tenant elected to purchase four and lease six properties in accordance with the Agreement. The four properties which were sold on March 26, 1993 had a carrying value of approximately \$4,357,000 and were unencumbered by any mortgage at December 31, 1992. Since the contracted selling price of approximately \$5,300,000 exceeded the carrying value, the Company believed the assets were fairly stated. The six leased locations were re-let at an annual rental of approximately \$214,000, a reduction of approximately \$196,000 from the previous rent. As a result, the Company believed the carrying value at December 31, 1992 exceeded the recoverable value and wrote the properties down by incurring a provision for loss on real estate in the amount of \$1,000,000 for the year then ended. At December 31, 1994, these properties have a carrying value of approximately \$2,081,000 and are unencumbered by any mortgage.

Of the remaining five properties whose leases were not extended, one was sold on January 20, 1993. The property had a carrying value at December 31, 1992 of

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approximately \$261,000 that exceeded the net realizable value and therefore the Company wrote the property down by incurring a provision for loss on real estate in the amount of \$192,165 for the year then ended. This asset was unencumbered by any mortgage at December 31, 1992.

Another property, whose carrying value at December 31, 1992 was \$357,000 was written down by incurring a provision for loss on real estate in the amount of \$182,000 in the three months ended March 31, 1993 and subsequently sold on April 15, 1993. The other three properties were sold during the year ended December 31, 1994.

- j. On July 31, 1993, the Company held a nonrecourse mortgage in the amount of approximately \$3,456,000 secured by four properties tenanted by Toys "R" Us, Inc. The mortgage had been taken back by a Predecessor Partnership in connection with the sale of such properties. The tenant remained current in its obligations under the lease. The terms of the mortgage called for a balloon payment of approximately \$3,456,000 on January 1, 1993 which was not received. The Company reacquired these properties in satisfaction of such mortgage and as of August 1, 1993 real estate with a carrying value of approximately \$5,883,000 and a nonrecourse mortgage payable with a balance of approximately \$2,904,000 were recorded. No gain or loss resulted upon foreclosure because the estimated fair value of the properties exceeds their carrying value. These properties have a carrying value of approximately \$5,799,000 and are encumbered by a nonrecourse mortgage payable of approximately \$3,354,000 at December 31, 1994. See Note 8 concerning the mortgage refinancing in 1994.
- k. On December 31, 1992, the Company held four nonrecourse wrap-around mortgages in the amount of approximately \$7,689,000 secured by four properties tenanted by The Wickes Corp. The mortgages had been taken back by a Predecessor Partnership in connection with the sale of such properties. The tenant remained current in its obligations under the lease. However, the Company did

not receive monthly debt service payments on these mortgages from the purchaser. Additionally, the terms of mortgages called for balloon payments of approximately \$7,689,000 on January 1, 1993 which were not received. However, the tenant had previously purchased one property from the debtor and in January 1993, the tenant paid the balloon mortgage due on the property net of the underlying first mortgage, which it assumed. A gain of approximately \$1,371,000 was recognized on this transaction in the year ended December 31, 1993.

In addition, the debtor paid the balloon mortgage due on one property, net of the underlying first mortgage in August of 1993. A gain of approximately \$784,000 was recognized in the year ended December 31, 1993.

In January 1994, the debtor paid the balloon mortgage due, net of the underlying first mortgage, on one Wickes property and a gain of approximately \$1,238,000 was recognized in the year ended December 31, 1994. In addition, the Company foreclosed on the remaining Wickes

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property in January 1994 and real estate with a carrying value of approximately \$643,000 was recorded in the year ended December 31, 1994. No gain or loss was incurred upon foreclosure because the estimated fair value of the property is equal to its carrying value. The mortgage balance on this remaining property is approximately \$544,000 at December 31, 1994.

1. On June 17, 1993, the Company purchased two non-performing mortgage loans for a combined price of \$13,000,000. Each loan was collateralized by a residential apartment complex located in Lexington, Kentucky. The face value of the non-performing loans was approximately \$21,188,000.

The first non-performing loan, purchased for \$6,990,000, was collateralized by a 396 unit multi-family complex. The Company foreclosed on this property ("Stoney Falls"), and received the deed on October 11, 1993. The Company has entered into a management agreement for the operation of this property with a national management organization which began operating the property effective September 1, 1993. Subsequent to the acquisition, the Company received distributions from the receiver and cash flow from the property pertaining to the period prior to formal foreclosure, net of expenditures incurred by the Company, which have been applied as a reduction to the initial cost of the loan. This net cash flow, subsequent to the acquisition, totalled approximately \$94,000. During the year ended December 31, 1994, the Company completed major renovations which totalled approximately \$1,360,000. In connection with these renovations, approximately \$350,000 of non recurring maintenance expenses were incurred. These expenses are included in "property expenses" for the year ended December 31, 1994. This asset has a carrying value of approximately \$8,078,000 at December 31, 1994.

The second non-performing loan, purchased for \$6,010,000, is collateralized by a 232-unit apartment complex. Foreclosure proceedings were initiated in April 1993 resulting in the debtor filing for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. The Company executed an agreement with the borrower, which was approved by the Bankruptcy Court, and foreclosed on this property ("Stoney Brooke") and received the deed on February 11, 1994. Subsequent to

the acquisition, the Company received distributions from the seller of the note and began to receive cash flow from the property pertaining to the period prior to formal foreclosure, net of expenditures incurred by the Company, which have been applied as a reduction to the initial cost of the loan. This cash flow, net of expenditures incurred by the Company, totalled approximately \$735,000. This property at December 31, 1994 has a carrying value of approximately \$5,144,000.

A reinvestment incentive fee of approximately \$65,000 was paid the General Partner (See Note 3).

See Note 8 in connection with the mortgage financing of these two properties in 1994.

- m. In March 1994, the Company foreclosed on the property tenanted by Webcraft Technologies and KSS Transportation.

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As a result, real estate with a carrying value of approximately \$626,000 was recorded in the year ended December 31, 1994. No gain or loss was incurred upon foreclosure because the estimated fair value of the property is believed to exceed its carrying value.

- n. In June 1994, the Company sold a property to the tenant, Lockheed Sanders, Inc. The property, which was located in Plainfield, N.J., was subject to a purchase option which was exercised. The selling price was \$5,625,000 and a gain of approximately \$1,961,000 was recognized in the year ended December 31, 1994. The property was unencumbered by any mortgage.
- o. The Company entered into two joint ventures in June 1994 with unaffiliated co-venturers for the purpose of developing luxury garden apartment complexes. Both of these joint ventures have been consolidated in the accompanying financial statements.
 - 1. The first joint venture, formed as an Alabama Limited Liability Company, will develop a 240 unit multi-family project situated on approximately twenty acres, currently owned by the joint venture, located in Hoover, Alabama, a suburb of Birmingham. The Company, which owns a seventy percent (70%) majority interest in the joint venture, contributed \$1,750,000 in June 1994 and the co-venturer contributed \$250,000. As of December 31, 1994 \$250,000 representing the minority interest of the co-venturer has been included in "Accounts payable, accrued expenses, and other liabilities" in the accompanying financial statements. The Company has no further funding commitment. Distributions will be made in proportion to ownership interests. Construction financing has been obtained by the joint venture in the amount of \$8,760,000 and is guaranteed by the co-venturer and personally by its principals. The development costs are expected to total approximately \$11,350,000. As of December 31, 1994, approximately \$5,529,000 of development costs have been incurred, including the acquisition of land valued at approximately \$1,138,000. Construction loan funding at December 31, 1994 was approximately \$2,400,000. The first units were completed and available for occupancy in February 1995 and project completion is scheduled for August 1995. An affiliate of the Company's co-venturer will manage the property.

A reinvestment incentive fee of approximately \$40,000 will be due the General Partner upon completion of the project (see Note 3).

2. The second joint venture, a Delaware limited partnership, will develop a 288-unit multi-family project situated on approximately thirty-three acres in Cary, North Carolina (Raleigh-Durham area). The Company, which owns a ninety percent (90%) majority interest in the partnership, has contributed approximately \$3,744,000 as of December 31, 1994 and is a limited partner. The co-venturer

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is the general partner and has a limited partner interest. The Company is entitled to a cumulative annual preferred return of 12% on its investment before cash distributions are made in proportion to ownership interests. The Company has made its final contribution which totalled approximately \$278,000 in January 1995. Construction financing has been obtained by the joint venture in the amount of \$12,205,000 and is guaranteed by the joint venture general partner and personally by its principals. The development costs are expected to total approximately \$16,100,000. As of December 31, 1994, approximately \$3,891,000 of development costs have been incurred, including the acquisition of land valued at \$1,600,000. The first units are expected to be available for occupancy on or about July 1995 and project completion is scheduled for February 1996. An affiliate of the Company's co-venturer will manage the property.

A reinvestment incentive fee of approximately \$70,000 will be due the Company's General Partner upon completion of the project (see Note 3).

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8. MORTGAGES PAYABLE

At December 31, 1994, mortgages payable, all of which are nonrecourse to the Company, are summarized as follows:

Number of Mortgages	Range of Interest Rates	Range of Maturities	Annual Principal And Interest Payment	Balance at December 31,	
				1994	1993
23	6.000%-8.875%	2/15/95-6/1/17	\$ 8,860,668	\$ 59,351,878	\$ 59,688,143
53	9.000-10.875	1/31/95-12/1/09	15,600,093	106,344,848	122,238,191
4	11.500-12.250	2/01/96-11/1/05	744,262	4,235,589	5,627,878
1	14.250	3/01/06	744,559	4,163,382	7,719,989
			\$ 25,949,582	\$ 174,095,697	\$ 195,274,201

The following is a summary of the anticipated future principal payments of the mortgages:

Year ending	Amount
December 31,	

-----	-----
1995	\$ 13,556,295
1996	25,230,486
1997	14,461,679
1998	8,917,349
1999	21,818,304
2000-2004	61,154,049
2005-2009	24,523,090
2010-2014	4,377,923
2015-2017	56,522

	\$ 174,095,697
	=====

- a. On November 5, 1992, the Company closed a nonrecourse mortgage on the property located in Broomal, PA. The mortgage is in the amount of \$3,000,000, bears interest at 9.125%, and matures October 15, 1997. Monthly debt service is approximately \$38,000. Debt placement costs totaled approximately \$145,000. The new mortgage replaces a previous wrap-around mortgage, which bore interest at 9 1/2%, that was prepaid at a discount in December 1991.
- b. On April 15, 1992, the Company refinanced a nonrecourse mortgage loan which had an outstanding principal balance of approximately \$4,677,000. The mortgage encumbered a property tenanted by The Rouse Company and bore interest at 8.625%. The original maturity date was April 1, 1999; however, in 1991 the lender called the mortgage as provided for under the terms of the loan. The new nonrecourse mortgage loan, which is in the principal amount of \$5,000,000, bears interest at 9.5%, matures May 1, 2004 and is self-liquidating. Debt placement costs of approximately \$153,000 were incurred. No gain or loss was incurred as a result of this transaction.

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- c. On May 1, 1992, the Company refinanced a nonrecourse mortgage loan which had an outstanding principal balance of approximately \$11,803,000. This mortgage encumbered fifteen properties tenanted by the Louisiana Power and Light Company. It was scheduled to mature on November 1, 2000 and bore interest at 13.5%. The new mortgage loan was obtained at an interest rate of 8.79%, in the principal amount of \$13,000,000, matures November 15, 2000 and is self-liquidating. Debt placement costs of approximately \$390,000 were incurred. Prepayment penalties in connection with the extinguishment of the former debt totaled approximately \$785,000. As a result, an extraordinary loss of the same amount was recorded during the year ended December 31, 1992. The monthly debt service of approximately \$180,000 reflects a decrease of \$14,000.
- d. As of June 1, 1992, the Company consummated a modification and extension of a nonrecourse mortgage loan which had an outstanding principal balance of approximately \$4,713,000. This mortgage encumbers a property tenanted by Forte Hotels, Inc. It matured June 1, 1992 and bore interest at 9% per annum. In accordance with the modified terms, approximately \$2,357,000 of the outstanding principal balance was repaid on June 1, 1992. The remaining principal balance matures June 1, 1998, bears interest at 10.75%, and is self-liquidating with monthly payments of approximately \$45,000. An extension fee of approximately \$24,000 was incurred in connection with this transaction.
- e. On October 18, 1993, the Company obtained permanent

financing on the BJ's property in East Syracuse, New York. The nonrecourse loan is in the principal amount of \$4,000,000, bears interest at 8.25% per annum, and matures October 31, 1998 at which time the Company has the option to extend the loan for one to five years, providing certain conditions are met. The monthly debt service is approximately \$34,000. Debt placement costs of approximately \$156,000 have been incurred.

- f. On December 13, 1993, the Company prepaid a mortgage with an outstanding balance of \$3,038,346 that encumbered a property tenanted by the Lockheed Corporation, located in Burbank, CA. This mortgage was scheduled to mature on February 1, 1996 and bore interest at 16%. Prepayment penalties of approximately \$91,000 were incurred.
- g. On December 22, 1993, the Company refinanced a nonrecourse mortgage loan which had an outstanding principal balance of approximately \$7,613,000. This mortgage encumbered a property tenanted by Super Foods Services, Inc. It was scheduled to mature on October 1, 2010 and bore interest at 11.076%. The new mortgage loan which is self-liquidating is in the principal amount of \$7,650,000, bears interest at 8.25% per annum, and matures August 1, 2010. Debt placement costs of approximately \$333,000 and prepayment penalties of approximately \$76,000 were incurred. The new annual debt service of approximately \$846,000 reflects a decrease of \$156,000 and initial interest savings of approximately \$215,000 in 1994.

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- h. On March 4, 1994, the Company paid off one nonrecourse mortgage loan and refinanced two nonrecourse mortgage loans that encumbered a total of seven properties tenanted by Toys "R" Us. The loan paid off, which encumbered one property, had an outstanding principal balance of approximately \$616,000, bore interest at 10.375%, and was callable at the lender's option in 1994. The two loans refinanced had outstanding principal balances of approximately \$1,550,000 and \$2,863,000, bore interest at 9.25% and 9.55%, were self-liquidating, and were callable at the lender's option in 1995 and 1996, respectively. The two new mortgage loans, in the principal amounts of approximately \$1,464,000 and \$3,636,000, bear interest at 7.08%, are self-liquidating and mature January 15, 2012. Debt placement costs of approximately \$226,000 have been incurred. The new annual debt service of approximately \$532,000 reflects a decrease of approximately \$89,000.
- i. A balloon payment of approximately \$6,266,000 was originally due June 1, 1994 on a nonrecourse mortgage which encumbered the Holiday Inn in Phoenix, Arizona; however, the Company paid off approximately \$2,966,000 on that date and was granted an extension on the remaining balance. The interest rate was 10.75%. On June 27, 1994 the Company refinanced the remaining balance with a nonrecourse mortgage loan in the amount of \$3,300,000. The new mortgage loan matures July 27, 1999, bears interest at 10.35% and has a balloon payment due at maturity of approximately \$3,120,000. Debt placement costs of approximately \$143,000 were incurred. The new annual debt service is approximately \$370,000.
- j. On July 25, 1994 the Company obtained financing on the two apartment complexes located in Lexington, Kentucky. The two nonrecourse mortgage loans in the amount of \$5,500,000 and \$4,500,000 for Stoney Falls and Stoney Brooke Apartments, respectively, bear interest at 8.375%

and mature in ten years when balloon payments totaling approximately \$8,150,000 will be due. Under the terms of the loans, \$100,000 was initially funded on each loan with the balance funded in January 1995. Debt placement costs of approximately \$250,000 have been incurred. Annual debt service on the two loans is approximately \$956,000.

- k. On December 9 and 23, 1994, the Company prepaid the first and second mortgages, respectively, with aggregate outstanding balances of approximately \$3,364,000 which encumbered a property tenanted by Chomerics, Inc. located in Woburn, Massachusetts. The first and second mortgages were scheduled to mature August 1, 2011 and February 1, 2005, respectively, and both bore interest at 13.875%. The first mortgage was callable August 1, 1996.

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9. SENIOR INDEBTEDNESS

On May 27, 1988, the Company closed a \$50,000,000, 10-year senior unsecured debt financing. The notes bear interest at 9.6%, payable semiannually, 2% of which may be deferred and added to the principal at the Company's option during the first five years. During 1993 and 1992, \$546,842 and \$1,077,496, respectively, were added to the principal of the note. In May 1994, the Company repaid \$10,000,000 of the outstanding principal balance of the notes. The Company is required to make principal repayments of approximately \$11,308,000 in each of the years 1995 through 1998.

The note agreements also place limitations on the Company with respect to, among other things, additional debt and the use of proceeds from property sales. In addition, distributions and the amounts used to purchase partnership interests cannot exceed cash flow, as defined in the agreements, plus \$15,000,000. The Company is also required to maintain, among other things, specified levels of (i) net annual rentals, as defined in the agreements, on properties unencumbered by mortgage financing and (ii) net cash flow.

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10. RECONCILIATION OF NET EARNINGS PER FINANCIAL STATEMENTS TO TAX REPORTING

	1994	1993	1992
	-----	-----	-----
Net earnings per financial statements	\$ 23,168,564	\$ 22,676,754	\$ 11,291,877
Minimum lease payments received, net of income earned on leases accounted for under the financing method	6,708,644	6,066,011	5,592,462
Gain on real estate transactions for tax purposes in excess of that for financial statement purposes	1,325,735	228,436	119,712
Provision for loss for financial statement purposes	582,000	462,000	8,847,165
Difference attributed to joint ventures and minority interest	(29,367)	(25,094)	(4,243)

Difference between expense accruals, net of income accruals, at beginning of year and end of year	(256,431)	584,286	1,768,031
Depreciation and amortization for tax purposes in excess of that for financial statement purposes due to leases accounted for under the financing method	(9,532,694)	(9,818,998)	(10,124,573)
Other	(26,218)	(26,218)	(26,218)
Taxable income	<u>\$ 21,940,233</u>	<u>\$ 20,147,177</u>	<u>\$17,464,213</u>

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11. QUARTERLY FINANCIAL DATA (UNAUDITED)
(IN THOUSANDS, EXCEPT PER UNIT DATA)

	Three Months Ended			
	March 31,		June 30,	
	1994	1993	1994	1993
Revenues	\$15,943	\$15,787	\$15,156	\$14,342
Earnings before property transactions	\$ 5,231	\$ 5,375	\$ 5,030	\$ 4,093
Provision for loss on real estate	(75)	(182)	(237)	(196)
Gains on property transactions	1,364	3,806	2,236	34
Net earnings	\$ 6,520	\$ 8,999	\$ 7,029	\$ 3,931
Net earnings per limited partnership unit	\$.46	\$.63	\$.50	\$.28

	Three Months Ended			
	September 30,		December 31,	
	1994	1993	1994	1993
Revenues	\$14,750	\$14,952	\$15,702	\$15,076
Earnings before property transactions	\$ 4,411	\$ 4,592	\$ 4,905	\$ 4,319
Provision for loss on real estate	(75)	-	(195)	(84)
Gains on property transactions	238	899	336	21
Net earnings	\$ 4,574	\$ 5,491	\$ 5,046	\$ 4,256
Net earnings per limited partnership unit	\$.32	\$.39	\$.36	\$.30

Net earnings per unit is computed separately for each period and, therefore, the sum of such quarterly per unit amounts may differ from the total for the year.

12. COMMITMENTS AND CONTINGENCIES

- a. On January 4, 1991, Best Products Co., Inc., a tenant in a property owned by the Company, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. On June 14, 1994 the tenant came out of bankruptcy and affirmed the leases. The tenant has remained and is current in its obligations under the lease. As of December 31, 1994, the property had a carrying value of approximately \$3,742,000 and is encumbered by a nonrecourse mortgage payable of approximately \$256,000.
- b. On September 16, 1991, the Company brought suit against Alco Standard Corporation and its affiliates, a former tenant of an industrial facility located in Rome, Georgia whose lease expired in October 1990. The action was brought against the defendants in the United States District Court Northern District of Georgia, Rome Division for reimbursement of costs that could be incurred for clean-up of hazardous materials on the site and certain deferred maintenance. In July 1994, this litigation was settled and the property was sold for \$525,000. A gain of approximately \$100,000 was recognized in the year ended December 31, 1994. In addition, Alco reimbursed the Company for \$150,000 of expenses incurred and indemnified the Company against any future liability in connection with any site contamination. The expense reimbursement has been included in "Property expenses" in the financial statements for the year ended December 31, 1994.
- c. On July 31, 1992, Chipwich, Inc. ("Chipwich"), parent of Peltz Food Corporation, a tenant in a property owned by the Company, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. Chipwich then filed a motion for rejection of the lease and, pursuant to an order of the Bankruptcy Court, the lease was rejected on September 29, 1992. There is a guarantor of the lease and the Company is currently proceeding to enforce all obligations under such guaranty including settlement of an unsecured proof of claim filed by the Company. At December 31, 1994, the property has a carrying value of approximately \$937,000 and is encumbered by a nonrecourse mortgage payable of approximately \$314,000. Based on the existence of the guaranty, the Company believes that the carrying value of the asset is fairly stated at December 31, 1994.
- d. On December 31, 1994, the Company held a mortgage note receivable in the principal amount of \$462,712. The mortgage encumbers four properties together with a collateral assignment of ground leases and rents. The properties are tenanted by Gino's and Foodarama. The mortgage had been taken back by a Predecessor Partnership in connection with the sale of these properties. The tenants remained current in their lease obligations.

The terms of the mortgage called for a balloon payment of \$1,100,000 on January 1, 1992 which was not received. On January 9, 1992, the Company gave written notice of default to Sheldon Lowe and Joseph T. Comras, the mortgagors and the current owners of the properties. As

of December 31, 1994, the Company has commenced foreclosure actions on the four properties as follows: two each in Pennsylvania and New Jersey. The Company foreclosed on the property in Michigan on October 7, 1993 and real estate with carrying value of approximately \$70,000 was recorded in the year ended December 31, 1993. On February 25, 1994 the Company foreclosed on the previously encumbered property formerly tenanted by Lionel Leisure located in Pennsylvania. In September 1994, this property was sold and no gain or loss was incurred upon disposition. In October 1994, the Company foreclosed on two properties located in Massachusetts and real estate with a carrying value of approximately \$102,000 was recorded in the year ended December 31, 1994. No gain or loss was incurred or is anticipated upon foreclosure because the estimated fair value of the properties exceeds their carrying value.

- e. On January 26, 1993, Be-Mac Transport Company, Inc. ("Be-Mac"), a tenant in a property owned by the Company, filed a voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. Be-Mac then filed a motion for rejection of the lease and, pursuant to an order of the Bankruptcy Court, the lease was rejected on February 24, 1993. There is a guarantor of the lease and the Company is currently proceeding to enforce all obligations under such guaranty including settlement of an unsecured proof of claim filed by the Company. The rejected lease contains a purchase option exercisable by the guarantor. Based on the purchase option price, the Company wrote the property down by incurring a provision for loss on real estate in the amount of \$196,000 in the year ended December 31, 1993. At December 31, 1994, the property has a carrying value of approximately \$948,000 and is unencumbered by any mortgage. The Company has re-let the property effective March 1, 1994 at an annual rental of \$120,000.

- f. Lockheed Missile and Space Company, Inc. ("Lockheed"), a tenant of the Company's leasehold property in Palo Alto, California, has entered into a consent decree with the California Department of Toxic Substances Control ("CDTS") to undertake certain environmental remediation at this property. Lockheed has estimated that the environmental remediation costs may be up to approximately \$14,000,000. In a non-binding determination by the CDTS, Lockheed was found responsible for approximately 75% of such costs and the balance was allocated to other parties. The Company was allocated no responsibility for any such costs.

Lockheed has served a notice that it may exercise its statutory right to have its liability reassessed in a binding arbitration proceeding. In connection with this notice, Lockheed has stated that it will attempt to have allocated to the Company and to the Company's ground- lessor (which may claim a right of indemnity against the Company) approximately 9% and 17%, respectively, of the total remediation costs. The Company believes that it has no liability for any of such costs, and in any proceeding in which such liability is asserted against it, the Company will vigorously contest such liability. In the event any of such liability is allocated to the Company, it will seek indemnification from Lockheed in accordance with its lease.

13. PROPERTY HELD FOR SALE

At December 31, 1994, the Company owned four properties that were being actively marketed for sale. At December 31, 1994, these properties have been stated at the lower of their

carrying value or net realizable value. The aggregate value of the properties is estimated to be approximately \$413,000, after incurring a provision for loss on real estate in the amount of \$85,000 in the year ended December 31, 1994. At December 31, 1993, the aggregate value of the properties was estimated to be approximately \$2,327,000 after incurring a provision for loss on real estate in the amount of approximately \$84,000 in the year then ended.

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14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and Cash Equivalents, Accounts Receivable, and Accounts Payable and Accrued Expenses

The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximates fair value because of the short maturity of these instruments.

Mortgages Receivable

The fair values of the mortgages receivable past due, in process of foreclosure, or for which foreclosure proceedings are pending, are based on the discounted cash flows of the underlying lease. The fair values of the mortgages receivable satisfied subsequent to year end are based on the amount of the net proceeds received.

The fair values of the mortgages receivable which are current are based on the discounted cash flows of their respective payment streams.

The approximate estimated fair values of the mortgages receivable held as of December 31, 1994 are summarized as follows:

	At December 31, 1994	
	Net Investment	Estimated Fair Value
Collateralized by Property Tenanted by		
Gino's, Inc., and Foodarama Supermarkets, Inc.	\$ 293,000	\$ 334,000
Hardee's Food Systems, Inc.	51,000	186,000
Bank of Virginia	342,000	400,000
Best Products Co., Inc.	249,000	253,000
Data 100 Corp.	807,000	1,028,000
Easco Corp.	972,000	3,482,000
Winchester Partnership	2,086,000	2,023,000

The net investment at December 31, 1994 is equal to the carrying amount of the mortgage receivable less any deferred income recorded.

Senior Indebtedness

The approximate fair value and carrying value of the Company's senior indebtedness at December 31, 1994 is \$47,653,000 and \$45,231,000, respectively. The estimated fair value is based on the amount of future cash flows associated with the instrument discounted using the rate at which the Company believes it could currently replace the senior indebtedness.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

15. DISTRIBUTIONS PAYABLE

Distributions payable represent amounts accrued and unpaid due to non-consenting investors ("Non-consents"). Non-consents are those investors who have not yet exchanged their limited partnership interest in the various Predecessor Partnerships for limited partnership units of American Real Estate Partners, L.P.

16. SUBSEQUENT EVENTS

- a. On January 25, 1995, the Grand Union Company, a tenant leasing eight properties owned by the Company, filed a prepackaged voluntary petition for reorganization pursuant to the provisions of Chapter 11 of the Federal Bankruptcy Code. These eight properties' annual rentals total approximately \$1,450,000 (including two properties which are sub-let, representing approximately \$58,000 in annual rentals). The tenant has not yet determined whether it will exercise its right to reject or affirm the leases which will require an order of the Bankruptcy Court. The tenant is current in its obligations under the leases.
- b. During the end of March and early April 1995 the Company anticipates completing the Rights Offering through which it will raise approximately \$109,000,000 net of related expenses. Pursuant to the terms of the Rights Offering, holders of depositary units representing limited partner interests (the "Depositary Units") on the record date received one transferable subscription right (each a "Right") for each seven Depositary Units held. Each Right was exercisable for a combination of securities consisting of six Depositary Units and one 5% cumulative pay-in-kind redeemable preferred unit representing limited partner interests (the "Preferred Units"). High Coast Limited Partnership, a Delaware Limited Partnership which is controlled by Carl C. Icahn ("Icahn"), has acted as guarantor of the offering (the "Guarantor"). Through the Guarantor, Icahn will exercise certain subscription rights and an over-subscription privilege to acquire additional Depositary Units and Preferred Units. A registration statement on Form S-3 relating to the Rights Offering (Registration No. 33-54767) was filed with the Securities and Exchange Commission and declared effective February 23, 1995.
- c. On February 1, 1995, the Penske Corp. exercised its purchase option on three properties leased from the Company (two in New Jersey and one in New York). The selling price was approximately \$4,535,000 and a gain of approximately \$1,030,000 will be recognized in the three

months ended March 31, 1995. Each property was encumbered by first and second mortgages which totalled approximately \$1,162,000 and which were paid from the sales proceeds.

- d. The Company has executed a contract for the sale of the property tenanted by Pace Membership Warehouse, Inc. In addition, the purchaser is obligated to pay the Company \$50,000 should it default on its obligations under the contract. The Company expects to complete the sale by the end of March 1995. The sale price is \$9,300,000 and the Company expects to record a gain of approximately \$3,300,000 in the three months ended March 31, 1995. The property is encumbered by a nonrecourse mortgage payable of approximately \$4,346,000, which the purchaser will assume.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

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PART III

Item 10. Directors and Executive Officers of AREP.

The names, offices held and the ages of the directors and executive officers of the General Partner are as follows:

Name ----	Age ---	Office -----
Carl C. Icahn	59	Chairman of the Board
Alfred D. Kingsley	52	Director
Mark H. Rachesky	36	Director and Vice President
William A. Leidesdorf	49	Director
Jack G. Wasserman	58	Director
John P. Saldarelli	53	Vice President, Secretary and Treasurer

Carl C. Icahn has been Chairman of the Board of the General Partner since November 15, 1990. He was Chief Executive Officer and Member of the Office of the Chairman of Trans World Airlines, Inc. ("TWA") from November 8, 1988 to January 8, 1993; Chairman of the Board of Directors of TWA from January 3, 1986 to January 8, 1993 and Director of TWA from September 27, 1985 to January 8, 1993. He is also Chairman of the Board of Directors and President of Icahn & Co., Inc. since 1968. Icahn & Co., Inc. is a registered broker-dealer and a member of The New York Stock Exchange, Inc. Mr. Icahn has also been Chairman of the Board of Directors of ACF since October 29, 1984 and a Director of ACF since June 29, 1984. ACF is a railroad freight and tank car leasing, sales and manufacturing company. In 1979, Mr. Icahn acquired control and presently serves as Chairman of the Board of Directors of Bayswater Realty & Capital Corp., which is a real estate investment and development company. ACF, Icahn & Co., Inc. and Bayswater Realty & Capital Corp. are deemed to be directly or indirectly owned and controlled by Carl C. Icahn. Mr. Icahn also has substantial equity interests in and controls various partnerships and corporations which

invest in publicly traded securities.

Alfred D. Kingsley has served as Director of the General Partner since November 15, 1990. He was also Vice Chairman of the Board of Directors of TWA from February 1, 1989 to January 8, 1993 and a Member of the Office of the Chairman from November 8, 1988 to January 8, 1993. Mr. Kingsley was a Director of TWA from September 27, 1985 to January 8, 1993. He also was a Director and Executive Officer and Director of Research at Icahn & Co., Inc. and related entities from 1968 until December 1994. He also has been Vice Chairman of the Board of Directors of ACF since October 29, 1984 and a Director of ACF

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since June 29, 1984. Mr. Kingsley has also been a Senior Managing Director of Greenway Partners, L.P. since May 1993, which invests in publicly traded securities.

Mark H. Rachesky has served as Director of the General Partner since November 15, 1990 and as Vice President since November 29, 1990. Since February 1, 1990, Mr. Rachesky has been employed at Icahn & Co., Inc., where he is involved in the finance and investments areas. Mr. Rachesky was formerly with Robert M. Bass Group, Inc., where he also was involved in financing and investment activities. Prior thereto, Mr. Rachesky was employed at Goldman, Sachs & Co.

William A. Leidesdorf has served as Director of the General Partner since March 26, 1991. Since January 1, 1994, Mr. Leidesdorf has been Managing Director of RFG Financial, Inc., a commercial mortgage company. From September 30, 1991 to December 31, 1993, Mr. Leidesdorf was Senior Vice President of Palmieri Asset Management Group. From May 1, 1990 to September 30, 1991, Mr. Leidesdorf was Senior Vice President of Lowe Associates, Inc., a real estate development company, where he was involved in the acquisition of real estate and the asset management workout and disposition of business areas. He also acted as the Northeast Regional Director for Lowe Associates, Inc. From June 1985 to January 30, 1990, Mr. Leidesdorf was Senior Vice President and stockholder of Eastdil Realty, Inc., a real estate company, where he was involved in the asset management workout, disposition of business and financing areas. During the interim period from January 30, 1990 through May 1, 1990, Mr. Leidesdorf was an independent contractor for Eastdil Realty, Inc. on real estate matters.

Jack G. Wasserman has served as a Director of the General Partner since December 3, 1993. Mr. Wasserman is an attorney and a member of the New York State Bar and has been with the New York based law firm of Wasserman, Schneider & Babb since 1966, where he is currently a senior partner.

John P. Saldarelli has served as Vice President, Secretary and Treasurer of the General Partner since March 18, 1991. Mr. Saldarelli was also President of Bayswater Realty Brokerage Corp. from June 1987 until November 19, 1993 and Vice President of Bayswater Realty & Capital Corp. from September 1979 until April 15, 1993, both of which are deemed to be directly or indirectly owned and controlled by Carl C. Icahn.

William Leidesdorf and Jack G. Wasserman are on the Audit Committee of the Board of Directors of the General Partner.

Each of Messrs. Icahn and Kingsley served on the Board of Directors of TWA. On January 31, 1992, TWA filed a petition for bankruptcy in the U.S. Bankruptcy Court in Delaware, seeking reorganization under Chapter 11 of the Bankruptcy Code. In connection therewith, the Pension Benefit Guaranty

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Corporation asserted that there existed in the TWA defined benefit plans an underfunding deficiency, and that if the Plans were terminated, TWA and all members of the controlled group of which TWA was a member, including the General Partner, would be liable, jointly and severally, for approximately \$1.2 billion. On January 8, 1993, TWA, the Pension Benefit Guaranty Corporation, Mr. Icahn and the members of the controlled group, among others, settled all claims and potential claims which they had against each

other.

Each executive officer and director will hold office until the next annual meeting of the General Partner and until his or her successor is elected and qualified. Effective June 15, 1993, directors who are not employed by AREP or certain affiliates, receive fees of \$3,000 for attendance at each quarterly meeting of the Board of Directors. Mr. Kingsley, Mr. Leidesdorf and Mr. Wasserman each received \$12,000 for attendance at meetings in 1994.

Each of the executive officers of the General Partner, other than John P. Saldarelli, performs services for other affiliates of the General Partner.

There are no family relationships between or among any of the directors and/or executive officers of the General Partner.

If distributions (which are payable in kind) are not made to the holders of Preferred Units on any two Payment Dates (which need not be consecutive), the holders of more than 50% of all outstanding Preferred Units, including the General Partner and its affiliates, voting as a class, shall be entitled to appoint two nominees for the Board of Directors of the General Partner. Holders of Preferred Units owning at least 10% of all outstanding Preferred Units, including the General Partner and its affiliates to the extent that they are holders of Preferred Units, may call a meeting of the holders of Preferred Units to elect such nominees. Once elected, the nominees will be appointed to the Board of Directors of the General Partner by Icahn. As directors, the nominees will, in addition to their other duties as directors, be specifically charged with reviewing all future distributions to the holders of the Preferred Units. Such additional directors shall serve until the full distributions accumulated on all outstanding Preferred Units have been declared and paid or set apart for payment. If and when all accumulated distributions on the Preferred Units have been declared and paid or set aside for payment in full, the holders of Preferred Units shall be divested of the special voting rights provided by the failure to pay such distributions, subject to re-vesting in the event of each and every subsequent default. Upon termination of such special voting rights attributable to all holders of Preferred Units with respect to payment of distributions, the term of office of each director nominated by the holders of Preferred Units (the "Preferred Unit Directors") pursuant to such special voting rights shall terminate and the number of directors constituting the entire Board of Directors shall be reduced by the number of Preferred Unit Directors. The holders of the Preferred Units will have no

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other rights to participate in the management of AREP and will not be entitled to vote on any matters submitted to a vote of the holders of Depositary Units.

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Item 11. Executive Compensation.<F1>

The following table sets forth information in respect of the compensation of the Chief Executive Officer and each of the other four most highly compensated executive officers of AREP for services in all capacities to AREP for the fiscal years ended December 31, 1994, 1993 and 1992.<F2>

SUMMARY COMPENSATION TABLE

Annual Compensation

(a)	(b)	(c)
Name and Principal Position	Year	Salary (\$)
John P. Saldarelli, <F3> Vice President, Secretary and Treasurer	1994	126,000
	1993	126,000
	1992	125,411

<FN>

<F1> Pursuant to applicable regulations, certain columns of the Summary Compensation Table and each of the remaining tables have been omitted, as there has been no compensation awarded to, earned by or paid to any of the named executive officers by AREP or by the General Partner, which was subsequently reimbursed by AREP, required to be reported in those columns or tables.

<F2> Carl C. Icahn, the Chief Executive Officer, received no compensation as such for the periods indicated. In addition, other than John P. Saldarelli, no other executive officer received compensation in excess of \$100,000 from AREP for the applicable period.

<F3> On March 18, 1991, Mr. Saldarelli was elected Vice President, Secretary and Treasurer of the General Partner. Mr. Saldarelli devotes all of his time to the performance of services for AREP and the General Partner. The other executive officers and directors of the General Partner devote only a portion of their time to performance of services for AREP.

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AREP has adopted a Nonqualified Unit Option Plan (the "Plan") pursuant to which options to purchase an aggregate of 1,416,910 Depositary Units at an option price equal to the market price on the date of grant may be granted to officers and key employees of the General Partner and AREP who provide services to AREP. To date, no options have been granted under the Plan.

In February 1993, AREP adopted a 401K plan pursuant to which AREP will make a matching contribution to an employee's individual plan account in the amount of one-third (1/3) of the first six (6%) percent of gross salary contributed by the employee.

Item 12. Security Ownership of Certain
Beneficial Owners and Management.

As discussed below, effective February 22, 1995 the General Partner and its affiliates contributed all of their Depositary Units to the Guarantor in exchange for a general partner interest in the Guarantor. As a result, as of February 22, 1995, the Guarantor owned 1,365,768 Depositary Units, or approximately 9.89% of the outstanding Depositary Units then outstanding, prior to giving effect to the Rights Offering. There were no outstanding Preferred Units on that date. The foregoing is exclusive of a 1.99% ownership interest in AREP which the General Partner held by virtue of its 1% General Partner interest in each of AREP and the Subsidiary. Prior to May 1993, Icahn's ownership of the General Partner was through his affiliate, Meadowstar Holding Company, Inc. ("Meadowstar"). Meadowstar had originally purchased all of the outstanding shares of common stock of (i) the General Partner and (ii) API Nominee Corp., a Delaware corporation ("Nominee"), pursuant to an Acquisition Agreement, dated as of September 13, 1990 (the "Acquisition Agreement") between Meadowstar and Integrated Resources, Inc. In May 1993, Icahn purchased all of the outstanding shares of the General Partner from Meadowstar. As a result, Icahn became the beneficial owner of the 1,254,280 Depositary Units owned by the General Partner. Icahn may also be deemed to be the beneficial owner of the 159,894 Depositary Units owned of record by Nominee (the Units owned by Nominee are Depositary Units of holders who have not yet exchanged their limited partner

interests); however, Icahn disclaims such beneficial ownership.

In connection with the Rights Offering, the Guarantor was formed. The general partner of the Guarantor is the General Partner. The limited partners of the Guarantor are ACF Industries, Incorporated ("ACF"), a New Jersey corporation, and Tortoise Corp. ("Tortoise"), a New York corporation. Both ACF and Tortoise are controlled by Icahn. Each of the General Partner, ACF and Tortoise contributed to the Guarantor all Depositary Units and related rights, privileges and benefits owned by them or their affiliates, including the right to receive the Rights Offering. As a result of the above transactions, the Guarantor received 1,365,768 Depositary Units (which includes 76,088 Depositary Units Icahn acquired

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through participation in AREP's Dividend Reinvestment Plan which is available to all Unitholders, and 35,400 Depositary Units which were originally owned by Unicorn Associates Corporation, an affiliate of Icahn), representing approximately 9.89% of the outstanding Depositary Units prior to the Rights Offering which entitled the Guarantor to receive 195,110 Rights in the Offering.

Pursuant to the terms of the Rights Offering and a subscription guaranty agreement entered into in connection with the Rights Offering, the Guarantor agreed to subscribe for and purchased (i) 1,176,660 Depositary Units and 195,110 Preferred Units through the exercise of its Rights and (ii) all of the available Depositary Units and Preferred Units pursuant to the exercise of an over-subscription privilege. The Guarantor received certain registration rights with respect to its Depositary Units and Preferred Units for providing the subscription guaranty but was not otherwise compensated. As a result of the Guarantor's participation in the Rights Offering, AREP expects that Icahn will increase his percentage ownership in the Partnership and obtain a substantial portion of the Preferred Units being offered.

The affirmative vote of Unitholders holding more than 75% of the total number of all Units then outstanding, including Depositary Units held by the General Partner and its affiliates, is required to remove the General Partner. Thus, if Icahn, through the Guarantor, holds 25% or more of the Depositary Units outstanding after giving effect to the Rights Offering, the General Partner will not be able to be removed pursuant to the terms of the Partnership Agreement without Icahn's consent. Moreover, under the Partnership Agreement, the affirmative vote of the General Partner and Unitholders owning more than 50% of the total number of all outstanding Depositary Units then held by Unitholders, including the Guarantor, is required to approve, among other things, selling or otherwise disposing of all or substantially all of AREP's assets in a single sale or in a related series of multiple sales, dissolving AREP or electing to continue AREP in certain instances, electing a successor general partner, making certain amendments to the Partnership Agreement or causing AREP, in its capacity as sole limited partner of the Subsidiary, to consent to certain proposals submitted for the approval of the limited partners of the Subsidiary. Accordingly, if Icahn, through the Guarantor, holds 50% or more of the Depositary Units outstanding after giving effect to the Rights Offering, Icahn, through the Guarantor, will have effective control over such approval rights.

As of March 17, 1995, to the best knowledge of AREP, Tweedy, Browne Company L.P., a Delaware limited partnership, TBK Partners L.P., a Delaware limited partnership and Vanderbilt Partners, L.P., a Delaware limited partnership, who collectively filed an amended Form 13-D on November 30, 1993, owned 945,010 Depositary Units, or approximately 6.83% of the outstanding Depositary Units.

The following table provides information, as of March 17, 1995, as to the beneficial ownership of the Depositary Units of AREP for each

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director of the General Partner, and all directors and executive officers of the General Partner as a group.

Name of Beneficial Owner -----	Beneficial Ownership of Depository Units -----	Percent of Class -----
Carl C. Icahn<F1>	1,365,768	9.89
William A. Leidesdorf	7,000	0.005
All directors and executive officers as a group (6 Persons)	1,372,768	9.895

<FN>

<F1> Carl C. Icahn, through the Guarantor, is the beneficial owner of the 1,365,768 Depository Units set forth above and may also be deemed to be the beneficial owner of the 159,894 Depository Units owned of record by API Nominee Corp.; however, Mr. Icahn disclaims such beneficial ownership. The foregoing is exclusive of a 1.99% ownership interest in AREP which the General Partner holds by virtue of its 1% General Partner interest in each of AREP and the Subsidiary. Also, the foregoing table does not include the Preferred Units the Guarantor will acquire through the Rights Offering. The Partnership expects that Mr. Icahn's percentage ownership in the Partnership will increase as a result of the Guarantor's participation in the Rights Offering. Upon completion of the Rights Offering, Icahn (through the Guarantor) will, assuming no other Unitholder were to exercise its Rights, acquire up to an additional 12,000,000 Depository Units and all of the Preferred Units. In addition, Icahn may be entitled to receive additional Depository Units upon redemption of the Preferred Units he owns through the Guarantor; however, the amount of such Depository Units cannot be determined at this time because the redemption amount will be determined based on the then existing market price of the Depository Units. Furthermore, pursuant to a registration rights agreement entered into by the Guarantor in connection with the Rights Offering, AREP has agreed to pay any expenses incurred in connection with two demand and unlimited piggy-back registrations requested by the Guarantor.

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Item 13. Certain Relationships and Related Transactions.

----- Related Transactions with the General Partner and its Affiliates -----

In November 1993 AREP replaced a letter of credit obtained by Meadowstar for the benefit of AREP in 1990 (the "Letter of Credit") with respect to AREP's Lockheed Electronics property in New Jersey relating to environmental clean-up costs, with a self-guaranty by AREP (the "Guaranty"). The Audit Committee approved the replacement of the Letter of Credit with the Guaranty as permitted under New Jersey law. The clean-up costs are the tenant's responsibility.

For the year ended December 31, 1994, AREP made no payments with respect to the Depository Units owned by the General Partner. For the year ended December 31, 1993, AREP paid the General Partner (i) \$641,360 (\$0.50 per Unit) with respect to the Depository Units owned by the General Partner (see ITEM 12) and (ii) \$140,848 with respect to the aggregate 1.99% general partner interest of the General Partner in AREP. Based on distributions payable in respect of 1993, the General Partner acquired 76,088 Depository Units through participation in the DRIP. In addition, AREP paid Unicorn Associates Corporation \$17,700 (\$0.50 per Unit) with respect to the 35,400 Depository Units owned by it.

AREP entered into a lease, effective June 1, 1991, for approximately 6,900 square feet of office space with Riverdale Investors Corp., Inc., an affiliate of the General Partner (the "Lessor"). The terms of this lease were reviewed for fairness by the Audit Committee, which determined that the terms of such transaction were fair and reasonable to AREP. In evaluating the transaction, the Audit Committee consulted with an independent appraiser regarding the terms of the lease. The lease is for a ten-year term and provides for initial monthly rent (inclusive of charges for utilities) of \$11,642, which amount increases to \$12,936 on June 1, 1994 and \$14,804 on June 1, 1997. For the year ended December 31, 1992, AREP paid \$139,704 in rent to the Lessor. On December 29, 1992, the Lessor assigned its rights in the lease to an unaffiliated third party.

Property Management and Other Related Transactions

The General Partner and its affiliates benefited from the Rights Offering because, in their capacity as Exercising Rights Holders, they were entitled to the same right to increase their investment in AREP as other Unitholders, including acquiring additional Depositary Units. The Guarantor also received certain registration rights with respect to its Depositary Units and Preferred Units for providing the Subscription Guaranty.

The General Partner and its affiliates may receive fees in connection with the acquisition, sale, financing, development and management of new properties acquired by AREP. As development and other

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new properties are acquired, developed, constructed, operated, leased and financed, the General Partner or its affiliates may perform acquisition functions, including the review, verification and analysis of data and documentation with respect to potential acquisitions, and perform development and construction oversight and other land development services, property management and leasing services, either on a day-to-day basis or on an asset management basis, and may perform other services and be entitled to fees and reimbursement of expenses relating thereto, provided the terms of such transactions are fair and reasonable to AREP in accordance with AREP Agreement and customary to the industry. It is not possible to state precisely what role, if any, the General Partner or any of its affiliates may have in the acquisition, development or management of any new investments. Consequently, it is not possible to state the amount of the income, fees or commissions the General Partner or its affiliates might be paid in connection with the investment of the Rights Offering proceeds since the amount thereof is dependent upon the specific circumstances of each investment, including the nature of the services provided, the location of the investment and the amount customarily paid in such locality for such services. However, investors may expect that, subject to the specific circumstances surrounding each transaction and the overall fairness and reasonableness thereof to AREP, the fees charged by the General Partner and its affiliates for the services described below generally will be within the ranges set forth below:

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

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

-- Lending Arrangements. The General Partner or its affiliates may lend money to, or arrange loans for, AREP. Fees payable to the General Partner or its affiliates in connection with such activities include mortgage brokerage fees (generally .5% to 3% of the loan amount), mortgage origination

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fees (generally .5% to 1.5% of the loan amount) and loan servicing fees (generally .10% to .12% of the loan amount), as well as interest on any amounts loaned by the General Partner or its affiliates to AREP.

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

-- Reinvestment Incentive Fees. Subject to the limitations described below, the General Partner is entitled to receive a reinvestment incentive fee (a "Reinvestment Incentive Fee") for performing acquisition services equal to a percentage of the purchase price (whether paid in cash, Depository Units, other securities and/or with mortgage financing) of properties (other than Predecessor Properties) acquired from July 1, 1987 through July 1, 1997. This percentage is 1% for the first five years and 1/2% for the second five years. Although a Reinvestment Incentive Fee accrues each time a property is acquired, Reinvestment Incentive Fees are only payable on an annual basis, within 45 days after the end of each calendar year, if the following subordination provisions are satisfied. Reinvestment Incentive Fees accrued in any year will only be payable if the sum of (x) the sales price of all Predecessor Properties (net of associated debt which encumbered these Properties at the consummation of the Exchange) sold through the end of that year and (y) the appraised value of all Predecessor Properties which have been financed or refinanced (and not subsequently sold), net of the amount of any refinanced debt through the end of that year determined at the time of such financings or refinancings, exceeds the aggregate values assigned to those Predecessor Properties for purposes of the Exchange. If the subordination provisions are not satisfied in any year, payment of Reinvestment Incentive Fees for that year will be deferred. At the end of each year a new determination will be made with respect to subordination requirements (reflecting all sales, financings and refinancings from the consummation of the Exchange through the end of that year) in order to ascertain whether Reinvestment Incentive Fees may be payable irrespective of whether distributions have been made or are projected to be made to Unitholders. Through December 31, 1994, an aggregate of (i) 126 Predecessor Properties were sold or disposed of for an aggregate of approximately \$56,879,000 net of associated indebtedness which encumbered these Properties at the consummation of the Exchange and (ii) 25 Predecessor Properties were refinanced at an aggregate appraised value, net of the amount of the refinanced debt, of approximately \$44,431,000 for a sum total of approximately \$101,310,000. Aggregate appraised values attributable to these Predecessor Properties for purposes of the Exchange were approximately \$88,322,000. Accordingly, through December 31, 1994, AREP satisfied the subordination requirements detailed above.

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Nonqualified Unit Option Plan

AREP has adopted the Plan, under which options to purchase an aggregate of 1,416,910 Depository Units may be granted to officers and key employees of the General Partner and AREP who provides services to AREP. To date, no options have been granted under the Plan. See ITEM 11 -- "Executive Compensation."

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Item 14. Exhibits, Financial Statement Schedules
and Reports on Form 8-K.

(a) (1) Financial Statements:

The following financial statements of American Real Estate Partners,
L.P. are included in Part II, ITEM 8:

	Page Number -----
Independent Auditors' Report	II-15
Consolidated Balance Sheets -- December 31, 1994 and 1993	II-16
Consolidated Statements of Earnings -- Years ended December 31, 1994, 1993 and 1992	II-17
Consolidated Statements of Partners' Equity -- Years ended December 31, 1994, 1993 and 1992	II-18
Consolidated Statements of Cash Flows -- Years ended December 31, 1994, 1993 and 1992	II-19-20
Notes to Consolidated Financial Statements	II-21-51

(a) (2) Financial Statement Schedules:

Schedule III - Real Estate Owned and Revenues Earned (by tenant or guarantor as applicable)	IV-4-22
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All other Financial Statement schedules have been omitted because the
required financial information is not applicable or the information is shown
in the Financial Statements or Notes thereto.

(a) (3) Exhibits:

- 3.1 Certificate of Limited Partnership of AREP, dated
February 17, 1987 (filed as Exhibit No. 3.1 to AREP's
Annual Report on Form 10-K for the year ended December
31, 1987 and incorporated herein by reference).
- 3.2 Amended and Restated Agreement of Limited Partnership
of AREP, dated as of May 12, 1987 (filed as Exhibit
No. 3.2 to AREP's Annual Report on Form 10-K for the
year ended December 31, 1987 and incorporated herein
by reference).
- 3.3 Amendment No. 1 to the Partnership Agreement.

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- 3.4 Certificate of Limited Partnership of American Real
Estate Holdings Limited Partnership (the "Subsidiary"),
dated February 17, 1987 and amendment thereto, dated
March 12, 1987 (filed as Exhibit No. 3.3 to AREP's Annual
Report on Form 10-K for the year ended December 31, 1987
and incorporated herein by reference).
- 3.5 Amended Restated Agreement of Limited Partnership of
the Subsidiary, dated as of July 1, 1987 (filed as
Exhibit No. 3.4 to AREP's Annual Report on Form 10-K
for the year ended December 31, 1987 and incorporated
herein by reference).

- 4.1 Depository Agreement among AREP, the General Partner and Registrar and Transfer Company, dated as of July 1, 1987 (filed as Exhibit No. 4.1 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).
- 4.2 Amendment No. 1 to the Depository Agreement.
- 4.3 Specimen Depository Receipt (filed as Exhibit No. 4.2 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).
- 4.4 Form of Transfer Application (filed as Exhibit No. 4.3 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).
- 4.5 Form of Certificate representing Preferred Units.
- 10.1 Nonqualified Unit Option Plan (filed as Exhibit No. 10.2 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).
- 10.2 Distribution Reinvestment Plan (filed as Exhibit No. 10.3 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).
- 10.3 Note Purchase Agreements, dated as of May 27, 1988 among AREP, the Subsidiary and The Prudential Insurance Company of America (the "Note Agreements") (filed as Exhibit Nos. 2a and 2b to AREP's Current Report on Form 8-K dated May 27, 1988 and incorporated herein by reference).
- 10.4 Amendment No. 1 to the Note Agreements dated November 17, 1988 (filed as Exhibit No. 10.2 to AREP's

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- Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.5 Amendment No. 2 to the Note Agreements dated November 17, 1988 (filed as Exhibit No. 10.3 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.6 Amendment No. 3 to the Note Agreements dated as of June 21, 1994 (filed as Exhibit No. 10.4 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.7 Amendment No. 4 to the Note Agreements dated as of August 12, 1994 (filed as Exhibit No. 10.5 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.8 9.6% Senior Promissory Note of AREP and the Subsidiary due May 27, 1998 payable to The Prudential Insurance Company of America (filed as Exhibit No. 2c to AREP's Current Report on Form 8-K dated May 27, 1988 and incorporated herein by reference).
- 10.9 9.6% Senior Promissory Note of AREP and the Subsidiary due May 27, 1998 payable to Prudential Property and Casualty Insurance Company (filed as Exhibit No. 2d to AREP's Current Report on Form 8-K dated May 27, 1988 and incorporated herein by reference).
- 10.10 Subscription Guaranty Agreement between AREP and High Coast Limited Partnership (the "Guarantor").
- 10.11 Registration Rights Agreement between AREP and the Guarantor.

16 Letter dated September 27, 1991 of Deloitte & Touche regarding change in accountants (filed as Exhibit No. A to AREP's Current Report on Form 8-K dated October 3, 1991 and incorporated herein by reference).

22 List of Subsidiaries (filed as Exhibit No. 22 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

(b) Reports on Form 8-K:

AREP filed a Current Report on Form 8-K (the "Form 8-K") with the Securities and Exchange Commission on March 17, 1995. Pursuant to Item 5 of the Form 8-K, AREP release its earnings for the fourth quarter and fiscal year ended December 31, 1994 and also announced that no distribution would be made for the fiscal quarter ending March 31, 1995.

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SCHEDULE III
Page 1

AMERICAN REAL ESTATE PARTNERS, LP
a limited partnership

REAL ESTATE OWNED AND REVENUES EARNED

Part 1 - Real estate owned at December 31, 1994
- Accounted for under the:

Operating Method

	No. of State	Loca- tions	Amount of Encumbrances	Initial Cost to Company	Cost of Improvements	Amount Carried at close of period	Reserve for Depreciation
COMMERCIAL PROPERTY LAND AND BUILDING							
Acme Markets, Inc. and FFBT of Penn.	PA	1		\$2,004,393		\$2,004,393	\$1,277,238
Alabama Power Company	AL	5	\$5,356,057				
Amer Stores and The Fidelity Bank	PA	1					
Amer Stores, Grace, & Shottenstein Stores	NJ	1		2,043,567		2,043,567	1,471,681
American Electric Power Service Corp.	OH	1					
American Recreation Group, Inc.	NC	1					
Amterre Ltd. Partnership	NJ	1		1,559,648		1,559,648	
Amterre Ltd. Partnership	PA	2	1,096,109	639,797		639,797	
Amterre Ltd. Partnership	PA	1	2,577,911				
Best Products Co., Inc.	VA	1	255,589				
Chesebrough-Pond's Inc.	CN	1	702,095	1,549,805		1,549,805	1,027,553
Chomerics, Inc.	MA	1					
Coldwell Banker & Co.	CA	1		482,399		482,399	218,010
Coldwell Banker & Co.	MN	1		998,771		998,771	647,303
Coldwell Banker & Co.	VA	1		803,998		803,998	436,593
Coldwell Banker & Co.	MO	1					
Collins Foods International, Inc.	OR	6	181,018	298,451		298,451	
Collins Foods International, Inc.	CA	3	257,838	429,166		429,166	
Collins Foods International, Inc.	IL	1		0		0	
Cordis Corporation	FL	1	15,225,119				
David Miller of California	CA	1		1,036,681		1,036,681	432,398
Dillon Companies, Inc.	MO	1		546,681		546,681	271,930
Dillon Companies, Inc.	LA	8		1,979,697		1,979,697	1,024,256
Druid Point Bldg.	GA	1		4,919,046		4,919,046	381,790
Duke Power Co.	NC	1	3,708,409				
European American Bank and Trust Co.	NY	1		1,355,210		1,355,210	1,143,015
Farwell Bldg.	MN	1	1,553,720	3,804,998	\$296,008	4,101,006	401,873
Federated Department Stores, Inc.	CA	1		0		0	0
Federated Department Stores, Inc.	CA	1		363,342		363,342	
First National Supermarkets, Inc.	CT	1	15,582,539				
First Union National Bank	NC	1					
Fisher Scientific Company	IL	1	569,014	597,806		597,806	76,145
Foodarama Supermarkets, Inc.	PA	1	309,233	1,317,844		1,317,844	786,307
Forté Hotels International, Inc.	NJ	1	1,523,230				
Forté Hotels International, Inc.	TX	1	518,934	3,572,242		3,572,242	2,730,561
Fox Grocery Company	WV	1	1,603,812				
General Signal Technical Corp.	MA	1	10,954,219				
Gino's, Inc.	MO	1	103,090	209,213		209,213	
Gino's, Inc.	CA	1	120,965	225,100		225,100	
Gino's, Inc.	OH	1	110,368	201,938		201,938	
Gino's, Inc.	IL	1	125,700	235,972		235,972	
Gino's, Inc.	NJ	1	137,045	259,525		259,525	
Gino's, Inc. & The A&P Co.	PA	1	719,647	3,022,710		3,022,710	1,833,452
Grand Union Co.	NJ	1		430,664		430,664	
Grand Union Co.	MD	1		372,383		372,383	234,762
Grand Union Co.	NY	3		1,110,120		1,110,120	
Grand Union Co.	NY	1		2,273,841		2,273,841	1,201,322
Grand Union Co.	VA	1		266,468		266,468	168,263

Grand Union Co.	NY	1	4,757,723				
Gunite	IN	1	272,367	1,134,565	1,134,565	983,368	
G.D. Searle & Co.	MD	1		299,229	299,229	129,717	
G.D. Searle & Co.	OH	1		0	0	0	
G.D. Searle & Co.	MN	1		261,918	261,918	163,780	
G.D. Searle & Co.	AL	1		0	0	0	
G.D. Searle & Co.	OH	1		0	0	0	
G.D. Searle & Co.	IL	1		256,295	256,295	143,064	
G.D. Searle & Co.	FL	1		0	0	0	
G.D. Searle & Co.	MN	1		339,358	339,358	129,153	
G.D. Searle & Co.	IL	1		323,559	323,559	209,934	
G.D. Searle & Co.	TN	1		214,421	214,421	129,593	
G.D. Searle & Co.	TN	1		0	0	0	
G.D. Searle & Co.	MD	1		325,891	325,891	130,705	
G.D. Searle & Co.	LA	1					
Hancock	LA	1	2,397,919	4,484,256	4,484,256	498,953	
Haverty Furniture Companies, Inc.	GA	1	319,164				
Haverty Furniture Companies, Inc.	FL	1	241,000				
Haverty Furniture Companies, Inc.	VA	1	302,865				
Holiday Inn	AZ	1	3,285,638	8,419,901	241,329	8,661,230	780,738
Integra A Hotel and Restaurant Co.	AL	2		245,625		245,625	
Integra A Hotel and Restaurant Co.	IL	1		198,392		198,392	
Integra A Hotel and Restaurant Co.	IN	1		231,513		231,513	
Integra A Hotel and Restaurant Co.	OH	1					
Integra A Hotel and Restaurant Co.	MO	1		224,837		224,837	
Integra A Hotel and Restaurant Co.	TX	1		228,793		228,793	
Integra A Hotel and Restaurant Co.	MI	1		234,464		234,464	
Intermountain Color	KY	1	96,730	559,644		559,644	371,926
J.C. Penney Company, Inc.	MA	1	261,092	2,484,262		2,484,262	1,349,837
Kansas City Round Up, Inc.	KS						
Kelley Springfield Tire Company	TN	1		120,946		120,946	67,405
K-Mart Corporation	LA	1	887,412				
K-Mart Corporation	WI	1					
K-Mart Corporation	FL	1					
K-Mart Corporation	MN	1	665,000				
K-Mart Corporation	FL	1		2,581,077		2,581,077	1,554,504
K-Mart Corporation	IA	1					
K-Mart Corporation	FL	1		2,636,000		2,636,000	1,634,573
K-Mart Corporation	IL	1	370,579				
Kobacker Stores, Inc.	MI	4		215,148		215,148	
Kobacker Stores, Inc.	KY	1	80,058	88,364		88,364	
Kobacker Stores, Inc.	OH	5		690,440		354,140	
Kobacker Stores, Inc.	FL	1	183,483	186,211		186,211	
Kraft, Inc.	NC	1		1,434,125		1,434,125	1,030,096
Landmark Bancshares Corporation	MO	1					
Levitz Furniture Corporation	NY	1		1,648,463		1,648,463	
Lockheed Corporation	CA	1		2,449,469		2,449,469	
Lockheed Corporation	NJ	1					
Louisiana Power and Light Company	LA	8	6,224,644				
Louisiana Power and Light Company	LA	7	3,723,644	3,496,322		3,496,322	
Macke Co.	VA	1		553,113		553,113	343,354
Marsh Supermarkets, Inc.	IN	1		5,001,933		5,001,933	1,439,245
Montgomery Ward, Inc.	PA	1	1,001,288	3,289,166		3,289,166	1,946,243
Montgomery Ward, Inc.	NJ	1					
Morrison, Inc.	AL	1		324,288		324,288	
Morrison, Inc.	GA	2		817,838		817,838	
Morrison, Inc.	FL	1		375,392		375,392	
Morrison, Inc.	VA	2		363,059		363,059	
M.C.O. Properties	CO	1	43,476				
National Convenience Stores, Inc.	TX						
North Carolina National Bank	SC	6		2,938,008		2,938,008	857,047
Occidental Petroleum Corp.	CA	1	2,182,009	2,564,053		2,564,053	322,356
Old National Bank of Washington	WA	1		4,190,632		4,190,632	1,337,294
Pace Membership Warehouse, Inc.	MI	1	4,348,410	6,575,775		6,575,775	725,324
Penske Corp.	NJ	2		720,282			
Penske Corp.	OH	1		193,170			
Penske Corp.	NY	1		421,503			
Penske Corp.	MI	1		403,255	3,284,450	3,284,450	1,781,754
Petrolane, Inc.	LA	1		895,377<F2>		895,377	430,846
Pioneer Standard Electronics, Inc.	NY	1	146,611	365,354		365,354	
Pneumo Corp.	OH	1	1,303,254				
Ponderosa Systems, Inc.	GA	1					
Portland General Electric Company	OR	1	36,190,135				
Rouse Company	MD	1	4,320,716				
Rummel Fibre Co., Inc.	GA	1		0		0	
Safeway Stores, Inc.	LA	1		1,782,885		1,782,885	1,021,526
Sams	MI	1	5,742,773	8,844,225		8,844,225	887,617
Smith's Management Corp.	NV	1	452,163				
Southland Corporation	FL	10		2,203,667		2,203,667	1,099,497
Sperry - Sun Drilling	CAN	1		1,057,300		1,057,300	356,102
Stop 'N Shop Co., Inc.	NY	1	1,481,453	5,013,507		5,013,507	3,341,016
Stop 'N Shop Co., Inc.	VA	1		1,262,859			
Super Foods Services, Inc.	MI	1	7,426,761				
SuperValu Stores, Inc.	MN	1		1,370,965		1,370,965	131,910
SuperValu Stores, Inc.	OH	1		3,000,671		3,000,671	299,308
SuperValu Stores, Inc.	GA	1		2,344,836		2,344,836	230,559
SuperValu Stores, Inc.	IN	1		2,267,573		2,267,573	222,583
Telecom Properties, Inc.	OK	1	60,531				
Telecom Properties, Inc.	KY	1	158,554	281,253		281,253	
The A&P Company	MI	1					
The TJX Companies, Inc.	IL	1					
Toys "R" Us, Inc.	MA	1	635,166	330,605		330,605	
Toys "R" Us, Inc.	IL	1		823,731		427,993	
Toys "R" Us, Inc.	NY	1		927,940		480,785	
Toys "R" Us, Inc.	TX	1		967,636		501,836	
Toys "R" Us, Inc.	MI	1		666,146			
Toys "R" Us, Inc.	TX	1		932,605			
Trafalgar Industries, Inc.	NY	1	314,109				
Unisource Corporation	CA	1					
USA Petroleum Corporation	SC	2		163,161		163,161	
USA Petroleum Corporation	OH	1		78,443		78,443	
USA Petroleum Corporation	GA	2		138,062		138,062	
Waban	NY	1	3,903,609	7,879,044	221,258	8,100,302	173,049
Watkins	MO	1		965,741		965,741	17,619
Webcraft Technologies	MD	1	640,052	780,774		780,774	23,474
Weigh-Tronix, Inc.	CA	1					
Wetterau, Inc.	PA	1		175,717			
Wetterau, Inc.	NJ	2		1,032,323			
Wickes Companies, Inc.	CA	3	1,768,910	4,330,986		4,330,986	2,277,901

RESIDENTIAL PROPERTY LAND AND BUILDING

Stoney Falls	KY	1	100,000	6,930,916	1,360,186	8,291,102	213,004
Stoney Brooke	KY	1	100,000	5,250,000		5,250,000	106,250

COMMERCIAL PROPERTY - LAND

Easco Corp.	NC	1		157,560		157,560	
Foodarama supermarkets, Inc.	NY	1		140,619		140,619	
Gino's, Inc.	MD	1		86,027		86,027	
Gino's, Inc.	MI	1		71,160		71,160	
Gino's, Inc.	MA	2		102,048		102,048	
J.C. Penney Company, Inc.	NY	1		51,009		51,009	
Levitz Furniture Corporation	CA	2		1,134,836		1,134,836	
Levitz Furniture Corporation	KS	1		460,490		460,490	

COMMERCIAL PROPERTY - BUILDING

Bank South	GA	1	2,104,777				
Caldor, Inc.	MA	1					
Harwood Square	IL	1		6,809,551		6,809,551	2,407,744
Holiday Inn	FL	1	45,911	6,373,759	118,641	6,492,400	718,450
Lockheed Corporation	CA	1					
Safeway Stores, Inc.	CA	1		558,652		558,652	451,852
Toys "R" Us, Inc.	RI	1					
United Life & Accident Ins. Co.	NH	1	2,558,844				
Wickes Companies, Inc.	PA	1	487,599				

DEVELOPMENT PROPERTY

Crown Cliffs	AL	1		1,138,000		1,138,000	
Grassy Hollow	NY	1		598,145		598,145	
Westover Hills	NC	1		1,600,000		1,600,000	
East Syracuse	NY	2		1,177,000	79,000	1,256,000	

\$174,095,697 \$183,011,186 \$2,316,422 \$185,327,608<F3> \$48,234,722<F3>

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SCHEDULE III
Page 2

AMERICAN REAL ESTATE PARTNERS, LP
a limited partnership

REAL ESTATE OWNED AND REVENUES EARNED

Part 1 - Real estate owned at December 31, 1994
- Accounted for under the:

Part 2 - Revenues earned for the
Year ended December 31, 1994

Operating Method	Financing Method		Total revenue applicable to period	Expended for interest, taxes, repairs and expenses	Net Income applicable to period
Rent due and accrued or received in advance at end of period	Net Investment	Minimum lease payments due and accrued at end of period			

COMMERCIAL PROPERTY LAND AND BUILDING

Acme Markets, Inc. and FFBT of Penn.	(\$7,083)			\$223,471	\$38,903	\$184,568
Alabama Power Company		\$8,381,948		875,293	510,370	364,923
Amer Stores and The Fidelity Bank		791,909		96,093	496	95,597
Amer Stores, Grace, & Shottenstein Stores				232,735	38,520	194,215
American Electric Power Service Corp.		4,205,548	\$114,600	391,308	157	391,151
American Recreation Group, Inc.		786,604		77,565	11,952	65,613
Amterre Ltd. Partnership		3,543,232		478,184	17,793	460,391
Amterre Ltd. Partnership	(6,147)	2,180,696	(24,901)	301,555	109,467	192,088
Amterre Ltd. Partnership		6,653,431	(70,618)	660,958	275,319	385,639
Best Products Co., Inc.		3,742,121		368,204	30,902	337,302
Chesebrough-Pond's Inc.	(11,770)			141,236	121,746	19,490
Chomerics, Inc.		6,691,930	80,505	848,489	616,254	232,235
Coldwell Banker & Co.	4,935			59,215	8,376	50,839
Coldwell Banker & Co.	10,280			123,364	14,590	108,774
Coldwell Banker & Co.	8,224			98,692	16,861	81,831
Coldwell Banker & Co.	6,874			24,924	8,620	16,304
Collins Foods International, Inc.		191,947		48,851	15,676	33,175
Collins Foods International, Inc.		271,707		70,013	27,358	42,655
Collins Foods International, Inc.		0		0	5,249	(5,249)
Cordis Corporation		20,050,583		2,012,483	1,562,975	449,508
David Miller of California	5,290			81,684	23,523	58,161
Dillon Companies, Inc.	(3,272)			64,033	12,756	51,277
Dillon Companies, Inc.	(19,367)			232,407	42,429	189,978
Druid Point Bldg.				594,092	658,445	(64,353)
Duke Power Co.		5,578,572		559,480	371,588	187,892
European American Bank and Trust Co.				133,000	112,253	20,747
Farwell Bldg.				982,773	795,195	187,578
Federated Department Stores, Inc.				0	2,037	(2,037)
Federated Department Stores, Inc.	12,779	438,402		69,890	0	69,890
First National Supermarkets, Inc.		24,956,415	(221,459)	2,305,793	1,504,014	801,779
First Union National Bank		680,664		62,694	0	62,694
Fisher Scientific Company				163,000	89,569	73,431
Foodarama Supermarkets, Inc.				120,516	74,226	46,290
Forté Hotels International, Inc.		6,763,483	(59,447)	616,053	189,567	426,486
Forté Hotels International, Inc.				334,152	132,994	201,158
Fox Grocery Company		3,636,597		325,690	149,970	175,720
General Signal Technical Corp.		20,202,453	219,294	2,243,599	1,356,054	887,545
Gino's, Inc.	(4,899)	200,157		37,504	12,070	25,434
Gino's, Inc.	(4,311)	190,580		46,534	12,879	33,655
Gino's, Inc.	(5,354)	170,469		42,518	12,922	29,596
Gino's, Inc.	(4,736)	177,173		49,221	15,237	33,984
Gino's, Inc.	(4,027)	219,311		52,386	17,529	34,857

Gino's, Inc. & The A&P Co.	(5,417)			299,053	195,921	103,132
Grand Union Co.		495,673		91,562	0	91,562
Grand Union Co.				33,750	5,080	28,670
Grand Union Co.		1,277,656		255,782	9,988	245,794
Grand Union Co.				102,767	55,303	47,464
Grand Union Co.				24,150	3,579	20,571
Grand Union Co.		7,920,908		729,766	486,208	243,558
Gunite				143,625	83,032	60,593
G.D. Searle & Co.				27,000	8,119	18,881
G.D. Searle & Co.				0	2,577	(2,577)
G.D. Searle & Co.				22,162	2,035	20,127
G.D. Searle & Co.				13,619	4,302	9,317
G.D. Searle & Co.				7,209	3,104	4,105
G.D. Searle & Co.				23,013	9,574	13,439
G.D. Searle & Co.				25,065	6,088	18,977
G.D. Searle & Co.				30,614	8,872	21,742
G.D. Searle & Co.				28,319	4,516	23,803
G.D. Searle & Co.				25,529	7,008	18,521
G.D. Searle & Co.				0	149	(149)
G.D. Searle & Co.				28,598	7,427	21,171
G.D. Searle & Co.				22,458	7,844	14,614
Hancock	(39,195)			439,017	412,709	26,308
Haverty Furniture Companies, Inc.		734,587		65,775	32,289	33,486
Haverty Furniture Companies, Inc.		556,504		49,830	24,347	25,483
Haverty Furniture Companies, Inc.		709,358	(437)	63,783	30,559	33,224
Holiday Inn	271,079			5,296,130	4,779,672	516,458
Integra A Hotel and Restaurant Co.		1,586,469		257,080	0	257,080
Integra A Hotel and Restaurant Co.		584,893		112,481	0	112,481
Integra A Hotel and Restaurant Co.		673,807		127,926	0	127,926
Integra A Hotel and Restaurant Co.		749,707		105,532	0	105,532
Integra A Hotel and Restaurant Co.		577,151		116,684	3,918	112,766
Integra A Hotel and Restaurant Co.		680,554		148,242	0	148,242
Integra A Hotel and Restaurant Co.		659,266		144,352	0	144,352
Intermountain Color	(5,833)			69,417	32,422	36,995
J.C. Penney Company, Inc.	(20,854)			250,244	119,113	131,131
Kansas City Round Up, Inc.				(1,440)	(1,344)	(96)
Kelley Springfield Tire Company				10,241	10,594	(353)
K-Mart Corporation		1,798,778		150,991	87,583	63,408
K-Mart Corporation		2,056,654		184,843	0	184,843
K-Mart Corporation		2,491,747		202,240	120,620	81,620
K-Mart Corporation		1,907,836	13,340	155,993	38,293	117,700
K-Mart Corporation	43,878			237,666	0	237,666
K-Mart Corporation		1,472,651		138,075	0	138,075
K-Mart Corporation		2,052,034		432,013	98,538	333,475
K-Mart Corporation		1,079,286		85,926	33,887	52,039
Kobacker Stores, Inc.	3,839	466,856		35,629	2,564	33,065
Kobacker Stores, Inc.	1,884	109,416		20,062	9,389	10,673
Kobacker Stores, Inc.	12,171	675,305		127,992	70,765	57,227
Kobacker Stores, Inc.	4,008	230,544		42,727	22,369	20,358
Kraft, Inc.	(22,864)			137,181	21,137	116,044
Landmark Bancshares Corporation		4,828,300		666,075	0	666,075
Levitz Furniture Corporation		2,517,390		385,693	0	385,693
Lockheed Corporation		4,449,763		806,737	21,930	784,807
Lockheed Corporation				256,576	120	256,456
Louisiana Power and Light Company		13,782,482	172,448	1,722,111	605,428	1,116,683
Louisiana Power and Light Company	39,198	4,935,563	63,957	1,078,136	394,900	683,236
Macke Co.	5,000			60,000	13,077	46,923
Marsh Supermarkets, Inc.				506,300	156,479	349,821
Montgomery Ward, Inc.				314,280	213,334	100,946
Montgomery Ward, Inc.		1,715,269		150,130	69,621	80,509
Morrison, Inc.	3,518	806,313	10,372	144,631	0	144,631
Morrison, Inc.	8,905	1,574,821	20,322	307,954	0	307,954
Morrison, Inc.	3,997	812,030	10,204	151,982	(1,469)	153,451
Morrison, Inc.	3,940	1,955,743	24,420	296,444	1,406	295,038
M.C.O. Properties		403,432<F1>		56,177	6,148	50,029
National Convenience Stores, Inc.	9,424			38,781	38,926	(145)
North Carolina National Bank	17,997			215,811	57,341	158,470
Occidental Petroleum Corp.				0	308,227	(308,227)
Old National Bank of Washington				677,222	208,183	469,039
Pace Membership Warehouse, Inc.				735,751	577,272	158,479
Penske Corp.		2,323,048		223,448	78,561	144,887
Penske Corp.		648,892		61,711	20,291	41,420
Penske Corp.		1,157,937		113,113	44,932	68,181
Penske Corp.				346,393	103,594	242,799
Petrolane, Inc.				50,000	28,987	21,013
Pioneer Standard Electronics, Inc.		622,338		94,442	17,330	77,112
Pneumo Corp.		2,577,995		251,204	127,662	123,542
Ponderosa Systems, Inc.				0	8,629	(8,629)
Portland General Electric Company		53,847,154	428,109	4,642,451	3,288,261	1,354,190
Rouse Company		6,868,375	62,280	606,090	437,923	168,167
Rummel Fibre Co., Inc.				8,823	(34,562)	43,385
Safeway Stores, Inc.				85,150	20,981	64,169
Sams				999,779	716,507	283,272
Smith's Management Corp.		903,509		81,106	43,943	37,163
Southland Corporation				237,679	69,375	168,304
Sperry - Sun Drilling				67,500	34,790	32,710
Stop 'N Shop Co., Inc.				454,145	344,903	109,242
Stop 'N Shop Co., Inc.		3,136,284		322,957	129,261	193,696
Super Foods Services, Inc.		10,685,247	(3,784)	1,135,000	641,450	493,550
SuperValu Stores, Inc.	(32,678)			114,885	26,679	88,206
SuperValu Stores, Inc.	30,529			319,371	58,394	260,977
SuperValu Stores, Inc.	37,697			224,215	45,631	178,584
SuperValu Stores, Inc.	10,502			193,024	44,128	148,896
Telecom Properties, Inc.		129,943	1,338	12,191	6,135	6,056
Telecom Properties, Inc.	2,293	117,024	1,274	38,418	16,088	22,330
The A&P Company		1,823,640		190,876	0	190,876
The TJX Companies, Inc.		2,912,841	(54,094)	254,096	(871)	254,967
Toys "R" Us, Inc.		772,177		109,589	81,053	28,536
Toys "R" Us, Inc.		998,515		126,409	83,931	42,478
Toys "R" Us, Inc.		1,118,208		129,557	104,772	24,785
Toys "R" Us, Inc.		1,169,304		147,999	107,595	40,404
Toys "R" Us, Inc.		1,107,367		97,513	79,339	18,174
Toys "R" Us, Inc.		1,541,194		136,855	111,191	25,664
Trafalgar Industries, Inc.		936,768	41,175	(30,885)	135,959	(166,844)
Unisource Corporation	714			82,822	80,607	2,215
USA Petroleum Corporation		325,975		44,062	0	44,062
USA Petroleum Corporation		156,718		21,184	0	21,184
USA Petroleum Corporation		275,829		37,283	610	36,673
Waban				659,262	534,592	124,670
Watkins	42,076	0		90,000	106,014	(16,014)
Webcraft Technologies				130,253	113,176	17,077
Weigh-Tronix, Inc.		3,092,586		315,642	0	315,642
Wetterau, Inc.		956,318		98,352	14,244	84,108

Wetterau, Inc.		2,084,870	216,703	129,589	87,114
Wickes Companies, Inc.	37,000		636,282	269,270	367,012

RESIDENTIAL PROPERTY LAND AND BUILDING

Stoney Falls			1,805,385	1,457,366	348,019
Stoney Brooke			1,168,375	615,091	553,284

COMMERCIAL PROPERTY - LAND

Easco Corp.	1,033		12,400	15,569	(3,169)
Foodarama supermarkets, Inc.			14,000	0	14,000
Gino's, Inc.			7,143	87	7,056
Gino's, Inc.			7,143	154	6,989
Gino's, Inc.			0	0	0
J.C. Penney Company, Inc.			5,500	0	5,500
Levitz Furniture Corporation	458		117,077	0	117,077
Levitz Furniture Corporation			47,009	0	47,009

COMMERCIAL PROPERTY - BUILDING

Bank South		4,025,918	406,138	231,135	175,003
Caldor, Inc.		2,062,280	196,062	0	196,062
Harwood Square	(1,568)		788,087	299,017	489,070
Holiday Inn	449,093		3,557,350	3,628,393	(71,043)
Lockheed Corporation		6,422,461	883,398	926	882,472
Safeway Stores, Inc.			26,900	20,691	6,209
Toys "R" Us, Inc.		1,102,181	10,430	105,742	69,858
United Life & Accident Ins. Co.		4,817,097	(43,667)	405,609	153,715
Wickes Companies, Inc.		3,506,115	397,904	62,800	335,104

DEVELOPMENT PROPERTY

Crown Cliffs			0	0	0
Grassy Hollow			0	0	0
Westover Hills			0	2,595	(2,595)
East Syracuse			0	0	0

\$889,240 \$314,260,786 \$795,661 \$60,089,287 \$33,440,460 \$26,648,827

<FN>
<F1> Amount shown is net of a \$110,000 write down to recoverable value.
<F2> Amount shown is net of a \$237,000 write down to recoverable value.
<F3> Amount shown includes hotel operating properties.
</FN>

SCHEDULE III
PAGE 8

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1994

1a. A reconciliation of the total amount at which real estate owned, accounted for under the operating method and hotel operating properties, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance - January 1, 1994	\$ 176,050,393
Additions during period	12,496,354
Write downs	(322,000)
Reclassifications during period to assets held for sale	(1,340,935)
Disposals during period	(1,556,204)
Balance - December 31, 1994	\$ 185,327,608

b. A reconciliation of the total amount of accumulated depreciation at the beginning of the period, with the total at the close of the period, is shown below:

Balance - January 1, 1994	\$ 45,040,784
Depreciation during period	4,501,318
Disposals during period	(709,930)
Reclassifications during period to property held for sale	(597,450)
Balance - December 31, 1994	\$ 48,234,722

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(continued)

Depreciation on properties accounted for under the operating method is computed using the straight-line method over the estimated useful life of the particular property or property components, which range from 5 to 45 years.

2. A reconciliation of the total amount at which real estate owned, accounted for under the financing method, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance - January 1, 1994	\$ 327,470,322
Additions during period	41,256
Write downs	(110,000)
Disposals during period	(6,432,148)
Amortization of unearned income	31,990,262
Minimum lease rentals received	(38,698,906)

Balance - December 31, 1994	\$314,260,786
	=====

3. The aggregate cost of real estate owned for federal income tax purposes is \$402,624,341.

4. Net income applicable to the period in Schedule III is reconciled with net earnings as follows:

Net income applicable to financing and operating leases	\$ 26,648,827
Add interest income - other	1,438,491

	28,087,318

Deduct expenses not allocated:	
General and administrative expenses	2,791,123
Nonmortgage interest expense	4,731,517
Other	987,979

	8,510,619

Earnings before gain on property transactions	19,576,699
Provision for loss on property	(582,000)
Gain on sales of real estate	4,173,865

Net earnings	\$ 23,168,564
	=====

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(Continued)

SCHEDULE III
PAGE 10

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1993

1a. A reconciliation of the total amount at which real estate owned, accounted for under the operating method and hotel operating properties, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance - January 1, 1993	\$162,201,694
Additions during period	20,347,239
Write downs	(247,000)
Reclassifications during period from financing leases	800,429
Reclassifications during period to assets held for sale	(2,212,215)
Disposals during period	(4,839,754)

Balance - December 31, 1993	\$176,050,393
	=====

b. A reconciliation of the total amount of accumulated depreciation at the beginning of the period, with the total at the close of the period, is shown below:

Balance - January 1, 1993	\$ 44,105,825
Depreciation during period	3,992,036
Disposals during period	(1,896,524)
Reclassifications during period to assets held for sale	(1,160,553)

Balance - December 31, 1993	\$45,040,784
	=====

Depreciation on properties accounted for under the operating method is computed using the straight-line method over the estimated useful life of the particular property or property components, which range from 5 to 45 years.

2. A reconciliation of the total amount at which real estate owned, accounted for under the financing method, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance - January 1, 1993	\$330,322,814
Additions during period	4,130,942
Reclassifications during period	(800,429)
Disposals during period	(116,994)
Amortization of unearned income	32,851,135
Minimum lease rentals received	(38,917,146)

Balance - December 31, 1993	\$327,470,322
	=====

3. The aggregate cost of real estate owned for federal income tax purposes is \$398,245,532.

4. Net income applicable to the period in Schedule III is

reconciled with net earnings as follows:

Net income applicable to financing and operating leases	\$ 24,390,249
Add interest income - other	2,009,598

	26,399,847
	=====
Deduct expenses not allocated:	
General and administrative expenses	2,454,786
Nonmortgage interest expense	5,070,729
Other	495,561

	8,021,076
	=====
Earnings before gain on property transactions	18,378,771
Provision for loss on property	(462,000)
Gain on sales of real estate	4,759,983

Net earnings	\$22,676,754
	=====

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(Continued)

SCHEDULE III
PAGE 12

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 1992

- 1a. A reconciliation of the total amount at which real estate owned, accounted for under the operating method and hotel operating properties was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance - January 1, 1992	\$159,169,561
Additions during period	160,748
Write downs	(8,847,165)
Reclassifications during period from financing leases	21,902,382
Reclassifications during period to assets held for sale	(9,090,374)
Disposals during period	(1,093,458)

Balance - December 31, 1992	\$162,201,694
	=====

- b. A reconciliation of the total amount of accumulated depreciation at the beginning of the period, with the total at the close of the period, is shown below:

Balance - January 1, 1992	\$ 42,315,717
Depreciation during period	4,073,691
Disposals during period	(385,164)
Reclassifications during period to assets held for sale	(1,898,419)

Balance - December 31, 1992	----- \$ 44,105,825 =====
-----------------------------	---------------------------------

Depreciation on properties accounted for under the operating method is computed using the straight-line method over the estimated useful life of the particular property or property components, which range from 5 to 45 years.

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(continued)

2. A reconciliation of the total amount at which real estate owned, accounted for under the financing method, was carried at the beginning of the period, with the total at the close of the period, is shown below:

Balance - January 1, 1992	\$358,005,265
Additions during period	-
Reclassifications during period	(21,902,382)
Disposals during period	(187,607)
Amortization of unearned income	34,121,308
Minimum lease rentals received	(39,713,770)

Balance - December 31, 1992	\$330,322,814 =====

3. The aggregate cost of real estate owned for federal income tax purposes is \$382,975,157.

4. Net income applicable to the period in Schedule III is reconciled with net earnings as follows:

Net income applicable to financing and operating leases	\$ 26,101,004
Add interest income - other	2,234,035

	28,335,039 =====
Deduct expenses not allocated:	
General and administrative expenses	2,318,856
Nonmortgage interest expense	5,142,818
Other	292,155

	7,753,829 =====
Earnings before gain on property transactions and extraordinary item	20,581,210
Provision for loss on property	(8,847,165)
Gain on sales of real estate	342,372

Extraordinary item, gain from early extinguishment of debt	(784,540)

Net earnings	\$11,291,877 =====

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(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED BY STATE (ACCOUNTED FOR UNDER THE
FINANCING METHOD) DECEMBER 31, 1994

State	Net Investment
Alabama	\$ 10,774,730
California	14,865,499
Colorado	403,433
Connecticut	24,956,415
Florida	26,193,440
Georgia	6,611,153
Illinois	5,752,708
Indiana	673,807
Iowa	1,472,651
Kentucky	226,439
Louisiana	20,516,823
Maryland	6,868,375
Massachusetts	29,728,840
Michigan	14,742,376
Minnesota	1,907,837
Missouri	5,605,609
Nevada	903,509
New Hampshire	4,817,099
New Jersey	17,144,885
New York	15,551,206
North Carolina	7,045,840
Ohio	9,184,634
Oklahoma	129,943
Oregon	54,039,101
Pennsylvania	14,088,469
Rhode Island	1,102,181
South Carolina	325,975
Texas	3,391,052
Virginia	9,543,506
West Virginia	3,636,597
Wisconsin	2,056,654
	\$314,260,786

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(Continued)

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND RESERVE FOR DEPRECIATION BY STATE
(ACCOUNTED FOR UNDER THE OPERATING METHOD)
DECEMBER 31, 1994

State	Amount at which Carried at Close of Year	Reserve for Depreciation
Alabama	\$ 1,707,913	\$ -
Arizona	8,661,230	780,739
California	13,574,684	3,702,517
Connecticut	1,549,805	1,027,553
Florida	14,474,746	5,007,024

Georgia	8,219,782	612,349
Illinois	8,849,567	2,836,885
Indiana	8,635,584	2,645,196
Kansas	460,490	-
Kentucky	14,470,363	691,180
Louisiana	12,638,536	2,975,581
Maryland	1,864,304	518,658
Massachusetts	2,916,915	1,349,837
Michigan	19,225,223	3,394,696
Minnesota	7,072,018	1,474,020
Missouri	1,946,471	289,549
New Jersey	4,293,403	1,471,681
New York	22,393,357	5,858,402
North Carolina	3,191,685	1,030,096
Ohio	3,635,192	299,308
Oregon	298,451	-
Pennsylvania	10,273,909	5,843,239
South Carolina	3,101,170	857,047
Tennessee	335,368	196,998
Texas	4,302,872	2,730,561
Virginia	1,986,638	948,210
Washington	4,190,632	1,337,294
Canada	1,057,300	356,102
	-----	-----
	\$185,327,608	\$48,234,722
	=====	=====

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(Continued)

SCHEDULE III
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AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED BY STATE (ACCOUNTED FOR UNDER THE FINANCING METHOD)
DECEMBER 31, 1993

State	Net Investment
-----	-----
Alabama	\$ 11,067,060
California	17,888,934
Colorado	544,251
Connecticut	25,308,131
Florida	26,800,208
Georgia	6,769,438
Illinois	5,905,143
Indiana	233,369
Iowa	1,501,626
Kentucky	233,369
Louisiana	21,056,026
Maryland	7,009,645
Massachusetts	30,296,481
Michigan	14,950,167
Minnesota	1,943,843
Missouri	5,568,962
Nevada	921,680
New Hampshire	4,935,607
New Jersey	21,248,834
New York	16,253,711
North Carolina	7,355,915
Ohio	9,415,352
Oklahoma	133,802
Oregon	54,546,141
Pennsylvania	14,491,751
Rhode Island	1,121,598
South Carolina	342,233
Texas	3,534,796
Virginia	9,807,705
West Virginia	3,742,187
Wisconsin	2,094,811

\$327,470,322
=====

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(Continued)

SCHEDULE III
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AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND RESERVE FOR DEPRECIATION BY STATE
(ACCOUNTED FOR UNDER THE OPERATING METHOD)
DECEMBER 31, 1993

State	Amount at which Carried at Close of Year	Reserve for Depreciation
Alabama	\$ 736,694	\$ 87,325
Arizona	8,419,901	432,415
California	12,931,574	3,463,370
Connecticut	1,549,805	965,696
Florida	14,636,201	4,438,112
Georgia	9,238,378	1,029,031
Illinois	8,850,494	2,604,653
Indiana	8,635,584	2,410,912
Kansas	460,490	-
Kentucky	7,860,177	389,534
Louisiana	13,125,806	2,884,385
Maryland	1,238,325	474,818
Massachusetts	2,814,867	1,270,340
Michigan	19,225,223	3,044,807
Minnesota	6,776,010	1,243,786
Missouri	2,335,344	455,296
New Jersey	4,293,403	1,434,545
New York	21,711,796	5,430,334
North Carolina	1,591,685	1,008,960
Ohio	3,876,312	351,221
Oregon	298,451	-
Pennsylvania	10,274,362	5,531,108
South Carolina	3,101,170	806,722
Tennessee	449,753	248,129
Texas	4,384,018	2,650,621
Virginia	1,986,638	920,929
Washington	4,190,632	1,129,111
Canada	1,057,300	334,624
	----- \$176,050,393 =====	----- \$45,040,784 =====

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(Continued)

SCHEDULE III
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AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED BY STATE (ACCOUNTED FOR UNDER THE FINANCING METHOD)
DECEMBER 31, 1992

State	Net Investment
Alabama	\$11,323,580
California	18,426,291

Colorado	571,985
Connecticut	25,629,109
Florida	27,350,648
Georgia	6,912,260
Illinois	5,123,971
Indiana	696,217
Iowa	1,528,040
Kentucky	239,682
Louisiana	21,534,147
Maryland	7,139,145
Massachusetts	30,013,085
Michigan	15,133,474
Minnesota	1,977,036
Missouri	6,273,577
Nevada	938,304
New Hampshire	5,044,563
New Jersey	21,672,020
New York	15,515,259
North Carolina	7,638,332
Ohio	9,620,021
Oklahoma	137,321
Oregon	55,011,975
Pennsylvania	14,862,614
Rhode Island	1,140,167
South Carolina	357,160
Texas	2,464,953
Virginia	10,079,084
West Virginia	3,838,951
Wisconsin	2,129,843

	\$330,322,814
	=====

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(Continued)

SCHEDULE III
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AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARY

REAL ESTATE OWNED AND RESERVE FOR DEPRECIATION BY STATE
(ACCOUNTED FOR UNDER THE OPERATING METHOD)
DECEMBER 31, 1992

State	Amount at which Carried at Close of Year	Reserve for Depreciation
-----	-----	-----
Alabama	\$ 736,694	\$ 81,154
Arizona	8,009,897	133,108
California	13,694,521	3,671,678
Connecticut	1,549,805	903,840
Florida	12,909,626	3,958,440
Georgia	8,819,331	832,671
Illinois	13,270,355	4,227,516
Indiana	8,635,584	2,201,628
Kansas	460,490	-
Kentucky	929,261	330,093
Louisiana	13,125,806	2,674,988
Maryland	1,238,325	452,663
Massachusetts	2,484,262	1,190,844
Michigan	19,154,063	2,658,874
Minnesota	6,776,010	991,465
Missouri	1,806,775	428,289
New Jersey	4,293,404	1,390,643
New York	12,174,966	5,047,805
North Carolina	1,591,685	987,823
Ohio	4,108,388	410,445
Oregon	298,451	-
Pennsylvania	10,273,909	5,218,974

South Carolina	3,101,170	756,396
Tennessee	987,111	434,167
Texas	3,966,086	2,570,682
Virginia	2,557,787	1,222,566
Washington	4,190,632	1,015,928
Canada	1,057,300	313,145
	-----	-----
	\$162,201,694	\$44,105,825
	=====	=====

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EXHIBIT INDEX

Exhibit -----	Page No. -----
3.1 Certificate of Limited Partnership of AREP, dated February 17, 1987 (filed as Exhibit No. 3.1 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).	
3.2 Amended and Restated Agreement of Limited Partnership of AREP, dated as of May 12, 1987 (filed as Exhibit No. 3.2 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).	
3.3 Amendment No. 1 to the Partnership Agreement.	
3.4 Certificate of Limited Partnership of American Real Estate Holdings Limited Partnership (the "Subsidiary"), dated February 17, 1987 and amendment thereto, dated March 12, 1987 (filed as Exhibit No. 3.3 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).	
3.5 Amended Restated Agreement of Limited Partnership of the Subsidiary, dated as of July 1, 1987 (filed as Exhibit No. 3.4 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).	
4.1 Depositary Agreement among AREP, the General Partner and Registrar and Transfer Company, dated as of July 1, 1987 (filed as Exhibit No. 4.1 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).	
4.2 Amendment No. 1 to the Depositary Agreement.	
4.3 Specimen Depositary Receipt (filed as Exhibit No. 4.2 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).	
Exhibit -----	Page No. -----
4.4 Form of Transfer Application (filed as	

Exhibit No. 4.3 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).

- 4.5 Specimen of Certificate representing Preferred Units (filed as Exhibit No. 4.9 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.1 Nonqualified Unit Option Plan (filed as Exhibit No. 10.1 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).
- 10.2 Distribution Reinvestment Plan (filed as Exhibit No. 10.3 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).
- 10.3 Note Purchase Agreements, dated as of May 27, 1988 among AREP, the Subsidiary and The Prudential Insurance Company of America (the "Note Agreements") (filed as Exhibit Nos. 2a and 2b to AREP's Current Report on Form 8-K dated May 27, 1988 and incorporated herein by reference).
- 10.4 Amendment No. 1 to the Note Agreements dated November 17, 1988 (filed as Exhibit No. 10.2 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.5 Amendment No. 2 to the Note Agreements dated November 17, 1988 (filed as Exhibit No. 10.3 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.6 Amendment No. 3 to the Note Agreements dated as of June 21, 1994 (filed as Exhibit No. 10.4 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.7 Amendment No. 4 to the Note Agreements dated as of August 12, 1994 (filed as Exhibit No. 10.5 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.8 9.6% Senior Promissory Note of AREP and the Subsidiary due May 27, 1998 payable to The Prudential Insurance Company of America (filed as Exhibit No. 2c to AREP's Current Report on Form 8-K dated May 27, 1988 and incorporated herein by reference).
- 10.9 9.6% Senior Promissory Note of AREP and the Subsidiary due May 27, 1998 payable to Prudential Property and Casualty Insurance Company (filed as Exhibit No. 2d to AREP's Current Report on Form 8-K dated May 27, 1988 and incorporated herein by reference).

Exhibit

Page No.

- 10.10 Subscription Guaranty Agreement between AREP and High Coast Limited Partnership (the "Guarantor") (filed as Exhibit No. 4.10 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.11 Registration Rights Agreement between AREP and the Guarantor (filed as Exhibit No. 4.11 to AREP's Registration Statement on Form S-3 (Registration No. 33-54767) and incorporated herein by reference).
- 10.12 Amended and Restated Agency Agreement.
- 10.13 Subscription Agent Agreement.
- 16 Letter dated September 27, 1991 of Deloitte & Touche regarding change in accountants (filed as Exhibit No. A to AREP's Current Report on Form 8-K dated October 3, 1991 and incorporated herein by reference).
- 22 List of Subsidiaries (filed as Exhibit No. 22 to AREP's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference).
- 27 Financial Data Schedule

SIGNATURES

Pursuant to the requirements of Section 13 or 15(a) of the Securities Exchange Act of 1934, AREP has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 31st day of March, 1995.

AMERICAN REAL ESTATE PARTNERS, L.P.

By: AMERICAN PROPERTY INVESTORS, INC.
General Partner

By: /s/ Carl C. Icahn

Carl C. Icahn
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of AREP and in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
/s/Carl C. Icahn ----- Carl C. Icahn	Chairman of the Board (Principal Executive Officer)	March 31, 1995
/s/Alfred Kingsley ----- Alfred Kingsley	Director	March 31, 1995
/s/Mark Rachesky ----- Mark Rachesky	Director	March 31, 1995
/s/William A. Leidesdorf ----- William A. Leidesdorf	Director	March 31, 1995

/s/Jack G. Wasserman

Jack G. Wasserman

Director

March 31, 1995

/s/John P. Saldarelli

John P. Saldarelli

Treasurer
(Principal Financial
Officer and Principal
Accounting Officer)

March 31, 1995

EXHIBIT 3.3

AMENDMENT NO. 1 TO THE AMENDED AND
RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF
AMERICAN REAL ESTATE PARTNERS, L.P.

Amendment No. 1, dated as of February 22, 1995 (the "Amendment"), by and among American Property Investors, Inc., a Delaware corporation, as general partner (the "General Partner"), and all other persons and entities who are or shall in the future become limited partners (the "Limited Partners") of American Real Estate Partners, L.P., a Delaware limited partnership (the "Partnership").

WHEREAS, the Partnership was formed pursuant to an Agreement of Limited Partnership, dated as of April 29, 1987, which was amended and restated in its entirety on May 12, 1987 (the "Partnership Agreement"); and

WHEREAS, the Partnership proposes to distribute at no cost to holders of record as of the close of business on or about February 24, 1995 of depositary units representing limited partner interests in the Partnership ("Depositary Units") one subscription right (each, a "Right") for each seven Depositary Units held (the "Rights Offering"); and

WHEREAS, pursuant to the authority expressly granted to and vested in the General Partner by Section 4.05 of the Partnership Agreement and in connection with the Rights Offering, the General Partner intends to create a series of 5% cumulative pay-in-kind redeemable preferred units representing limited partner interests in the Partnership; and

WHEREAS, the General Partner desires to further amend the Partnership Agreement to establish the series of Preferred Units upon the terms and conditions set forth herein and fix the designation and number of units thereof and fix the powers, preferences and relative participating, optional or other special rights, and the qualifications, limitations and restrictions thereof and to incorporate certain changes conforming with the Internal Revenue Code of 1986, as amended.

NOW THEREFORE, in consideration of the foregoing, the Partnership Agreement is amended as follows:

Section 1. DEFINITIONS. Terms used but not otherwise defined in this Amendment shall have the respective meanings ascribed to such terms in the Partnership Agreement.

Section 2. CERTAIN ADDITIONAL DEFINITIONS. As used herein the following terms and phrases shall have the meanings set forth below:

"ADJUSTED CAPITAL ACCOUNT" means the Capital Account maintained for each Partner for each Fiscal Year: (i) increased by any amounts which such Partner is obligated to restore pursuant to any provision of this Agreement or is deemed to be obligated to restore pursuant to the penultimate sentence of Treasury Regulation Sections 1.704-2(g)(1) and 1.704-2(i)(5) and (ii) decreased by the items described in Treasury Regulation Section 1.704-1(b)(2)(ii)(d)(4), (5), and (6). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"BOARD OF DIRECTORS" shall mean the Board of Directors of the General Partner.

"DISTRIBUTION PERIOD" means the applicable period from and including a Payment Date (as defined below) to and excluding the next Payment Date, or, as to particular Preferred Units, such shorter period during which such Preferred Units are outstanding

(including the first day but excluding the last day of such shorter period).

"LEGAL HOLIDAY" means any day on which banking institutions are authorized or obligated by law or executive order to close in New York, New York.

"NONRECOURSE DEDUCTIONS" means the nonrecourse deductions as defined in Treasury Regulation Section 1.704-2(b)(1). The amount of Nonrecourse Deductions for a Fiscal Year equals the net increase, if any, in the amount of Partnership Minimum Gain during such Fiscal Year reduced by any distributions during such Fiscal Year of proceeds of a Nonrecourse Liability that are allocable to an increase in Partnership Minimum Gain, determined according to the provisions of Treasury Regulation Section 1.704-2(c) and 1.704-2(h).

"NONRECOURSE LIABILITY" means a liability as defined in Treasury Regulation Section 1.704-2(b)(3).

"PARTNER MINIMUM GAIN" means an amount, with respect to each Partner Nonrecourse Debt, equal to the Partnership Minimum Gain that would result if such Partner Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Treasury Regulation Section 1.704-2(i)(3).

"PARTNER NONRECOURSE DEBT" means a liability as defined in Treasury Regulation Section 1.704-2(b)(4).

"PARTNER NONRECOURSE DEDUCTIONS" means the partner nonrecourse deductions as defined in Treasury Regulation Section 1.704-2(i)(2). The amount of Partner Nonrecourse Deductions with respect to a Partner Nonrecourse Debt for a Fiscal Year equals the net increase, if any, in the amount of Partner Minimum Gain during such Fiscal Year attributable to such Partner Nonrecourse Debt,

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reduced by any distributions during that Fiscal Year to the Partner that bears the economic risk of loss for such Partner Nonrecourse Debt to the extent that such distributions are from the proceeds of such Partner Nonrecourse Debt and are allocable to an increase in Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined according to the provisions of Treasury Regulation Section 1.704-2(h) and 1.704-2(i).

"PARTNERSHIP MINIMUM GAIN" means the aggregate gain, if any, that would be realized by the Partnership for purposes of computing book income or loss with respect to each Partnership asset if each Partnership asset subject to a Nonrecourse Liability were disposed of for the amount outstanding on the Nonrecourse Liability by the Partnership in a taxable transaction. Partnership Minimum Gain with respect to each Partnership asset shall be further determined in accordance with Treasury Regulation Section 1.704-2(d) and any subsequent rule or regulation governing the determination of minimum gain. A Partner's share of Partnership Minimum Gain at the end of any Fiscal Year shall equal the aggregate Nonrecourse Deductions allocated to such Partner (or his predecessors in interest) up to that time, less such Partner's (and predecessors') aggregate share of decreases in Partnership Minimum Gain determined in accordance with Treasury Regulation Section 1.704-2(g).

Additionally, all references to a "Majority Interest", as defined in the Partnership Agreement, shall not include holders of Preferred Units.

Section 3. DESIGNATION AND AMOUNT; LIQUIDATION PREFERENCE. There shall be hereby created a series of Units (the "Preferred Units") representing limited partner interests in the Partnership designated as "5% Cumulative Pay-in-Kind Redeemable Preferred Units" and the number of Units constituting such series shall be 15,000,000. The Preferred Units will be represented by certificates issuable solely in whole Preferred Units. No certificates representing fractional Preferred Units will be

issued, but record of the ownership of such fractional Preferred Units will be kept on the books of the Partnership and allocations, distributions, voting rights, rights with respect to redemption or conversion and the like shall be determined in accordance with fractional Unit ownership. Record Holders of the Preferred Units shall be entitled to exercise the voting rights, to participate in the distributions and to have the benefit of all other rights and be subject to all limitations of Record Holders of Preferred Units as set forth herein and in the Partnership Agreement. The liquidation preference (the "Liquidation Preference") of each Preferred Unit shall be \$10.

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Section 4. Distributions.

(a) Prior to redemption of Preferred Units or Liquidation (as defined below) and dissolution of the Partnership, Record Holders of Preferred Units shall be entitled to receive distributions solely in additional Preferred Units. The distribution rate per Preferred Unit shall be 5.0% per annum on the Liquidation Preference plus all accumulated and unpaid distributions. Distributions shall be payable annually on March 31 of each year (each, a "Payment Date"), commencing March 31, 1996 (except that, if any Payment Date is a Saturday, Sunday or Legal Holiday, then such distribution shall be payable on the next day that is not a Saturday, Sunday or Legal Holiday), subject to declaration thereof by the Board of Directors, to holders of record as they appear upon the books of the Partnership at the close of business on the Record Date therefor. Such Record Date shall be not more than sixty days nor less than ten days prior to the applicable Payment Date, as fixed by the Board of Directors from time to time.

(b) The aggregate distribution paid to a Record Holder of Preferred Units shall be based on the aggregate number of Preferred Units held by such Record Holder at the close of business on the applicable Record Date and rounded to the nearest whole cent (with one-half cent rounded upward). Unless otherwise provided herein, distributions on each Preferred Unit will be cumulative from and including the date the Preferred Units are first issued to and excluding the earliest to occur of (i) the Redemption Date (as defined below) and (ii) the date of final distribution of assets upon any liquidation or winding up of the Partnership, whether voluntary or involuntary (any such event referred to in this clause (ii), a "Liquidation").

(c) Any reference to "distribution" contained in this Section 4 shall not include any distribution made in connection with any Liquidation.

Section 5. Liquidation Preference.

(a) In the event of any Liquidation, each Record Holder of Preferred Units shall be entitled to receive, and be paid out of the assets of the Partnership available for distribution to its Record Holders, the amount of the Record Holder's Capital Account in respect of the Preferred Units, which amount is intended to equal the Liquidation Preference, plus all accumulated and unpaid distributions on such Preferred Units to the date of final distribution to the Record Holders of Preferred Units, whether or not declared, without interest, and no more, before any payment shall be made or any assets distributed to Record Holders of Depository Units or any other class or series of the Partnership's Units or other equity ranking junior to the Preferred Units upon such Liquidation. If, upon any Liquidation, the amounts payable with respect to liquidation preferences of the Preferred Units and any other class or series of the Partnership's Units or other

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equity securities ranking on a parity with the Preferred Units upon

such Liquidation are not paid in full, the Record Holders of the Preferred Units and of such other securities will share pro rata in the amounts payable and other property distributable with respect to such Liquidation so that the per unit amounts to which Record Holders of Preferred Units and such other securities are entitled will in all cases bear to each other the same ratio that the liquidation preferences of the Preferred Units and such other securities bear to each other. After payment in full of the Liquidation Preference and any accumulated and unpaid distributions in respect of the Preferred Units upon Liquidation, the Record Holders of such Preferred Units in their capacity as such shall not be entitled to any further right or claim to any remaining assets of the Partnership.

(b) Neither the merger nor consolidation of the Partnership into or with any other entity, nor the merger or consolidation of any other entity into or with the Partnership, nor a sale, transfer or lease of all or any part of the assets of the Partnership, shall be deemed to be a Liquidation for purposes of this Amendment.

(c) Written notice of any Liquidation, stating the payment date or dates when and the place or places where the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage prepaid, not less than thirty (30) days prior to any payment date stated therein, to the holders of record of the Preferred Units at their respective addresses as the same shall appear on the books of the Partnership or the Transfer Agent for the Preferred Units.

Section 6. Optional Redemption.

(a) On any Payment Date, commencing with the Payment Date on March 31, 2000, the Partnership, with the approval of the Audit Committee, may redeem all, but not less than all, of the Preferred Units, out of funds legally available therefor, at a price per Preferred Unit equal to the Liquidation Preference plus any accumulated and unpaid distributions thereon, whether or not declared, up to but excluding the date fixed for redemption (such sum being hereinafter referred to as the "Redemption Price"). The aggregate Redemption Price paid to a Record Holder of Preferred Units shall be the product of the aggregate number of Preferred Units redeemed from such Record Holder and the per unit Redemption Price, with such product being rounded to the nearest whole cent (with one-half cent rounded upward) and shall be payable either in all cash or, as provided in Section 6(b) below, Depositary Units. Upon any Redemption, the Redemption Price may be paid either all in cash or all in Depositary Units but not in a combination thereof.

(b) If the Redemption Price is paid in Depositary Units, each Record Holder of Preferred Units shall be entitled to receive an amount of Depositary Units equal to the Redemption Price; provided that if the Redemption Price payable with respect to any

Record Holder's Preferred Units is not an integral multiple of the value of one Depositary Unit, as determined in accordance with the formula set forth below, the difference between the Redemption Price of such Preferred Units and the highest integral multiple of the value of one Depositary Unit which is less than the Redemption Price of such Preferred Units shall be paid to such Record Holder in cash (the "Cash Payment"). Depositary Units will be valued at (i) if the Depositary Units are listed or admitted to trading on one or more national securities exchange, the average price at which the Depositary Units had been trading over the 20-day period immediately preceding such Redemption on the principal national securities exchange on which the Depositary Units are listed or admitted to trading; (ii) if the Depositary Units are not listed or admitted to trading on a national securities exchange but are quoted by NASDAQ, the average bid price per Depositary Unit at which the Depositary Units had been trading over the 20-day period immediately preceding such Redemption, as furnished by the National Quotation Bureau

Incorporated ("Bureau") or such other nationally recognized quotation service as may be selected by the General Partner for such purpose, if such Bureau is not at the time furnishing quotations; or (iii) if the Depositary Units are not listed or admitted to trading on a national securities exchange or quoted by NASDAQ, an amount equal to the book value as reflected in the most recent audited financial statement of the Partnership as of the date of Redemption.

(c) Not more than sixty nor less than thirty days prior to the date fixed by the Partnership for redemption (the "Redemption Date"), notice by first class mail, postage prepaid, shall be given to the Record Holders of Preferred Units to be redeemed addressed to such Record Holders at their last addresses as shown upon the books of the Partnership. Each such notice of redemption shall specify, as applicable, (i) the Redemption Date, (ii) the Redemption Price, (iii) whether the Redemption Price is payable in cash or Depositary Units, (iv) if the Redemption Price is payable in Depositary Units, the number of Depositary Units to be delivered and the amount of the Cash Payment, if any, (v) the place or places of delivery and payment, (vi) that delivery and payment will be made upon presentation and surrender of the certificates representing Preferred Units at the place designated in such notice and (vii) that on and after the Redemption Date, distributions will cease to accumulate on the Preferred Units (unless the Partnership defaults in the payment of the Redemption Price).

(d) Any notice that is mailed as herein provided shall be conclusively presumed to have been duly given, whether or not the Record Holder of Preferred Units receives such notice; and failure to give such notice by mail, or any defect in such notice to the Record Holders of any Preferred Units designated for redemption, shall not affect the validity of the proceedings for the redemption of any other Preferred Units. On or after the Redemption Date, as stated in such notice, each Record Holder of Preferred Units shall

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surrender the certificate evidencing such Units to the Partnership at the place designated in such notice and shall thereupon receive payment in the amount and form specified in such notice. Notice having been given as aforesaid, if funds and any Depositary Units necessary for the redemption shall be legally available therefor and shall have been irrevocably deposited or set aside on or before the Redemption Date, then on and after the close of business on the Redemption Date, notwithstanding that the certificates evidencing any Preferred Units so called for redemption shall not have been surrendered, (i) distributions with respect to the Preferred Units shall cease to accumulate on the Redemption Date, (ii) such Preferred Units shall no longer be deemed outstanding, (iii) the Record Holders thereof shall cease to be Limited Partners of the Partnership to the extent of their interest in such Preferred Units (provided that such Record Holders shall be deemed admitted as Limited Partners with respect to any Depositary Units issued in payment of the Redemption Price for their Preferred Units) and (iv) all rights whatsoever with respect to the Preferred Units so called for redemption (except the right of the Record Holders to receive the Redemption Price for each such Preferred Unit, without interest or any sum of money in lieu of interest thereon, upon surrender of their certificates therefor at the place designated in such notice) shall terminate.

(e) Except as provided in Section 7 hereof, holders of Preferred Units shall have no right to require redemption of the Preferred Units.

Section 7. MANDATORY REDEMPTION. On March 31, 2010, the Partnership must redeem all, but not less than all, of the Preferred Units on the same terms as any optional redemption set forth in Section 6 hereof.

Section 8. BUSINESS COMBINATIONS. In the event that the Partnership shall effect any capital reorganization or reclassification of its Units or shall consolidate or merge with or

into, or shall sell or transfer all or substantially all of its assets to, any other entity, the holders of Preferred Units then outstanding shall be entitled to receive the same kind and amount of securities, cash, property, rights or interests as shall have been receivable for each Depositary Unit by the holders thereof in such reorganization, reclassification, consolidation, merger, sale or transfer had such Preferred Units been redeemed for Depositary Units in accordance with Section 6 immediately prior to such reorganization, reclassification, consolidation, merger, sale or transfer. The above provisions of this Section 8 shall similarly apply to successive reorganizations, reclassifications, consolidations, mergers, sales or transfers.

Section 9. STATUS OF ACQUIRED PREFERRED UNITS. Preferred Units acquired by the Partnership upon a redemption pursuant to Sections 6 or 7 or otherwise acquired by the Partnership will be retired and restored to the status of authorized but unissued Preferred Units and may not thereafter be reissued. Preferred

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Units held by the Partnership shall not be deemed outstanding for any purpose and shall have no voting rights or rights to allocations or distributions.

Section 10. Voting Rights.

(a) The Record Holders of Preferred Units will not have any voting rights except as set forth below or as otherwise from time to time required by applicable law. If a distribution is not declared and made to the Record Holders of Preferred Units on any two Payment Dates (which Payment Dates need not be consecutive), the Record Holders of more than 50% of all outstanding Preferred Units, including the General Partner and its affiliates, voting as a class, shall be entitled to appoint two nominees for the Board of Directors of the General Partner. Once elected, the nominees will be appointed to the Board of Directors by action of the General Partner. As directors, the nominees will, in addition to their other duties as directors, be specifically charged with reviewing all future distributions to the Record Holders of the Preferred Units. Such additional directors shall serve until the full distributions accumulated on all outstanding Preferred Units have been declared and paid or set apart for payment. If and when all accumulated distributions on the Preferred Units have been declared and paid or set aside for payment in full, the holders of Preferred Units shall be divested of the special voting rights provided by this paragraph, subject to revesting in the event of each and every subsequent default. Upon termination of such special voting rights attributable to all holders of Preferred Units with respect to payment of distributions, the term of office of each director nominated by the holders of Preferred Units (the "Preferred Unit Director") pursuant to such special voting rights shall forthwith terminate and the number of directors constituting the entire Board of Directors shall be reduced by the number of Preferred Unit Directors. So long as a distribution default shall continue, any vacancy in the office of a Preferred Unit Director may be filled by written consent of the Preferred Unit Director remaining in office or, if none remain in office, by vote of the holders of Preferred Units who are then entitled to participate in the appointment of such Preferred Unit Directors as provided above.

(b) The General Partner or Record Holders of Preferred Units owning at least 10% of all outstanding Preferred Units, including the General Partner and its affiliates, may call a meeting of the Record Holders of Preferred Units to elect such nominees. Any Record Holder of Preferred Units calling a meeting shall specify the number of Preferred Units as to which such Record Holder is exercising the right to call a meeting and only those specified Preferred Units shall be counted for the purpose of determining whether the required ten percent (10%) standard of the preceding sentence has been met. Record Holders of Preferred Units desiring to call a meeting shall deliver to the General Partner one or more calls in writing stating that the Record Holders signing such writing wish to call a meeting. Action at the meeting shall

be limited to appointing two nominees for the Board of Directors

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and the Record Holders of Preferred Units will have no right to call or participate at other meetings under Section 14.04 of the Partnership Agreement or otherwise. Within sixty (60) days after receipt of such a call from Record Holders of Preferred Units, or within such greater time as may be reasonably necessary for the Partnership to comply with any statutes, rules, regulations, listing agreements or similar requirements governing the holding of a meeting or the solicitation of proxies for use at such a meeting, the General Partner shall send a notice of the meeting to the Record Holders of Preferred Units directly. A meeting shall be held at a reasonable time and convenient place determined by the General Partner or the Liquidating Trustee, as the case may be, on a date not more than sixty (60) days after the mailing of notice of the meeting. Record Holders of Preferred Units may vote either in person or by proxy at any meeting. Each Record Holder shall have one vote for each whole Preferred Unit held of record by such Record Holder. No action shall be taken by the Record Holders of Preferred Units without a meeting duly called and held or without written consent in accordance with Section 12 hereof.

(c) Notice of a meeting called pursuant to this Section 10 shall be given either personally in writing or by mail or other means of written communication addressed to each Record Holder of Preferred Units at the address of the Record Holder appearing on the books of the Partnership. An affidavit or certificate of mailing of any notice or report in accordance with the provisions of this Section 10 executed by the General Partner, Transfer Agent or mailing organization shall constitute conclusive (but not exclusive) evidence of the giving of notice. If any notice addressed to a Record Holder of Preferred Units at the address of such Record Holder appearing on the books of the Partnership is returned to the Partnership by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver such notice, the notice and any subsequent notices or reports shall be deemed to have been duly given without further mailing if they are available for the Record Holder of Preferred Units at the principal office of the Partnership for a period of one year from the date of the giving of the notice to all other Record Holders of Preferred Units.

(d) For purposes of determining the Record Holders entitled to notice of or to vote at a meeting of the Record Holders of Preferred Units, the General Partner or the Liquidating Trustee, as the case may be, may set a record date, which shall not be less than ten (10) days nor more than sixty (60) days prior to the date of such meeting (unless such requirement conflicts with any rule, regulation, guideline, or requirement of any securities exchange on which the Preferred Units are listed for trading, in which case the rule, regulation, guidelines, or requirement of such securities exchange shall govern).

(e) Record Holders with respect to more than fifty percent (50%) of the total number of all outstanding Preferred Units then held by all Record Holders of Preferred Units, whether

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represented in person or by proxy, shall constitute a quorum at a meeting of Record Holders of Preferred Units. The Record Holders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment of such meeting, notwithstanding the withdrawal of enough Record Holders of Preferred Units to leave less than a quorum, if any action taken (other than adjournment) is approved by the requisite number of Record Holders specified in this Amendment. In the absence of a quorum, any meeting of Record Holders of Preferred Units may be adjourned from time to time by the affirmative vote of a majority of the Preferred Units represented either in person or by proxy at such meeting. When a meeting is adjourned to another time or place notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment

is taken. At the adjourned meeting the holders of Preferred Units may transact any business which might have been transacted at the original meeting.

(f) The General Partner or the Liquidating Trustee, as the case may be, shall be solely responsible for convening, conducting, and adjourning any meeting of Record Holders of Preferred Units, including, without limitation, the determination of Persons entitled to vote at such meeting, the existence of a quorum for such meeting, the satisfaction of the requirements of Section 10(b) with respect to such meeting, the conduct of voting at such meeting, the validity and effect of any proxies represented at such meeting, and the determination of any controversies, votes, or challenges arising in connection with or during such meeting or voting. The General Partner or the Liquidating Trustee, as the case may be, shall designate a Person to serve as chairman of any meeting and further shall designate a Person to take the minutes of any meeting, which Person, in either case, may be, without limitation, a Partner or any employee or agent of the General Partner. The General Partner or the Liquidating Trustee, as the case may be, may make all such other regulations, consistent with applicable law and this Amendment, as it may deem advisable concerning the conduct of any meeting of the Record Holders of Preferred Units, including regulations in regard to the appointment of proxies, the appointment and duties of inspectors of votes, and the submission and examination of proxies and other evidence of the right to vote.

(g) So long as any Preferred Units are outstanding, the Partnership shall not amend, alter or repeal any provisions of the Partnership Agreement or this Amendment so as to alter or change the express powers, preferences or special rights of the Preferred Units set forth herein so as to affect them adversely without the consent of the holders of at least two-thirds of the total number of outstanding Preferred Units, including those held by the General Partner and its affiliates, given in person or by proxy, by vote at a meeting called for that purpose or by written consent as permitted by law. For purposes of this paragraph and in furtherance of the foregoing, any such amendment or any resolution or action of the Board of Directors which would create or issue any

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series of Preferred Units out of the authorized Preferred Units, or which would authorize, create or issue any securities (whether or not already authorized) ranking junior to, on a parity with or senior to the Preferred Units with respect to payment of distributions and distributions upon any Liquidation or having special voting or other rights, shall not be considered to affect adversely the powers, preferences or special rights of the outstanding Preferred Units.

(h) The Record Holders of the Preferred Units will have no other rights to participate in the management of the Partnership and they will not be entitled to vote on any matters submitted to a vote of the Record Holders of Depositary Units.

Section 11. PREEMPTIVE RIGHTS. No Record Holder of Preferred Units shall have any preemptive right with respect to (a) additional Capital Contributions, (b) issuance or sale of Units, whether unissued, held in treasury or hereafter created, (c) issuance of any obligations, evidences of indebtedness or other securities of the Partnership convertible into or exchangeable for, or carrying or accompanied by any rights to receive, purchase or subscribe for, any such unissued Units or Units held in treasury, (d) issuance of any right of, subscription to, or right to receive, or any warrant or option for the purchase of, any of the foregoing securities, or (e) issuance or sale of any other securities that may be issued or sold by the Partnership.

Section 12. ACTION WITHOUT A MEETING. Any action that may be taken at a meeting of the Record Holders of Preferred Units may be taken without a meeting if a consent in writing setting forth the action so taken is signed by Record Holders of Preferred Units owning not less than the number of Preferred Units that would be

necessary to authorize or take such action at a meeting at which all of the Record Holders of Preferred Units were present and voted. Prompt notice of the taking of action without a meeting shall be given to the Record Holders of Preferred Units who have not consented thereto in writing. The General Partner may specify that any written ballot submitted by the General Partner to Record Holders of Preferred Units for the purpose of taking any action without a meeting shall be returned to the Partnership within the time, not less than twenty (20) days, specified by the General Partner. If a ballot returned to the Partnership does not vote all of the Preferred Units held by a Record Holder of Preferred Units, the Partnership shall be deemed to have failed to receive a ballot for the Preferred Units that were not voted. If consent to the taking of any action by the Record Holders of Preferred Units is solicited by any person other than by the General Partner, the written consents shall have no force and effect unless and until (i) they are deposited with the Partnership in care of the General Partner, and (ii) consents sufficient to take the action proposed are dated as of a date not more than ninety (90) days prior to the date sufficient consents are deposited with the Partnership.

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Section 13. ISSUANCE OF CERTIFICATES EVIDENCING PREFERRED UNITS. On the closing date of the Rights Offering, the General Partner shall cause the Partnership to issue certificates evidencing the aggregate whole number of Preferred Units to which the Record Holders of Preferred Units are entitled in the form of Exhibit A annexed hereto. Upon a transfer of a Preferred Unit in accordance with Section 14 hereof, the General Partner shall cause the Partnership to issue replacement certificates, according to such procedures as the General Partner shall establish. The certificates issued pursuant to this Section 13 shall, upon issuance, be distributed to the Record Holders of such Preferred Units. The Preferred Units will not be evidenced by Depositary Receipts and, although the Partnership intends to seek to list the Preferred Units on the New York Stock Exchange, there is no obligation to list the Preferred Units on the New York Stock Exchange or any other national securities exchange.

Section 14. TRANSFER OF PREFERRED UNITS. Until a Preferred Unit has been transferred on the books of the Partnership, the Partnership and the Registrar and Transfer Company or any successor appointed by the General Partner, as transfer agent, registrar and distribution-paying agent for the Preferred Units (the "Transfer Agent") will treat the Record Holder thereof as the absolute owner for all purposes, notwithstanding any notice to the contrary or any notation or other writing on the certificate representing such Preferred Unit, except as otherwise required by law. Any transfers of a Preferred Unit will not be recorded by the Transfer Agent or recognized by the Partnership unless certificates representing the Preferred Units are surrendered and the transferee executes and delivers a Transfer Application to the Transfer Agent. By executing and delivering a Transfer Application, the transferee of Preferred Units is an assignee until admitted to the Partnership as a substituted limited partner, and shall have been deemed to have automatically requested admission to the Partnership as a substituted limited partner, agreed to be bound by the terms and conditions of the Partnership Agreement, represented that such transferee has the capacity and authority to enter into the Partnership Agreement and granted the powers of attorney to the General Partner as set forth in the Partnership Agreement. On a monthly basis, the Transfer Agent will, on behalf of transferees who have submitted Transfer Applications, request the General Partner to admit such transferees as substituted limited partners in the Partnership. If the General Partner consents to such substitution, a transferee will be admitted to the Partnership as a substituted limited partner upon the recordation of such transferee's name in the books and records of the Partnership. Upon such admission, which is in the sole discretion of the General Partner, he or she will be entitled to all of the rights of a limited partner under the Delaware Act and pursuant to this Amendment and the Partnership Agreement. A transferee will, after submitting a Transfer Application to the Partnership but before

being admitted to the Partnership as a substituted unitholder of record, have the rights of an assignee under the Delaware Act and this Amendment and the Partnership Agreement, including the right

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to receive his or her distributions. Preferred Units are securities and are transferable according and subject to the laws governing transfers of securities.

A transferee who does not execute and deliver a Transfer Application to the Partnership will not be recognized as the Record Holder of Preferred Units and will only have the right to transfer or assign his Preferred Units to another transferee. Therefore, such transferee will neither receive distributions from the Partnership or have any other rights to which Record Holders of Preferred Units are entitled under the Delaware Act or pursuant to this Amendment or the Partnership Agreement. Distributions made in respect of the Preferred Units held by such transferees will continue to be paid to the transferor of such Preferred Units. The Partnership and a transferor will have no duty to ensure the execution of a Transfer Application by a transferee and will have no liability or responsibility if such transferee neglects or chooses not to execute and deliver the Transfer Application to the Partnership.

Whenever Preferred Units are transferred, the Transfer Application requires that a transferee answer a series of questions. The required information is designed to provide the Partnership with the information necessary to prepare its tax information return. If the transferee does not furnish the required information, the Partnership will make certain assumptions concerning this information.

As used in this Amendment, the term Transfer Application means an application and agreement for transfer of Preferred Units in the form set forth on the back of the certificates evidencing Preferred Units or in a form substantially to the same effect in a separate instrument.

Section 15. REPLACEMENT OF LOST, STOLEN, DESTROYED OR MUTILATED PREFERRED UNIT CERTIFICATES. The Partnership shall issue or cause to be issued a new certificate representing a Preferred Unit in place of any certificate representing a Preferred Unit previously issued if the Record Holder of such certificate:

(a) makes proof, in form and substance satisfactory to the General Partner, of the loss, theft or destruction, and of such General Partner's ownership, of such previously issued certificate;

(b) surrenders any mutilated certificate;

(c) requests the issuance of a new certificate before the Partnership has notice that such previously issued certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;

(d) if requested by the General Partner, delivers to the Partnership a bond, in form and substance satisfactory to the General Partner, with such surety or sureties and with fixed or

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open penalty, as the General Partner may direct, to indemnify the Partnership against any claim that may be made on account of the alleged loss, theft, destruction or mutilation of such previously issued certificate; and

(e) satisfies any other reasonable requirements imposed by the General Partner.

When a previously issued certificate representing a Preferred Unit has been lost, stolen, destroyed or mutilated, and the Record Holder fails to notify the Partnership within a reasonable time after he has notice of such event, and a transfer

of Preferred Units represented by the certificate is registered before such Partnership receives such notification, the Record Holder of the Preferred Unit shall be precluded from making any claim against the Partnership or any Transfer Agent with respect to such transfer or for a new certificate.

Section 16. Allocations of Income and Loss.

(a) Section 5.01 of the Partnership Agreement is amended by adding the following provisions:

(e) All distributions accrued to a Record Holder of Preferred Units under Section 4(a) of the Amendment during a Fiscal Year shall be treated as guaranteed payments to such Record Holder pursuant to Section 707(c) of the Code for such Fiscal Year. Record Holders of Preferred Units shall not be allocated any other items of income, gain, loss or deduction of the Partnership in respect of the Preferred Units except (i) upon the redemption of such Preferred Units for Depository Units or (ii) as required under paragraph (c) of Section 5.01.

(f) Upon any redemption of Preferred Units for Depository Units, the General Partner is authorized to allocate items of income, gain, loss and deduction between the Record Holders of Depository Units received upon the redemption and the General Partner and other Record Holders of Depository Units in such amounts, if any, as are required to cause the Capital Accounts of the Record Holders of each Depository Unit to be in proportion to the number of Depository Units held by each Record Holder.

(b) Sections 5.01(b) and (c) of the Partnership Agreement are amended to provide as follows:

"(b)

(1) To the extent that any Partner has or would have, as a result of an allocation of an item of loss or deduction, an Adjusted Capital Account deficit, such amount of loss or deduction shall be allocated to the other Partners (excluding Record Holders of Preferred Units) in proportion to their respective Percentage Interests, but in a manner which will not produce an Adjusted Capital Account deficit as to any such Partner. To the extent such

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allocation would result in all Record Holders of Depository Units and the General Partner having Adjusted Capital Account deficits, such loss or deduction shall be allocated to the Record Holders of Preferred Units in proportion to the number of Preferred Units held by each Record Holder until they would have an Adjusted Capital Account deficit. Any balance shall be allocated to the General Partner.

(2) Notwithstanding any other provision of this Article V, if there is a net decrease in Partnership Minimum Gain during any Partnership Year, then, subject to the exceptions set forth in Treasury Regulation Section 1.704-2(f)(2), (3), (4) and (5), each Partner shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Partner's share of the net decrease in Partners Minimum Gain, as determined under Treasury Regulation Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in such section of the Regulations in accordance with Treasury Regulation Section 1.704-2(f). This paragraph is intended to comply with the minimum gain chargeback requirements in Treasury Regulation Section 1.704-2(f) and shall be interpreted consistently therewith.

(3) Notwithstanding any other provision of this Article V except Section 5.01(b)(2), if there is a net decrease in Partner Minimum Gain attributable to a Partner Nonrecourse Debt during any Fiscal Year then, subject to the exceptions set forth in Treasury

Regulation Section 1.704-2(i)(4), each Partner who has a share of the Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Treasury Regulation Section 1.704-2(i)(5), shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Treasury Regulation Section 1.704-2(i)(4). The items to be so allocated shall be determined in accordance with Treasury Regulation Section 1.704-2(i)(4). This paragraph is intended to comply with the minimum gain chargeback requirement in Treasury Regulation Section 1.704-2(i) and shall be interpreted consistently therewith.

"(c)

(1) Notwithstanding any other provision of this Article V, except Section 5.01(b), in the event any Partner receives any adjustments, allocations or distributions described in Treasury Regulation Section 1.704-1(b)(2)(ii)(d)(4), (5), or (6), that cause or increase an Adjusted Capital Account deficit of such Partner, items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulation, the Adjusted Capital Account deficit of such Partner as quickly as possible.

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(2) Nonrecourse Deductions for any Fiscal Year shall be allocated between the General Partner and the Record Holders of Depository Units in proportion to their respective Percentage Interests.

(3) Any Partner Nonrecourse Deductions for any Fiscal Year shall be specially allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulation Section 1.704-2(i)(1).

(4) The allocations set forth in Sections 5.01(b) and 5.01(c)(1) and (3) above (the "Regulatory Allocations") are intended to comply with certain requirements of Treasury Regulation Section 1.704-1(b). The Regulatory Allocations shall be taken into account for the purpose of equitably adjusting subsequent allocations of income, gain, loss and deduction, and items of income, gain, loss, and deduction among the Partners so that, to the extent possible, the net amount of such allocations of income, gain, loss and deduction and other items to each Partner shall be equal to the net amount that would have been allocated to each such Partner if the Regulatory Allocations had not occurred.

(5) Pursuant to Treasury Regulation Section 1.752-3(a), for the purpose of determining the General Partner's and each Record Holders of Depository Units' share of excess Nonrecourse Liabilities of the Partnership, each such Person shall be treated as having a share of the Partnership's profit and income equal to their respective Percentage Interests. For this purpose, the Percentage Interest allocable to Record Holders of Preferred Units shall be zero.

(6) To the extent permitted by Treasury Regulation Sections 1.704-2(h)(3) and 1.704-2(i)(6), the General Partner shall endeavor to treat distributions as having been made from the proceeds of Nonrecourse Liabilities or Partner Nonrecourse Debt only to the extent that such distributions would cause or increase a deficit balance in any Partner's Adjusted Capital Account."

(c) Section 5.02 of the Partnership Agreement is amended by deleting paragraphs (c) and (d), relabelling paragraphs (e) through (h) as paragraphs (c) through (f), respectively, and amending paragraph (a) to read as follows:

"(a) Except as otherwise provided in this Section 5.02, all items of income, gain, loss and deduction of the Partnership for federal income tax purposes shall be allocated for federal income

tax purposes among the General Partner and Limited Partners in accordance with the allocation of the corresponding items of book income, gain, loss and deduction under Section 5.01 hereof."

Section 17. LIABILITY OF GENERAL PARTNER TO RECORD HOLDERS OF PREFERRED UNITS. The General Partner and its Affiliates and all partners, shareholders, directors, officers, employees or agents of

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the General Partner and its Affiliates shall not be liable (for monetary damages or otherwise) to the Record Holders of Preferred Units for errors in judgment or for breach of fiduciary duty as the General Partner of the Partnership or as a partner, shareholder, director, officer, employee or agent of the General Partner of the Partnership or any of its Affiliates, except for liability (i) for any breach of such Person's duty of loyalty to the Partnership, as such duty of loyalty may be set forth in or modified by this Amendment or the Partnership Agreement, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law or (iii) for any transaction from which such Person has derived an improper benefit.

Section 18. REIMBURSEMENT OF EXPENSES OF GENERAL PARTNER. The Partnership shall reimburse the General Partner for all expenses, disbursements and advances reasonably incurred by the General Partner in connection with the registration of the Rights, the Preferred Units and the Depositary Units under applicable federal and state securities laws in connection with the Rights Offering, the offering, sale and distribution of the Preferred Units and the Depositary Units pursuant to the Rights Offering and, as applicable, the listing of the Rights, the Preferred Units and the Depositary Units on the New York Stock Exchange.

Section 19. REPORTS. The General Partner shall furnish such reports and information to Record Holders of Preferred Units at the same time and in the same manner as are required to be furnished to Record Holders pursuant to Section 8.04 of the Partnership Agreement.

Section 20. NOTICES. All notices, demands, requests or other communications which may be or are required to be given, served, or sent by a Record Holder of Preferred Units or the Partnership pursuant to this Amendment shall be in writing and shall be personally delivered, mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, or transmitted by telegram or telex, addressed as follows:

(a) If to the General Partner:

American Property Investors, Inc.
90 South Bedford Road
Mt. Kisco, New York 10549
Attention: John P. Saldarelli

(b) If to a Record Holder of Preferred Units:

The Last Known Business, Residence or
Mailing Address of Such Record Holder
Reflected in the Records of the
Partnership

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(c) If to the Partnership:

American Real Estate Partners, L.P.
90 South Bedford Road
Mt. Kisco, New York 10549
Attention: John P. Saldarelli

The General Partner and each Record Holder of Preferred Units and the Partnership may designate by notice in writing a new address to which any notice, demand, request or communication may

thereafter be so given, served or sent. Each notice, demand, request or communication which shall be delivered, mailed or transmitted in the manner described above shall be deemed sufficiently given, served, sent or received for all purposes at such time as it is delivered to the addressee (with an affidavit of personal delivery, the return receipt, the delivery receipt, or (with respect to a telex) the answerback being deemed conclusive (but not exclusive) evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

Section 21. SEVERABILITY. The invalidity of any one or more provisions hereof or of any other agreement or instrument given pursuant to or in connection with this Amendment shall not affect the remaining portions of this Amendment or any such other agreement or instrument or any part thereof, all of which are inserted conditionally on their being held valid in law; and in the event that one or more of the provisions contained herein or therein should be invalid, or should operate to render this Amendment or any such other agreement or instrument invalid, this Amendment and such other agreements and instruments shall be construed as if such invalid provisions had not been inserted.

Section 22. WAIVER. Neither the waiver by a Partner of a breach or of a default under any of the provisions of this Amendment, nor the failure of a Partner, on one or more occasions, to enforce any of the provisions of this Amendment or to exercise any right, remedy, or privilege hereunder shall be construed as a waiver of any subsequent breach or default of a similar nature, or a waiver of any such provisions, rights, remedies, or privileges hereunder.

Section 23. LIMITATION ON BENEFITS OF THIS AGREEMENT. It is the explicit intention of the Partners and the Partnership that no person or entity other than the Partners and the Partnership is or shall be entitled to bring any action to enforce any provision of this Amendment against any Partners or the Partnership, and that except as set forth in this Amendment, the covenants, undertakings, and agreements set forth in this Amendment shall be solely for the benefit of, and shall be enforceable only by, the Partners (or their respective successors and assigns as permitted hereunder) and the Partnership.

Section 24. CONSENT OF RECORD HOLDERS OF PREFERRED UNITS. By acceptance of a Preferred Unit, each Record Holder thereof shall

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be deemed to have applied for admission as a Limited Partner of the Partnership with respect to the Depositary Units and Preferred Units and to have agreed to be bound by all of the terms and conditions of the Partnership Agreement. In addition, by acceptance of a Preferred Unit, each Record Holder thereof expressly consents and agrees that, whenever in this Amendment it is specified that an action may be taken upon the affirmative vote of less than all of the Record Holders of Preferred Units, such action may be so taken upon the concurrence of less than all of the Record Holders of Preferred Units and each such Record Holder of Preferred Units shall be bound by the results of such action.

Section 25. PRONOUNS. All pronouns and any variation thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the person or entity may require.

Section 26. HEADINGS. Section and subsection headings contained in this Amendment are inserted for convenience of reference only, shall not be deemed to be a part of this Agreement for any purpose, and shall not in any way define or affect the meaning, construction or scope of any of the provisions hereof.

Section 27. GOVERNING LAW. This Amendment, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the Delaware Act and all other laws of Delaware (but not including the choice of law rules thereof).

Section 28. AMENDMENTS. The Record Holders of Preferred Units shall have no right to propose amendments to the terms of the Preferred Units under Article 14 of the Partnership Agreement or otherwise.

Section 29. EXECUTION IN COUNTERPARTS. To facilitate execution, this Amendment may be executed in as many counterparts as may be required; and it shall not be necessary that the signatures of, or on behalf of, each party, or that the signatures of all persons required to bind any party, appear on each counterpart; but it shall be sufficient that the signature of or on behalf of, each party, or that the signatures of the person required to bind any party, appear on one or more of the counterparts. All counterparts shall collectively constitute a single agreement. It shall not be necessary in making proof of this Amendment to produce or account for more than a number of counterparts containing the respective signatures of, or on behalf of, all of the parties hereto.

Section 30: INCONSISTENT TERMS; CONTINUATION OF PARTNERSHIP AGREEMENT. In the event of any inconsistency between the terms of the Partnership Agreement and the terms of this Amendment, the Partnership Agreement is deemed amended to conform to the terms of this Amendment. Except as amended by this Amendment, the Partnership Agreement continues in full force and effect.

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Section 31. POWERS OF GENERAL PARTNER. Record Holders of Preferred Units acknowledge that the General Partner shall have the right, power and authority, in the management and control of the business and affairs of the Partnership, to do or cause to be done any and all acts deemed by the General Partner to be necessary or appropriate to carry out the purposes and business of the Partnership, as set forth in the Partnership Agreement, and the Record Holders of Preferred Units further acknowledge that their rights are limited to those set forth in this Amendment and any rights set forth in the Partnership Agreement consistent herewith.

IN WITNESS WHEREOF, the undersigned have duly executed this Amendment, or have caused this Amendment to be duly executed on their behalf, as of the day and year first hereinabove set forth.

General Partner:

AMERICAN PROPERTY INVESTORS, INC.

By: /s/John P. Saldarelli

Title: Treasurer

Limited Partners:

By: American Property Investors,
Inc. (attorney-in-fact)

By: /s/John P. Saldarelli

Title: Treasurer

[Amendment No. 1 to Partnership Agreement]

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EXHIBIT 4.2

AMENDMENT NO. 1 TO DEPOSITARY AGREEMENT

AMENDMENT NO. 1 TO DEPOSITARY AGREEMENT (the "Amendment") made as of this 22nd day of February, 1995 by and between American Real Estate Partners, L.P., a Delaware limited partnership (the "Partnership"), and Registrar and Transfer Company, a New York corporation (the "Depositary").

WHEREAS, the Partnership and American Property Investors, Inc., a Delaware corporation (the "Managing General Partner"), entered into a Depositary Agreement with the Depositary dated July 1, 1987 (the "Original Agreement") to appoint the Depositary to act as depositary of the Partnership in connection with its depositary units representing limited partner interests (the "Depositary Units") issued at the closing of an exchange offer on July 1, 1987; and

WHEREAS, the Partnership proposes to distribute at no cost to holders of record as of the close of business on February 24, 1995 of Depositary Units one subscription right (each a "Right") for each seven Depositary Units held (the "Rights Offering"); and

WHEREAS, each Right entitles the holder thereof to purchase, at any time prior to 5:00 p.m., New York City time, on March 30, 1995 (as such date may be extended by the Partnership) the following securities: (i) six Depositary Units and (ii) one 5% cumulative pay-in-kind redeemable preferred unit representing a limited partner interest; and

WHEREAS, the Partnership and the Depositary desire to amend the Original Agreement to include the Depositary Units issued in connection with the Rights Offering and any future Depositary Units issued by the Partnership in the Original Agreement and to make certain other amendments; and

WHEREAS, the parties hereto desire to amend the Original Agreement to reflect the foregoing.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

Section 1. DEFINITIONS. Terms used but not defined in this Amendment shall have the respective meanings ascribed to them in the Original Agreement.

Section 2. AMENDMENTS. The Original Agreement shall be amended as follows:

A. Section 2.1 of the Original Agreement is hereby amended in its entirety as follows:

2.1 DEPOSIT OF CERTIFICATES OF LIMITED PARTNER INTERESTS. Pursuant to Section 9.01 of the Partnership Agreement, and subject to the terms and conditions of this Agreement, on the date of any issuance of Depositary Units by the Partnership, the Managing General Partner shall deposit with the Depositary a Certificate or Certificates evidencing the aggregate whole number of Depositary Units so issued. Such deposit shall be accompanied by (a) written instructions containing the name, address, social security or taxpayer identification number and the number of Depositary Units to be issued to each investor in the Partnership, and (b) a written request that the Depositary execute and deliver to each such investor Depositary Receipts evidencing the Depositary Units, registered in the name of such investor, in accordance with such written instructions. Each investor shall thereupon be recognized by the Partnership as a Record Holder as of the closing date of such issuance of Depositary Units.

B. Section 11.3(a) of the Original Agreement is hereby amended in its entirety as follows:

(a) Any notice to be given hereunder shall be deemed to have been duly given if personally delivered or sent by telegram or telex, confirmed by letter, addressed to the party in the manner and at the address shown below, or at such address as the party has specified in a notice given in accordance with this Section 11.3.

To the Partnership:

American Real Estate Partners, L.P.
90 South Bedford Road
Mt. Kisco, New York 10549
Attn: John P. Saldarelli

To the Managing Partner:

American Property Investors, Inc.
90 South Bedford Road
Mt. Kisco, New York 10549
Attn: John P. Saldarelli

To the Depositary:

Registrar and Transfer Company
10 Commence Drive
Cranford, New Jersey
Attn: Thomas L. Montrone

Section 3. DOCUMENTS OTHERWISE UNCHANGED. Except as herein provided, the Original Agreement shall remain unchanged and in full force and effect, and each reference therein to the Agreement shall be a reference to the Original Agreement as amended

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hereby and as the same may be further amended, supplemented or otherwise modified and in effect from time to time.

Section 4. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which shall be identical and all of which, when taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Amendment by signing any such counterpart.

Section 5. GOVERNING LAW. This Amendment shall be governed by and construed in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

AMERICAN REAL ESTATE PARTNERS, L.P.

By: American Property Investors, Inc.,
as General Partner

By: /s/John P. Saldarelli

Name: John P. Saldarelli
Title: Treasurer

REGISTRAR AND TRANSFER COMPANY

By: /s/Thomas L. Montrone

Name: Thomas L. Montrone
Title: President

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EXHIBIT 10.12

AMENDED AND RESTATED AGENCY AGREEMENT

AMENDED AND RESTATED AGENCY AGREEMENT (the "Agency Agreement") made as of this 22nd day of February, 1995 by and between AMERICAN REAL ESTATE PARTNERS, L.P., a Delaware limited partnership (the "Partnership"), and REGISTRAR AND TRANSFER COMPANY, a New York corporation (the "Agent").

WHEREAS, the Partnership entered into an Agency Agreement with the Agent dated February 1, 1991 (the "Original Agreement") to appoint the Agent as transfer agent, registrar and disbursing agent of the Partnership in connection with its depositary units representing limited partner interest (the "Depositary Units"); and

WHEREAS, the Partnership proposes to distribute at no cost to holders of record as of the close of business on February 24, 1995 of Depositary Units one subscription right for each seven Depositary Units held (the "Rights Offering"); and

WHEREAS, in connection with the Rights Offering, the Partnership intends to issue a series of 5% cumulative pay-in-kind redeemable preferred units representing limited partner interests in the Partnership (the "Preferred Units"); and

WHEREAS, the Partnership and the Agent desire to amend and restate the Original Agreement to appoint the Agent as transfer agent, registrar and disbursing agent of the Partnership with respect to the Preferred Units and confirm the Agent's appointment as transfer agent, registrar and disbursing agent with respect to the Depositary Units; and

WHEREAS, the Agent desires to serve as transfer agent, registrar and disbursing agent of the Partnership in connection with its Depositary Units and Preferred Units.

NOW, THEREFORE, in consideration of the mutual premises herein made and for other good and valuable consideration and intending to be legally bound, the parties hereto agree as follows:

1. Items to be Furnished to Agent

The Partnership shall deliver to the Agent for its examination and retention simultaneously with the execution of this Agency Agreement a copy of the Partnership Agreement, as amended to date, a copy of the certificate of limited partnership of the Partnership, certified by the Secretary of State of the State of Delaware, a certificate of the Partnership's good standing in the State of Delaware and the following items certified by an authorized officer of the Partnership as being true, correct and complete and, as applicable, in full force and effect on the date hereof:

- (a) A copy of the Bylaws of American Property Investors, Inc. (the "General Partner");
- (b) A copy of the resolutions of the Board of Directors of the General Partner authorizing the appointment of the Agent as transfer agent, registrar and disbursing agent and the execution of this Agency Agreement by authorized officers;
- (c) A list of officers of the Partnership and directors of the General Partner, bearing their respective facsimile signatures, who are authorized to sign and furnish instructions and other information as required by the Agent; and
- (d) A specimen certificate representing the Depositary Units and a specimen certificate representing the Preferred Units (together, the "Certificates").

2. Certificates

The Partnership shall furnish the Agent with a sufficient supply of blank Certificates in the form of the specimen Certificates delivered herewith and from time to time shall renew such supply upon the request of the Agent.

3. Maintenance and Safekeeping of Records, Cancelled Certificates

The Agent shall maintain such books of the Partnership and any other records required in the performance of its agency, and shall retain for safekeeping all cancelled Certificates. At the end of each calendar year, the Agent shall promptly deliver to the Partnership all cancelled Certificates which have accumulated and are more than one year old since cancellation. In addition, upon request of the Partnership, the Agent shall promptly deliver to the Partnership any records which have accumulated. The Partnership shall return any such records as may be requested by the Agent or any regulatory agency having jurisdiction over the same. The Partnership shall indemnify and hold harmless the Agent against all losses, liabilities, and expenses, including reasonable attorneys' fees, which may be incurred by reason of the failure of the Partnership to return the same.

4. Validity of Signatures

The Agent may act upon any signature or facsimile thereof lodged with the Agent or which the Agent believes in good faith to be genuine. When any officer of the Partnership shall no longer be vested with authority to sign for the Partnership on behalf of the Partnership, written notice thereof shall immediately be given to the Agent and, until receipt of such notice, the Agent shall be fully protected and held harmless in recognizing and acting upon any correspondence, certificates or instructions bearing the signature of

such officer or a signature believed by it in good faith to be such genuine signature. Certificates bearing signatures or facsimiles thereof of persons heretofore and hereafter duly authorized to sign such Certificates may be issued from time to time regardless of whether any such person shall then be able or duly authorized to sign such Certificates, and the Agent, unless otherwise specifically instructed in writing, may use any such Certificates which may be on hand from time to time and such certificates may be issued with the same effect and validity as if such person were then able and authorized to sign certificates. From time to time, additional officers of the Partnership may be appointed by resolutions of the Board of Directors of the General Partner to sign Certificates or furnish instructions to the Agent on behalf of the Partnership.

5. Amendment of Governing Instruments

The Partnership shall file with the Agent a copy of any amendment to its Partnership Agreement or the Bylaws of the General Partner made after the date hereof, certified by an authorized officer of the Partnership or the General Partner, as the case may be, as being a true, correct and complete copy of such amendment in full force and effect on the date such certification is made.

6. Instructions and Advice Counsel

When the Agent deems it desirable, it may apply to any officer of the Partnership or it may consult with counsel for the Partnership or the Agent's own counsel concerning any matter arising in connection with its agency. The Partnership agrees that the Agent shall be held harmless and indemnified from any liability, claim or expense, including reasonable attorneys' fees, in acting pursuant to

instruction or the advice of counsel as aforesaid.

7. Limitations and Liabilities

(a) AGENT'S INDEMNITY. The Partnership shall indemnify and hold harmless the Agent, its employees and agents (hereinafter referred to severally and collectively as the "Agent Group"), from and against any loss, damage, liability or claim suffered, incurred by, or asserted against the Agent Group, including expenses of legal counsel arising out of, in connection with or based upon any act or omission by the Agent Group relating in any way to this Agreement or the Agent Group's services hereunder, so long as the Agent Group has acted in good faith and without gross negligence.

(b) PARTNERSHIP INDEMNITY. The Agent shall indemnify and hold harmless the Partnership, its employees and agents and any persons who control the Partnership (hereinafter referred to severally and collectively as the "Partnership Group") from and against any loss, damage, liability or claim suffered, incurred by, or asserted against the Partnership Group, including expenses of legal counsel arising out of, in connection with or based upon any act or omission by the Agent relating in any way to the Agency

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Agreement or its services hereunder, so long as the Partnership Group has not acted in bad faith and/or with gross negligence.

8. Resignation and Termination

The term of agreement will commence from the effective date of appointment and will run for a period of one (1) year with fees guaranteed for the entire period. Thereafter, the Agency Agreement will be automatically annually renewed.

9. Original Issue of Depositary Units and Preferred Units

Upon the receipt of a duly executed Letter of Instruction from the Partnership signed by two (2) duly authorized officers, the Agent shall issue and countersign the Certificate or Certificates representing the appropriate number of Depositary Units and Preferred Units, bearing the facsimile signature of authorized officers of the Partnership and shall deliver such Certificates as instructed. The Agent shall record all such issuances.

10. Transfer of Units

The Agent, as transfer agent, shall transfer Depositary Units and Preferred Units from time to time upon surrender of the Certificate or Certificates representing the units to be transferred, properly endorsed, accompanied by such documentation as the Agent deems necessary to evidence the authority of the transferor to make such transfer, and bearing evidence of payment of transfer taxes, if any, and upon cancellation of the Certificate or Certificates representing such units, to record and countersign a new Certificate or Certificates in lieu thereof signed by or bearing facsimile signatures of authorized officers of the Partnership and deliver such Certificate or Certificates to the presentor or designee.

11. Distributions

(a) DEPOSITARY UNITS. The Agent shall, as disbursing agent, distribute by check, distributions which may be allocated to the holders of Depositary Units of the Partnership pursuant to the instructions of the Partnership. The Partnership shall advise the Agent (in writing) of the date that such distribution is to be made the earlier of at least five (5) business days prior to such distribution date or the record date for such distribution, and shall advise the Agent of the total amount to be distributed to the holders

of Depositary Units at least five (5) full business days prior to such date and shall provide New York Clearing House funds to the Agent at least one full business day prior to such distribution date.

(b) PREFERRED UNITS. The Agent shall, as disbursing agent, distribute certificates representing Preferred Units which may be allocated to the holders of Preferred Units of the Partnership as annual distributions pursuant to the instructions of the Partnership. The Partnership shall advise the Agent (in writing) of the date that such distribution is to be made the earlier of at least five (5)

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business days prior to such distribution date or the record date for such distribution, and shall advise the Agent of the total amount to be distributed to the holders of Preferred Units at least five (5) full business days prior to such date and shall provide an adequate amount of certificates representing Preferred Units to the Agent at least five (5) full business days prior to such distribution date.

12. Replacement of Lost Distribution Checks

In the event that any distribution check issued by the Agent pursuant to paragraph 11 hereof shall become lost or destroyed, the Agent shall issue a stop payment order against such check and shall thereafter issue a replacement check upon written order of the person entitled to receive such distribution.

13. Replacement of Lost Certificates

In the event that any Certificate shall become lost or destroyed, the Agent shall issue a replacement Certificate or Certificates upon receipt of a request for replacement in writing by the beneficial owner accompanied by a properly sworn affidavit and a surety bond acceptable to the Agent. In such circumstances, the Partnership shall indemnify and hold harmless the Agent from and against all losses, liabilities and expenses, including reasonable attorney fees which may be incurred by reason of any loss relating to certificate replacement.

14. Delivery of Certificates by Mail

When mail is used for delivery of Certificates, the Agent shall forward Certificates by mail or other means insured as to replacement in the event of non-receipt by the addressee within one (1) year of the mail date or other such time period as may be specified by the then existing insurance agreements.

15. Governing Law

This Agency Agreement shall be governed by and construed in accordance with the laws of the State of New York.

16. Entire Agreement

This Agency Agreement contains the entire agreement of the parties and no representations, inducements, promises or agreements oral or otherwise not embodied herein shall be of any force or effect. If any provisions of this Agency Agreement are held for any reason to be unenforceable, the remainder of this Agency Agreement shall nevertheless remain in full force and effect.

17. Exhibits

Proposal submitted by the Agent dated February 1, 1991, is incorporated herein as Exhibit A.

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Additional Fees and Services schedule submitted by the Agent is incorporated herein as Exhibit B.

IN WITNESS WHEREOF, the parties hereto have executed this Agency Agreement and affixed their corporate seals on the day and year first written.

AMERICAN REAL ESTATE PARTNERS, L.P.

By: American Property Investors, Inc.
General Partner

By:/s/John P. Saldarelli

Title: Treasurer

Attest:/s/Diane P. Diblin

By:/s/Martin Hirsch

Title: Vice President

REGISTRAR AND TRANSFER COMPANY

Attest:/s/*

Assistant Secretary
Corporate Seal

By:/s/Thomas L. Montrone

Title: President

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EXHIBIT A - FEES AND SERVICES PROVIDED

Agency Agreement - Registrar and Transfer Company (New York) and American Real Estate Partners, L.P.

February 1, 1991

Registrar and Transfer Company will provide the transfer agency services to the American Real Estate Partners Limited Partnership for a fixed annual fee of \$99,600 billed monthly at \$8,300. This fee is guaranteed for a three year period. Services include those specified in the contract in addition to those noted below:

- The maintenance of a 1-800 telephone line for AREP unitholder inquiries;
- All transfer services including the issuance of certificates, examination of certificates to insure transferability, rejection of deficient items, archival of records as required by the SEC, replacement of lost certificates upon receipt of a satisfactory surety bond and other routine transfer services;
- Maintenance of all account details including current and prior addresses, demographic information, distribution details, certificated details, lost and replaced certificate details, and other pertinent information;
- Storage of security records in accordance with SEC regulations;
- Processing of up to four cash distributions per year, providing outstanding check tapes to the financial institution for reconciliation, stopping and replacement of lost checks, and two copies of a distribution journal;
- Mailing up to three quarterly reports and one annual report, including the receipt of beneficial holder files from the

General Partner;

- Preparation of up to twelve demographic reports indicating ownership positions annually;
- Continued processing of the exchanges for the remaining API units, validation of the units, research for un-exchanged holders, calculation and preparation of checks for past distributions, processing estate and replacement transactions and other processing as required by the exchange;
- Preparation of special tapes for K-1 processing.

EXHIBIT B

Agent will receive an account administration fee of \$3.50 per account per year with a minimum annual fee of \$2,400. Agent will perform the following services for the following fees:

Additional Fees and Services

- * Coordination of Annual Dividend in Kind tax reporting;
. \$0.25 per 1099 minimum distribution fee
of \$250.

- * Certificate Issuance;
. \$0.75 per certificate issued.

Services not described in the Prospectus nor anticipated at the present time will be billed per appraisal.

SUBSCRIPTION AGENT AGREEMENT

This Subscription Agent Agreement (the "Agreement") is made as of February 22, 1995 between American Real Estate Partners, L.P., a Delaware limited partnership (the "Partnership"), and Registrar and Transfer Company, a New York corporation (the "Agent"). All terms not defined herein shall have the meaning given in the prospectus (the "Prospectus") included in the Registration Statement on Form S-3 (Registration No. 33-54767) filed by the Partnership with the Securities and Exchange Commission on July 27, 1994, as amended by any amendment filed with respect thereto (the "Registration Statement").

WHEREAS, the Partnership proposes to make a subscription offer by issuing certificates or other evidences of subscription rights, in the form designated by the Partnership (the "Subscription Certificates") to unitholders of record (the "Record Date Unitholders") of its depository units representing limited partner interests ("Depository Units"), as of a record date specified by the Partnership (the "Record Date"), pursuant to which each Unitholder will have certain rights (the "Rights") to subscribe for Depository Units and 5% cumulative pay-in-kind redeemable preferred units representing limited partner interests in the Partnership (the "Preferred Units"), as described in and upon such terms as are set forth in the Prospectus, a final copy of which has been or, upon availability will promptly be, delivered to the Agent; and

WHEREAS, the Partnership wishes the Agent to perform certain acts on behalf of the Partnership, and the Agent is willing to so act, in connection with the distribution of the Subscription Certificates and the issuance and exercise of the Rights to subscribe therein set forth, all upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and of the mutual agreements set forth herein, the parties agree as follows:

1. APPOINTMENT. The Partnership hereby appoints the Agent to act as subscription agent in connection with the distribution of Subscription Certificates and the issuance and exercise of the Rights in accordance with the terms set forth in this Agreement and Exhibit A hereto, and the Agent hereby accepts such appointment.

2. FORM AND EXECUTION OF SUBSCRIPTION CERTIFICATES.

(a) Each Subscription Certificate shall be irrevocable and fully transferable. The Agent shall, in its capacity as Transfer Agent of the Partnership, maintain a register of Subscription Certificates and the holders of record thereof (each of whom shall be deemed a "Unitholder" hereunder for purposes of determining the rights of holders of Subscription Certificates). Each Subscription Certificate shall, subject to the provisions thereof, entitle the Unitholder in whose name it is recorded to the following:

(1) The right to acquire during the Subscription Period, as defined in the Prospectus, at the Subscription Price, six Depository Units and one Preferred Unit for each Right (the "Basic Subscription Right"); and

(2) If all Basic Subscription Rights are not exercised, the right to subscribe for additional Depository Units and Preferred Units, at the Subscription Price, subject to the availability of such Depository Units and Preferred Units and to the allotment of such units as may be available among Unitholders who exercise their Over-Subscription Privilege on the basis specified in the Prospectus (the "Over-Subscription Privilege").

3. RIGHTS AND ISSUANCE OF SUBSCRIPTION CERTIFICATES.

(a) Each Subscription Certificate shall evidence the Rights of the Unitholder therein named to purchase Depositary Units and Preferred Units upon the terms and conditions therein set forth.

(b) Upon the written advice of the Partnership, signed by any of its duly authorized officers, as to the Record Date, the Agent shall, from a list of the Unitholders as of the Record Date to be prepared by the Agent in its capacity as Transfer Agent of the Partnership, prepare and record Subscription Certificates in the names of the Unitholders, setting forth the number of Rights to subscribe for the Partnership's Depositary Units and Preferred Units calculated on the basis of one Right for each seven Depositary Units recorded on the books in the name of each such Unitholder as of the Record Date. The number of Rights that are issued to Record Date Holders of a number of Depositary Units not evenly divisible by seven will be determined by multiplying the number of Depositary Units held by such Record Date Holder by .1428571 and then rounding up to the nearest whole number if the fractional amount is greater than or equal to .5 and rounding down to the nearest whole number if the fractional amount is less than .5. In the case of Depositary Units held of record by a Nominee Holder, the number of Rights issued to such Nominee Holder will be adjusted, by the Agent, to permit rounding up (to the nearest whole number of Rights evenly divisible by seven) of the Rights to be received by beneficial holders for whom the Nominee Holder is the holder of record only if the Nominee Holder provides to the Agent on or before the close of business on the fifth business day prior to March 30, 1995 (the "Expiration Date"), written representation of the number of Rights required for such rounding. Each Subscription Certificate shall be dated as of the Record Date and shall be executed by a duly authorized officer of the Partnership. Upon the written advice, signed as aforesaid, as to the effective date of the Registration Statement, the Agent shall deliver the Subscription Certificates, together with a copy of the Prospectus,

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instruction letter and any other document as the Partnership deems necessary or appropriate, to all Unitholders with record addresses in the United States (including its territories and possessions and the District of Columbia). Delivery shall be by first class mail (without registration or insurance), except for those Unitholders having a registered address outside the United States (who will only receive copies of the Prospectus, instruction letter and other documents as the Partnership deems necessary or appropriate, if any), delivery shall be by air mail (without registration or insurance) and by first class mail (without registration or insurance) to those Unitholders having Army Post Office or Foreign Post Office addresses. No Subscription Certificate shall be valid for any purpose unless so executed. Should any officer of the Partnership whose signature has been placed upon any Subscription Certificate cease to hold such office at any time thereafter, such event shall have no effect on the validity of such Subscription Certificate.

(c) The Agent will mail a copy of the Prospectus, instruction letter, a special notice and other documents as the Partnership deems necessary or appropriate, if any, but not Subscription Certificates to Record Date Holders whose record addresses are outside the United States (including its territories and possessions and the District of Columbia) ("Foreign Record Date Unitholders"). The Rights to which such Subscription Certificates relate will be held by the Agent for such Foreign Record Date Unitholders' accounts until instructions are received to exercise, sell or transfer the Rights. If no instructions have been received by 12:00 Noon, New York City time, three Business Days prior to the Expiration Date, the Agent will use its best efforts to sell the Rights of those registered Foreign Record Date Unitholders. The proceeds net of commissions, if any, to the Agent from the sale of those Rights by the Agent will be remitted to those Foreign Record Date Unitholders on a pro rata basis.

4. EXERCISE.

(a) Exercising Rights Holders may acquire Depositary Units and Preferred Units pursuant to Basic Subscription Rights and the Over-Subscription Privilege by delivery to the Agent as specified in the Prospectus of (i) the Subscription Certificate with respect thereto, duly executed by such Unitholder in accordance with and as provided by the terms and conditions of the Subscription Certificate, together with (ii) the purchase price of \$_____ for each six Depositary Units and one Preferred Unit subscribed for by exercise of Basic Subscription Rights and the Over-Subscription Privilege, in U.S. dollars by money order or check drawn on a bank in the United States, in each case payable to the order of the Agent for the account of the Partnership.

(b) Rights may be exercised at any time after the date of issuance of the Subscription Certificates with respect thereto but no later than 5:00 P.M. New York time on the Expiration Date. For the purpose of determining the time of the exercise of any Rights,

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delivery of any material to the Agent shall be deemed to occur when such materials are received at the Unitholder Services Division of the Agent specified in the Prospectus.

(c) Notwithstanding the provisions of Section 4(a) and 4(b) regarding delivery of an executed Subscription Certificate to the Agent prior to 5:00 p.m. New York time on the Expiration Date, if prior to such time the Agent receives a Notice of Guaranteed Delivery from a bank, a trust company or a New York Stock Exchange member guaranteeing delivery of (i) payment of the full Subscription Price for the Depositary Units and Preferred Units subscribed for pursuant to the exercise of Basic Subscription Rights and any additional Preferred Units and/or Depositary Units subscribed for pursuant to the Over-Subscription Privilege and (ii) a properly completed and executed Subscription Certificate, then such exercise of Basic Subscription Rights and the Over-Subscription Privilege shall be regarded as timely, subject, however, to receipt of the duly executed Subscription Certificate and full payment for the Depositary Units and Preferred Units by the Agent within five business days after the Expiration Date (the "Protect Period").

(d) Within seven business days following the end of the Protect Period, the Agent shall send to each Exercising Rights Holder (or, if Depositary Units on the Record Date are held by Cede & Co. or any other depository or nominee, to Cede & Co. or such other depository or nominee) the certificates representing the Depositary Units and Preferred Units acquired pursuant to the Basic Subscription Rights, and, if applicable, the Over-Subscription Privilege. Any excess payment to be refunded by the Partnership to an Exercising Rights Holder who is not allocated the full amount of Depositary Units and Preferred Units subscribed for pursuant to the Over-Subscription Privilege, shall be mailed by the Agent to him or her within seven business days following the Protect Period.

5. TRANSFER OF RIGHTS.

(a) Rights Holders who do not wish to exercise any or all of their Rights may sell any unexercised Rights. The Agent will use its best efforts to sell all Rights which remain unclaimed as a result of Subscription Certificates being returned by the postal authorities to the Agent as undeliverable as of the fourth business day prior to the Expiration Date and Rights of non-U.S. shareholders who do not respond to the Agent at least four days prior to the Expiration Date. Such sales will be made, net of commissions, on behalf of the nonclaiming Unitholders. The Agent will hold the proceeds from those sales for the benefit of such nonclaiming Unitholders until such proceeds are either claimed or escheat.

(b) Rights Holders may transfer a portion of the Rights evidenced by a single Subscription Certificate by delivering to the Agent at least one business day prior to the Expiration Date a Subscription Certificate properly endorsed for transfer, with

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instructions to register such portion of the Rights evidenced thereby in the name of the transferee and to issue a new Subscription Certificate to the transferee evidencing such transferred Rights. In such event, the Agent shall issue a new Subscription Certificate evidencing the balance of the Rights to the transferring Rights Holder or, if the transferring Rights Holder so instructs, to an additional transferee.

6. VALIDITY OF SUBSCRIPTIONS. Irregular subscriptions not otherwise covered by specific instructions herein shall be submitted to an appropriate officer of the Partnership and handled in accordance with his or her instructions. Such instructions will be documented by the Agent indicating the instructing officer and the date thereof.

7. OVER-SUBSCRIPTION. If all Basic Subscription Rights are not exercised, the remaining Depositary Units and Preferred Units (the "Remaining Units") shall be allocated to persons exercising the Over-Subscription Privilege in the amounts of such over-subscriptions. If the number of Depositary Units and Preferred Units for which the Over-Subscription Privilege has been exercised is greater than the Remaining Units, the Agent shall allocate the Remaining Units to the persons exercising the Over-Subscription Privilege pro rata according to the aggregate number of Basic Subscription Rights exercised so that the aggregate amount of Depositary Units and Preferred Units issued to Unitholders who subscribe pursuant to the Over-Subscription Privilege will generally be in proportion to the aggregate amount of Depositary Units and Preferred Units purchased through the exercise of Basic Subscription Rights. The Agent shall advise the Partnership immediately upon the completion of the allocation set forth above as to the total number of Depositary Units and Preferred Units subscribed and distributable.

8. DELIVERY OF CERTIFICATES. Within seven business days following the end of the Protect Period, the Agent will deliver (i) certificates representing those Depositary Units and Preferred Units purchased pursuant to exercise of Basic Subscription Rights and (ii) certificates representing those Depositary Units and Preferred Units purchased pursuant to the exercise of the Over-Subscription Privilege.

9. HOLDING PROCEEDS OF RIGHTS OFFERING IN ESCROW.

(a) All proceeds received by the Agent from Unitholders in respect of the exercise of Rights shall be held by the Agent, on behalf of the Partnership, in a segregated, interest-bearing escrow account (the "Escrow Account"). Pending disbursement in the manner described in Section 4(d) above, funds held in the Escrow Account shall be invested by the Agent at the direction of the Partnership.

(b) The Agent shall deliver all proceeds received in respect of the exercise of Rights (including interest earned thereon) to the Partnership as promptly as practicable, but in no event later

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than seven business days after the end of the Protect Period. Proceeds held in respect of excess payments (including interest earned thereon) shall be refunded to Unitholders entitled to such a refund within seven business days after the end of the Protect Period.

10. REPORTS. Daily, during the period commencing on the Record Date, until termination of the Subscription Period, the Agent will report by telephone or telecopier (by 12:00 Noon, New York time), confirmed by letter, to a designated officer of the Partnership,

daily data regarding Rights exercised, the selling price of Rights, the total number of Depositary Units and Preferred Units subscribed for, payments received therefor, the number of Rights sold and the net proceeds thereof, bringing forward the figures from the previous day's report in each case so as to also show the cumulative totals and any such other information as may be mutually determined by the Partnership and the Agent.

11. LOSS OR MUTILATION. If any Subscription Certificate is lost, stolen, mutilated or destroyed, the Agent may, on such terms which will indemnify and protect the Partnership and the Agent as the Agent may in its discretion impose (which shall, in the case of a mutilated Subscription Certificate include the surrender and cancellation thereof), issue a new Subscription Certificate of like denomination in substitution for the Subscription Certificate so lost, stolen, mutilated or destroyed.

12. COMPENSATION FOR SERVICES. The Partnership agrees to pay to the Agent compensation for its services as such in accordance with its Fee Schedule set forth hereto as Exhibit A. The Agent agrees that such compensation shall include all services as Transfer Agent and Registrar provided in connection with the offering of the Rights. The Partnership further agrees that it will reimburse the Agent for its reasonable out-of-pocket expenses incurred in the performance of its duties as such.

13. INSTRUCTIONS AND INDEMNIFICATION. The Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions:

(a) The Agent shall be entitled to rely upon any instructions or directions furnished to it by an appropriate officer of the Partnership, whether in conformity with the provisions of this Agreement or constituting a modification hereof or a supplement hereto. Without limiting the generality of the foregoing or any other provision of this Agreement, the Agent, in connection with its duties hereunder, shall not be under any duty or obligation to inquire into the validity or invalidity or authority or lack thereof of any instruction or direction from an officer of the Partnership which conforms to the applicable requirements of this Agreement and which the Agent reasonably believes to be genuine and shall not be liable for any delays, errors or loss of data occurring by reason of circumstances beyond the Agent's control, including, without limitation, acts of civil or military authority,

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national emergencies, labor difficulties, fire, flood, catastrophe, acts of God, insurrection, war, riots or failure of the mails, transportation, communication or power supply.

(b) The Partnership will indemnify the Agent and its nominees against, and hold it harmless from, all liability and expense which may arise out of or in connection with the services described in this Agreement or the instructions or directions furnished to the Agent relating to this Agreement by an appropriate officer of the Partnership, except for any liability or expense which shall arise out of the negligence, bad faith or willful misconduct of the Agent or such nominees.

14. CHANGES IN SUBSCRIPTION CERTIFICATE. The Agent may, without the consent or concurrence of the Unitholders in whose names Subscription Certificates are registered, by supplemental agreement or otherwise, concur with the Partnership in making any changes or corrections in a Subscription Certificate that it shall have been advised by counsel (who may be counsel for the Partnership) is appropriate to cure any ambiguity or to correct any defective or inconsistent provision or clerical omission or mistake or manifest error therein or herein contained, and which shall not be inconsistent with the provision of the Subscription Certificate except insofar as any such change may confer additional rights upon the Unitholders.

15. ASSIGNMENT; DELEGATION.

(a) Neither this Agreement nor any rights or obligations hereunder may be assigned or delegated by either party without the written consent of the other party.

(b) This Agreement shall inure to the benefit of and be binding upon the parties and their respective permitted successors and assigns. Nothing in this Agreement is intended or shall be construed to confer upon any other person any right, remedy or claim or to impose upon any other person any duty, liability or obligation.

16. GOVERNING LAW. The validity, interpretation and performance of this Agreement shall be governed by the laws of the State of New York.

17. SEVERABILITY. The parties hereto agree that if any of the provisions contained in this Agreement shall be determined invalid, unlawful or unenforceable to any extent, such provisions shall be deemed modified to the extent necessary to render such provisions enforceable. The parties hereto further agree that this Agreement shall be deemed severable, and the invalidity, unlawfulness or unenforceability of any term or provision thereof shall not affect the validity, legality or enforceability of this Agreement or of any term or provision hereof.

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18. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall be considered one and the same agreement.

19. CAPTIONS. The captions and descriptive headings herein are for the convenience of the parties only. They do not in any way modify, amplify, alter or give full notice of the provisions hereof.

20. FURTHER ACTIONS. Each party agrees to perform such further acts and execute such further documents as are necessary to effect the purposes of this Agreement.

21. ADDITIONAL PROVISIONS. Except as specifically modified by this Agreement, the Agent's rights and responsibilities set forth in the Agreement for Stock Transfer Services between the Partnership and the Agent are hereby ratified and confirmed and continue in effect.

AMERICAN REAL ESTATE PARTNERS, L.P.

By: American Property Investors, Inc.,
General Partner

By:/s/John P. Saldarelli Treasurer

REGISTRAR AND TRANSFER COMPANY

By:/s/Thomas L. Montrone

Name: Thomas L. Montrone
Title: President

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EXHIBIT A

Transfer Service Agreement between American Real Estate Partners,
L.P. (the "Company") and Registrar and Transfer Company ("Agent").

FEES AND SERVICES

Agent will receive will receive \$6.00 for each Subscription Certificate that is exercised in the Rights Offering, provided however, the minimum fee payable to Agent for its role in the Rights Offering will be \$10,000 and the maximum fee for such role will be \$32,000. The fee for the Rights Offering includes the following services:

- * Acceptance and initial review of certificates;
- * Programming expenses for the proration of rights or over subscription requests;
- * Responding to routine investor correspondence;
- * Calculation, imprinting and enclosing Subscription Certificates and related materials, up to four enclosures;
- * Curing defective Subscription Certificates;
- * Proration calculation and issuance of Depositary Units, Preferred Units and refund checks;
- * Maintenance of an interest bearing escrow account;
- * Nominee fulfillment.

Out-of-pocket expenses including stationery, telephone, postage delivery and other expenses are not included and will be itemized and billed as incurred.

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