SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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 (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	13-3398766 (IRS EMPLOYER IDENTIFICATION NO.)
100 SOUTH BEDFORD ROAD, MT. KISCO, NEW YORK (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	10549 (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
Depositary Units Representing Limited Partner Interests	New York Stock Exchange
5% Cumulative Pay-in-Kind Redeemable Preferred Units Representing Limited Partner Interests	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark 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 [ ]

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. [x]

Based upon the closing price of Depositary Units on March 14, 2003, as reported on the New York Stock Exchange Composite Tape (as reported by The Wall Street Journal), the aggregate market value of AREP's Depositary Units held by nonaffiliates of AREP as of such date was $65,448,428.

Based upon the closing price of Preferred Units on March 14, 2003, as reported on the New York Stock Exchange Composite Tape (as reported by The Wall Street Journal), the aggregate market value of AREP's Preferred Units held by nonaffiliates of AREP as of such date was $9,556,977.

Number of Depositary Units outstanding as of March 14, 2003: 46,098,284
Number of Preferred Units outstanding as of March 14, 2003: 9,330,963

PART I

ITEM 1. BUSINESS.

INTRODUCTION

American Real Estate Partners, L.P. ('AREP' or the 'Company') 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 a wholly owned subsidiary of Becton Corp., a Delaware corporation. All of the outstanding capital stock of Becton Corp. is owned by Carl C. Icahn ('Icahn'). The General Partner's principal business address is 100 South Bedford Road, Mt. Kisco, New York 10549, and its telephone number is (914) 242-7700. AREP's business is conducted through a subsidiary limited partnership, American Real Estate Holdings Limited Partnership (the 'Subsidiary' or 'AREH'), 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. As of February 28, 2003, affiliates of Icahn owned 39,706,836 units representing limited partner interests (the 'Depositary Units'), representing approximately 86.1% of the outstanding Depositary Units, and 8,073,466 cumulative pay in kind redeemable preferred units representing limited partner interests (the 'Preferred Units'), representing approximately 86.5% of the outstanding Preferred Units. See Item 12 -- 'Security Ownership of Certain Beneficial Owners and Management.'

As described below, AREP is primarily engaged in the business of acquiring and managing real estate and activities related thereto. On August 16, 1996, an amendment (the 'Amendment') to AREP's Amended and Restated Agreement of Limited Partnership (the 'Partnership Agreement') became effective which permits AREP to make non-real estate related investments. As described below, the Amendment permits AREP to invest in securities issued by companies that are not necessarily engaged as one of their primary activities in the ownership, development or management of real estate to further diversify its investments while remaining in the real estate business and continuing to pursue suitable investments in the real estate markets.

GENERAL DESCRIPTION OF BUSINESS

The Company and its consolidated subsidiaries are engaged in, among other

things described elsewhere herein, rental real estate operations, hotel, casino and resort operations, land, house and condominium development and investment in securities, including investment in other entities and in marketable equity and debt securities. As described herein, the Company continues to focus on real estate related investments and investments the Company makes in securities will be made in such a manner that the Company will not be deemed to be an investment company under the Investment Company Act of 1940, as amended (the '1940 Act').

AREP is primarily engaged in the business of acquiring and managing real estate and activities related thereto. Such acquisitions may be accomplished by purchasing assets outright or by acquiring securities of entities which hold significant real estate related assets. Historically, the properties owned by AREP have been primarily office, retail, industrial, residential and hotel properties. Many of the real estate assets currently owned by AREP were acquired from the Predecessor Partnerships and such assets generally are net-leased to single, corporate tenants. As of February 28, 2003, AREP owned 136 separate real estate assets primarily consisting of fee and leasehold interests in 31 states. For additional information, see Item 2 -- 'Properties.'

For each of the years ended December 31, 2002, 2001 and 2000, 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, 2002, 2001 and 2000, Portland General Electric Company ('PGEC') occupied a property (the 'PGEC Property') which represented approximately 13% of the carrying value of AREP's total real estate assets leased to others. See Item 2 -- 'Properties.'

AREP believes that it will benefit from the diversification of its portfolio of assets. By the end of the year 2005, net leases representing approximately 23% of AREP's net annual rentals from its real estate portfolio will be due for renewal, and by the end of the year 2007, net leases representing approximately 35% of AREP's net annual rentals will be due for renewal. Since many of AREP's properties are net-leased to single corporate tenants, 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 future.

AREP's primary investment strategy in recent periods has been to seek to acquire undervalued assets including land parcels for future residential and commercial development, commercial properties, assets in the gaming and entertainment industries, non-performing loans and securities of entities which own, manage or develop significant real estate assets, including limited partnership units and securities issued by real estate investment trusts, debt or equity securities of companies which may be undergoing restructuring and sub-performing properties that may require active asset management and significant capital improvements. These types of investments may involve debt restructuring, capital improvements and active asset management, and by their nature may not be readily financeable and may not generate immediate positive cash flow. As such, they require AREP to maintain a strong capital base both to react quickly to these market opportunities as well as to allow AREP to rework the assets to enhance their turnaround performance.

In addition to holding real property, AREP may consider the acquisition or seek effective control of land development companies and other real estate operating companies which may have a significant inventory of assets under development, as well as experienced personnel.

As described herein, AREP has made investments in the gaming industry, and may consider additional gaming industry investments and investments related to the entertainment industry. Such investments may include additional casino properties and those in the entertainment field, such as movie theater interests and the financing of, and investment in, the movie production and distribution

industries. With respect to gaming and entertainment industry investments, AREP believes that there may be synergies between production companies for movies and live entertainment and supplying entertainment content to hotels and casinos. Such investments may be made in the form of acquisitions from, or in joint venture or co-management with, Icahn, the General Partner or their affiliates, provided that the terms thereof are fair and reasonable to AREP.

Furthermore, AREP may originate or purchase mortgage or mezzanine loans including non-performing loans. AREP will often acquire non-performing loans with a view to acquiring title to or control over the underlying properties. AREP also may retain purchase money mortgages in connection with its sale of portfolio properties, on such terms as the General Partner deems appropriate at the time of sale. 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 August 1996, AREP amended the Partnership Agreement to permit non-real estate investments which, while AREP continues to seek undervalued investment opportunities in the real estate market, will permit it to take advantage of investment opportunities it believes exist outside of the real estate market in order to seek to maximize Unitholder value and further diversify its assets. Investments in non-real estate assets will consist of equity and debt securities of domestic and foreign issuers that are not necessarily engaged as one of their primary activities in the ownership, development or management of real estate, and may include, for example, lower rated securities which may provide the potential for higher yields and therefore may entail higher risk. AREP will conduct these activities in

such a manner so as not to be deemed an investment company under the 1940 Act. Generally, this means that no more than 40% of AREP's total assets will be invested in securities. In addition, AREP will structure its investments so as to continue to be taxed as a partnership rather than as a corporation under the applicable publicly-traded partnership rules of the Internal Revenue Code.

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.

PARTNERSHIP DISTRIBUTIONS

On March 31, 2003, AREP announced that no distributions on its Depositary Units are expected to be made in 2003. AREP continues to believe that it should hold and invest, rather than distribute, cash. No distributions were made in 2002, 2001 or 2000. In making its announcement, AREP noted that it intends to continue to apply available cash flow toward its operations, repayment of maturing indebtedness, tenant requirements, investments, acquisitions and other capital expenditures and cash reserves for Partnership contingencies, including environmental matters and scheduled lease expirations. By the end of the year 2005, net leases representing approximately 23% of AREP's net annual rentals from its real estate portfolio will be due for renewal, and by the end of the year 2007, 35% of such rentals will be due for renewal. In making its decision, AREP also considered the number of properties that are leased to retail tenants (approximately 26% of AREP's net annual rentals from its portfolio), some of which are experiencing cash flow difficulties and restructuring. See Item 5 -- 'Market for AREP's Common Equity and Related Security Holder Matters -- Distributions' and Item 7 -- 'Management's Discussion and Analysis of the Financial Condition and Results of Operations -- Capital Resources and Liquidity.'

On March 31, 2002, AREP distributed to holders of record of its Preferred Units as of March 15, 2002, 444,332 additional Preferred Units. Pursuant to the terms of the Preferred Units, on February 21, 2003, AREP declared its scheduled annual preferred unit distribution payable in additional Preferred Units at the rate of 5% of the liquidation preference of $10.00. The distribution is payable March 31, 2003 to holders of record as of March 14, 2003.

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

REAL ESTATE INVESTMENTS

As mentioned above, in selecting future real estate investments, AREP intends to focus on assets that it believes are undervalued in the real estate market, which investments may require substantial liquidity to maintain a competitive advantage. Despite the substantial capital pursuing real estate opportunities, management believes that there are still opportunities available to acquire investments that are undervalued. This may include commercial properties, land parcels for future residential and commercial development, non-performing loans and the securities of entities which own, manage or develop significant real estate assets, including limited partnership units and securities issued by real estate investment trusts ('REITS'), and debt or equity securities of companies which may be undergoing restructuring and underperforming properties that may require active asset management and significant capital improvements. Management believes that, in the current market, investments requiring some degree of active management or development activity have the greatest potential for growth, both in terms of capital appreciation and the generation of cash flow. In order to further these investment objectives, AREP may consider the acquisition, or seek the effective control, of land development companies and other real estate operating companies that may have a significant inventory of assets under development, as well as experienced personnel. This may enhance AREP's ability to further diversify its portfolio of properties and gain access to additional operating and development capabilities. Such acquisitions may include those from affiliates of the General Partner, provided the

terms thereof are fair and reasonable and are approved by the Audit Committee of the Board of Directors of the General Partner, which is comprised of the General Partner's independent directors (the 'Audit Committee').

Other real estate investment opportunities AREP may pursue include entering into joint venture arrangements or providing financing to developers for the purpose of developing single-family homes, luxury garden apartments or commercial properties. Such financing may provide for a contractual rate of interest to be paid as well as providing for a participation in the profits of the development and/or an equity participation. Additionally, AREP will seek to acquire underperforming properties through outright purchase or the purchase of the debt or securities of such entities. For example, AREP may elect to establish an ownership position by first acquiring debt secured by targeted assets and then negotiate for the ownership or effective control of some or all of the underlying equity in such assets. AREP may also 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 will also seek to acquire assets that are not in financial distress but due to the particular circumstances of their ownership, use or location, present substantial opportunities for development or long-term growth. AREP may also consider acquiring additional net-leased properties at appropriate yields or to effectuate tax-free exchanges.

AREP has invested and expects to continue to invest in undeveloped land and development properties. Undeveloped land and development properties involve more risk than properties on which development has been completed. Undeveloped land and development properties do not generate any operating revenue, while costs are incurred to develop the properties. In addition, undeveloped land and development properties incur expenditures prior to completion, including property taxes and development costs. Also, construction may not be completed within budget or as scheduled and projected rental levels or sales prices may not be achieved and other unpredictable contingencies beyond the control of AREP could occur. AREP will not be able to recoup any of such costs until such time

as these properties, or parcels thereof, are either disposed of or developed into income-producing assets. Accordingly, the greater the length of time it takes to develop or dispose of these properties, or such parcels, the greater will be the costs incurred by AREP without the benefit of income from these properties, which may adversely affect the ability of AREP to successfully develop such properties. Furthermore, the ultimate disposition price of these properties may be less than the costs incurred by AREP with respect thereto.

AREP has made investments in assets related to the gaming industry and will consider additional investment opportunities in the gaming industry and investments in the entertainment industry. AREP, the General Partner, and the directors and officers of the General Partner have obtained licenses from the Nevada Gaming Authority and the New Jersey Casino Control Commission. Investments in the gaming and entertainment industries involve significant risks, including those relating to competitive pressures and political and regulatory considerations. Recessionary pressures and international tensions have decreased leisure travel which has negatively affected many casino properties. Also, in recent years there have been several new gaming establishments opened as well as facility expansions, providing increased supply of competitive products and properties in the industry, which may adversely affect the operating margins and investment returns. As new openings and expansion projects have been completed, supply has grown more quickly than demand in some areas, and competition has increased. Likewise, an increase in supply often leads to increases in complimentary and promotional expenses in the industry. AREP believes that these market conditions will lead some gaming and entertainment properties to become available for restructuring or purchase and will create potential investments for opportunistic buyers such as AREP, and AREP intends to pursue such additional investments in the gaming and entertainment industries.

While the increase in supply and competition in the gaming industry may provide additional investment opportunities for investors such as AREP, such investments may require additional capital expenditures and restructurings and there can be no assurance that such investments will not be adversely affected by such pressures or prove to be successful. Furthermore, federal, state and local jurisdictions from time to time consider legislation regarding the gaming industry which could adversely

impact gaming operations. AREP believes, however, that investments in the gaming industry provide AREP with opportunities for long term appreciation.

While AREP believes opportunities in real estate related acquisitions continue to remain available, such acquisition opportunities for value-added investors are competitive to source and the increased competition may have some impact on the spreads and the ability to find quality assets that provide returns that are sought. These investments may not be readily financeable and may not generate immediate positive cash flow for AREP. As such, they require AREP to maintain a strong capital base in order to react quickly to these market opportunities as well as to allow AREP the financial strength to develop or reposition these assets. While this may impact cash flow in the near term and there can be no assurance that any asset acquired by AREP will increase in value or generate positive cash flow, AREP intends to focus on assets that it believes may provide opportunities for long-term growth and further its objective to diversify its portfolio.

NON-REAL ESTATE RELATED INVESTMENTS

In selecting future investments, AREP may, while remaining in the real estate business and continuing to pursue suitable investments for AREP in the real estate markets, invest a portion of its funds in securities of issuers that are not necessarily engaged as one of their primary activities in the ownership, development or management of real estate. Such investments will further diversify AREP's portfolio of assets. AREP will also seek to purchase undervalued securities, so as to maximize total returns consisting of current income and/or capital appreciation. Undervalued securities are those which AREP believes may have greater inherent value than indicated by their then current

trading price and/or may lend themselves to 'activist' shareholder involvement. These securities may be undervalued due to market inefficiencies, may relate to opportunities wherein economic or market trends have not been identified and reflected in market value, or may include those in complex or not readily followed securities. Less favorable financial reports, lowered credit ratings, revised industry forecasts or sudden legal complications may result in market inefficiencies and undervalued situations. As is the case with real estate related investments, with regard to non-real estate related investments, AREP may determine to establish an ownership position through the purchase of debt or equity securities of such entities and then negotiate for the ownership or effective control of some or all of the underlying equity in such assets.

The equity securities in which AREP may invest may include common stocks, preferred stocks and securities convertible into common stocks, as well as warrants to purchase such securities. The debt securities in which AREP may invest may include bonds, debentures, notes, mortgage-related securities and municipal obligations. Certain of such securities may include lower rated securities which may provide the potential for higher yields and therefore may entail higher risk. In addition, AREP may engage in various investment techniques, such as options and futures transactions, foreign currency transactions and leveraging for either hedging or other purposes.

AREP will conduct its investment activities in such a manner so as not to be deemed an investment company under the 1940 Act. Generally, this means that AREP does not intend to enter the business of investing in securities and that no more than 40% of AREP's total assets will be invested in securities. The portion of AREP's assets invested in each type of security or any single issuer or industry will not be limited. Investments may be made directly by AREP or indirectly through entities in which it has an interest.

RECENT DEVELOPMENTS

AREP's earnings from land, house and condominium operations have been strong in recent years. However, due to sales, the Company's inventory of land approved for development has decreased which is expected to negatively impact earnings from this business segment. Earnings from hotel, casino and resort properties are expected to be constrained by recessionary pressures, international tensions and significantly increased competition from new hotels/casinos and expansion of existing properties.

A slower national economy may increase tenant defaults thereby decreasing rental income and increasing property expenses. Also, the Company may be required to renovate vacant properties for

new tenants. However, there can be no assurance that the Company will be able to re-let the properties at equivalent rents.

AREP believes it has adequate cash reserves and a strong capital base which, in a weaker economy, may provide for additional acquisition opportunities.

RECENT ACQUISITIONS/INVESTMENTS

NOTE RECEIVABLE -- AFFILIATE

On December 27, 2001, AREP entered into a transaction with Carl C. Icahn, Chairman of the Board of the General Partner, pursuant to which AREP made a two-year $250 million loan to Mr. Icahn, secured by securities consisting of (i) approximately $250 million aggregate market value of AREP's units owned by Mr. Icahn (approximately 21.1 million depositary units and 8.1 million preferred units) and (ii) shares of a private company owned by Mr. Icahn, which shares have an aggregate book value of at least $250 million, together with an irrevocable proxy on sufficient additional shares of the private company so that the pledged shares and the shares covered by the proxy equal in excess of 50% of the private company's shares. The private company owns other Icahn investments and does not own AREP units. The loan is due on or before December 27, 2003 and by law may not be renewed or extended. The loan bears interest, payable

semi-annually, at a per annum rate equal to the greater of (i) 3.9% and (ii) 200 basis points over 90 day LIBOR to be reset each calendar quarter. The applicable rates in 2002 ranged from 3.9% to 4.03%. In 2002, pursuant to the loan agreement Mr. Icahn paid approximately $10.1 million to the Company representing interest due on the loan. The loan must be prepaid in an amount of up to $125 million, to the extent that AREP requests such funds for an investment opportunity, and may be prepaid at any time by Mr. Icahn. AREP entered into this transaction to earn interest income on a secured investment. In the event of a loan default, AREP would, at its option, liquidate the shares of the private company or reacquire its own units, or both, to satisfy the loan.

HOTEL AND CASINO PROPERTIES

a. Stratosphere Tower Casino and Hotel

As of December 31, 2002, AREP owns 100% of Stratosphere Corporation ('Stratosphere') and consolidates Stratosphere in its financial statements. Stratosphere owns and operates an integrated casino, hotel and entertainment facility located in Las Vegas, Nevada. Stratosphere accounted for approximately 48% and 49% of AREP's gross revenues in 2002 and 2001, respectively.

On December 19, 2002 AREP acquired the remaining 49% of Stratosphere that AREP did not own. The initial determination to engage in the transaction at the prices set forth below was previously announced by AREP in September 2000. Under the merger agreement the stockholders who were unaffiliated with Mr. Icahn received a cash price of $45.32 per share (approximately $9.6 million) and the Icahn related stockholders (other than AREP) received a cash price of $44.33 per share (approximately $34.7 million). AREP paid an aggregate of approximately $44.3 million for the Stratosphere shares.

Stratosphere owns and operates the Stratosphere Casino, Hotel & Tower which is centered around the Stratosphere Tower (the 'Tower'), the tallest free-standing observation tower in the United States. Standing 1,149 feet above the Las Vegas Strip, the Tower is visible from all directions, including by visitors flying into Las Vegas. The Tower's Pod (the 'Pod'), a 12-story building that begins at the 771-foot level, features a 360-seat revolving restaurant, a 220-seat cocktail lounge, indoor and outdoor observation decks and two amusement rides located over 900 feet in the air, a roller coaster and a simulated 'Big Shot' (collectively the 'Thrill Rides').

Stratosphere operates, among other things, the Tower, a hotel with 2,444 rooms and suites, a 97,000 square foot casino featuring approximately 1,474 slot machines, 48 table games, a race and sports book, a keno lounge, a 160,000 square foot second level containing a retail center

(the 'Retail Center') of approximately 46 shops and a 650-seat Broadway Showroom, a 3,600-seat Outdoor Events Center, a 120-seat entertainment lounge and parking for approximately 4,000 cars. Stratosphere opened for business on April 29, 1996.

THE TOWER

At 1,149 feet in height, the Tower is the tallest free-standing observation tower in the United States and the tallest free-standing structure west of the Mississippi River. From the indoor and outdoor observation decks, lounge and restaurant, Tower visitors have dramatic views of the Las Vegas Strip, downtown and the surrounding Las Vegas Valley. Visitors travel to the observation decks in four high speed, double-decked elevators, which travel at 1,800 feet per minute, and which have an aggregate capacity of 128 visitors.

The Pod is a 12-story 105,000 square foot building that begins at the

771-foot level of the Tower. The Pod, which has a maximum capacity of 2,700 visitors at any one time, has an indoor and outdoor observation deck and is currently open from 10:00 a.m. to 1:00 a.m. Sunday through Thursday and 10:00 a.m. to 2:00 a.m. on Friday and Saturday.

The Pod's third and fourth levels contain conference and meeting rooms that are rented out for business or social occasions. Level six contains a 360-seat revolving restaurant. Levels seven, eight and nine feature a 220-seat cocktail lounge, indoor and outdoor observation decks, respectively. The indoor observation deck contains two gift shops, free-standing vending featuring souvenirs and food products designed to capitalize on the unique nature of the Tower and two virtual reality games.

Level twelve is the staging area for the Thrill Rides. The first ride, the 'Big Shot,' propels riders from the 921-foot level of the Pod approximately 180 feet straight up the mast of the Tower, in a harnessed seat, and allows for a controlled free fall back to the landing platform. The second ride, a roller coaster, the 'High Roller,' begins at the 909-foot level and transports up to 36 passengers at a time along tracks wrapped around the top portion of the Pod.

THE CASINO AREA

Stratosphere's casino contains approximately 97,000 square feet of gaming space, with approximately 1,474 slot machines, 48 table games, a race and sports book and keno lounge. Five themed restaurants, four bars, two of which feature live entertainment and a deli are located adjacent to the casino. These facilities have been designed for convenient access to the casino.

Although the Company does not emphasize credit play, credit is available to high-stakes wagerers on a discretionary basis. Slot and table game customers are able to join frequent players' club, which awards benefits including cash and complimentary room, food and beverage based upon the customer's level of play.

RETAIL AND ENTERTAINMENT CENTER

The Retail Center, located on the second floor of the base building, occupies approximately 160,000 square feet, of which 57,000 square feet remains undeveloped. The Retail center offers various 'fast food' restaurants and shops. Adjacent to the Retail Center is the 650-seat showroom that currently offers afternoon and evening shows, which are designed to appeal to the wide spectrum of value-minded visitors who come to Las Vegas. In September 2001, Stratosphere completed construction of a new 3,600-seat Outdoor Events Center which features mid-level mainstream concert and boxing events.

HOTEL, FOOD AND BEVERAGE

The Hotel currently has 2,444 rooms and suites. The Hotel has seven themed restaurants; 'The Top of The World' located in the Pod, the 480-seat 'Stratosphere Courtyard Buffet,' the 182-seat 'Crazy Armadillo' featuring Tex-Mex cuisine and an oyster bar, 'Roxy's 50's Diner,'

'Lucky's Cafe' coffee shop, 'Tower of Pasta,' a restaurant serving Italian cuisine, and 'Hamada's', a restaurant serving Asian cuisine. In addition, a New York style deli is located adjacent to the race and sports book.

The ownership and operation of Stratosphere are subject to the Nevada Gaming Control Act and regulations promulgated thereunder, various local ordinances and regulations, and are subject to the licensing and regulatory control of the Nevada Gaming Commission, the Nevada State Gaming Control Board, and various other county and city regulatory

agencies, including the City of Las Vegas. Stratosphere's revenues and expenses primarily consist of casino, hotel, food and beverage, tower and retail revenues and expenses.

In 2000 and 2001, Stratosphere expended approximately $95 million for construction of its 1,000 room expansion and related amenities.

b. Sands Hotel and Casino

In May 2002, the Company was qualified as a holding company by the New Jersey Casino Control Commission (the 'Casino Control Commission') and in accordance with a prior agreement repurchased its interest in the Sands Hotel and Casino (the 'Sands'), located in Atlantic City, New Jersey, from affiliates of the General Partner. As a result, the Company acquired approximately 3.6 million common shares (36%) of GB Holdings Inc. and $26.9 million face amount of GB Property First Mortgage Notes. The Company paid approximately $68.8 million to reacquire its interests representing the affiliates' advances plus accrued interest of approximately $11 million. In accordance with the agreement, interest was accrued from March 2000 to May 2002 at an annual rate of 1 1/2% over the prime rate.

As required by the New Jersey Casino Control Act (the 'Casino Control Act'), the Partnership Agreement was amended to provide that securities of the Company are held subject to the condition that if a holder thereof is found to be disqualified by the Casino Control Commission, pursuant to the provisions of the Casino Control Act, such holder shall dispose of his interest in the Company in accordance with the Casino Control Act.

The Sands is located in Atlantic City, New Jersey on approximately 6.1 acres of land one-half block from the Boardwalk at Brighton Park between Indiana Avenue and Dr. Martin Luther King, Jr. Boulevard. The Sands facility currently consists of a casino and simulcasting facility with approximately 79,000 square feet of gaming space containing approximately 2,322 slot machines and approximately 40 table games; a hotel with 511 rooms (including 57 suites); six restaurants; one cocktail lounge; two private lounges for invited guests; an 800-seat cabaret theater; retail space; an adjacent nine-story office building with approximately 77,000 square feet of office space for its executive, financial and administrative personnel; an elevated, enclosed, one-way moving sidewalk connecting the Sands to the Boardwalk using air rights granted by an easement from the City of Atlantic City; and a garage and surface parking for approximately 1,750 vehicles.

The Sands entered into a long-term lease of the Madison House Hotel (the 'Madison House'). The initial lease period is from December 2000 to December 2012 with lease payments ranging from $1.8 million per year to $2.2 million per year. The Madison House is physically connected at two floors to the existing Sands casino-hotel complex. The Sands recently completed renovations to upgrade and combine the rooms of the Madison House into a total of 113 suites and 13 single rooms. It is the intention of the Sands to maintain and operate the Madison House at the same quality level as the Sands.

DEVELOPMENT PROPERTIES

In March 2000, AREP acquired Bayswater from Icahn for approximately $84.35 million. Approximately $100 million of cash has been generated from this acquisition, which is being held for investment. Bayswater, a real estate investment, management and development company, focuses primarily on the construction and sale of single-family homes, multi-family homes and residential lots in subdivisions and in planned communities. Bayswater is a subsidiary of AREP. Bayswater is currently developing seven residential subdivisions in New York and Florida. In New York, Bayswater has two

residential subdivisions under development with approximately 28 units remaining

to be constructed and sold. Bayswater also has two subdivisions in New York that are in the approval process, one for 50 townhouse units and the other for 35 single family homes. In Naples, Florida, Bayswater owns three properties comprising land zoned for 212 residential condominium units. As previously discussed, earnings from this business segment are expected to decline sharply as land inventory is depleted and cannot be replenished cost effectively.

In addition, AREP expects to continue to pursue the approval and development of its New Seabury property in Cape Cod Massachusetts. It is the Company's position that the proposed residential and commercial development is allowed under a special permit issued for the property in 1964. However, a regional planning body created in 1989, the Cape Cod Commission, concluded in January 2002 that the New Seabury development is within its jurisdiction (the 'Administrative Decision'). In February 2002, New Seabury Properties LLC, an AREP subsidiary and owner of the property, filed a civil complaint in Barnstable County Massachusetts Superior Court appealing the Administrative Decision by the Cape Cod Commission. AREP cannot predict the effect on the development process if the Cape Cod Commission is successful in asserting jurisdiction over the proposed development. (See Item 3. -- 'Legal Proceedings.')

AREP's land, house and condominium sales accounted for approximately 23% and 19% of AREP's gross revenues in 2002 and 2001, respectively.

PROPERTY TRANSACTIONS

In September 2002, the Company purchased an industrial building located in Nashville, Tennessee for approximately $18.2 million. The building was constructed in 2001 and is fully leased to two tenants, Alliance Healthcare Corporation and WMH Tool Group, Inc., with leases expiring in 2011. The annual net operating income is anticipated to be approximately $1.6 million increasing to approximately $1.9 million by 2011. In October 2002, the Company borrowed $12.7 million secured by the Nashville, Tennessee property. The loan is non-recourse, bears interest at 6.4% per annum and matures in ten years. Required payments are interest only for the first three years and then principal amortization will commence based on a thirty-year amortization schedule.

In 2002, AREP recorded a provision for loss on real estate of $3.2 million primarily related to vacant properties where leases were not renewed or were rejected in bankruptcy.

MEZZANINE LOANS

AREP has provided development financing for certain real estate projects. The security for these loans is a pledge of the developers' ownership interest in the properties. Such loans are subordinate to construction financing and are generally referred to as mezzanine loans. The Company's mezzanine loans accrue interest at approximately 22% per annum. However interest is not paid periodically and is due at maturity or earlier from unit sales or refinancing proceeds. The Company defers recognition of interest income on mezzanine loans pending receipt of principal and interest payments.

a. In May 2002, the Company was prepaid approximately $31.3 million for two mezzanine loans on a New York City condominium property. The Company had advanced $23 million to the developer. The balance of the prepayment, $8.3 million, represented accrued interest ($7.9 million) and exit fees ($.4 million) which amounts were recognized as interest income and other income, respectively, in the year ended December 31, 2002.

b. At December 31, 2002, AREP had funded two mezzanine loans for approximately $23.2 million and had commitments to fund, under certain conditions, additional advances of approximately $5 million. One loan in the amount of $12.2 million is for a Florida condominium development. The second loan in the amount of $11 million is for a New York City hotel with approximately 200 rooms. At December 31, 2002, accrued interest of approximately $4.1 million has been deferred for financial statement purposes, pending receipt of principal and interest payments. These loans are due in 2005.

c. In February 2003, AREP funded a mezzanine loan for approximately $30 million on a Florida condominium development. The loan is due in February 2005. The Company has committed to fund an additional $15 million if required by the borrower to complete the project.

OTHER INVESTMENTS

AREP has equity and debt investments in Philip Services Corp. ('Philips'), which for accounting purposes were classified as available-for-sale investments at December 31, 2001. The market value of Philips' common stock has declined steadily since it was acquired by the Company. In 2002, based on the decline in common stock trading prices and a review of Philips' financial statements, management of the Company deemed the decrease in value to be other than temporary. As a result, the Company wrote down its investment in Philips' common stock by a charge to earnings of $8,476,000 and charges to other comprehensive income ('OCI') of approximately $761,000 in the year ended December 31, 2002. This investment had been previously written down by approximately $6.8 million in charges to OCI. Such amount was removed from OCI and is included in the above-mentioned charges to earnings. The Company's adjusted carrying value of Philips' common stock is approximately $200,000 at December 31, 2002.

AREP also has a participation in Philips' debt with an original cost at the date of their acquisition of approximately $19.7 million. At December 31, 2001, such notes were classified as available-for-sale securities and were marked-to-market through charges to OCI, to an estimated fair market value of approximately $13.2 million. In 2002, upon concluding its review of these investments, management determined that such investments were more properly classified as notes receivable. Approximately $6.6 million of charges to OCI were reversed and the investments were re-classified at their original cost to mortgages and notes receivable at December 31, 2002.

AREP invested $6 million in an unaffiliated biotechnology limited partnership. Upon review of this investment in 2002, management of the Company determined that the investment was impaired and wrote down its value by a charge to earnings of approximately $3.8 million.

Management periodically reviews its investments for recoverability.

A committee of the Board of Directors of the General Partner is considering the possible acquisition by the Company of interests in National Energy Group, Inc. and related companies from entities owned by Carl C. Icahn. The committee, in consultation with its advisors, has been engaged in evaluating the possible acquisition. To date, such evaluation is continuing and no determination has been made by the committee.

FINANCING ACTIVITIES

During 2002, AREP repaid approximately $460,000 of maturing debt obligations and higher interest rate mortgages. In October, 2002, the Company borrowed $12.7 million mortgage secured by the Nashville, Tennessee property, which was acquired in September, 2002.

With interest rates at historic lows, AREP is reviewing its real estate portfolio for financing or refinancing opportunities.

LEASING ACTIVITIES

In 2002, fourteen leases covering fourteen properties and representing approximately $2.1 million in annual rentals expired. Seven leases, originally representing $916,000 in annual rental income, were renewed for $625,000 in annual rentals. Such renewals are generally for a term of five years. One property with an annual rental income of $173,000 was not renewed and subsequently leased for $117,000 per annum. Another property with annual rents of $167,000 was not renewed and was sold for approximately $1.6 million. Five leases with annual rentals of $855,000 were not renewed and are currently being marketed for sale or lease.

In 2003, seventeen leases covering seventeen properties and representing approximately $2.2 million in annual rentals are scheduled to expire. Eight leases originally representing $1.1 million in annual rental income were renewed for $924,000 in annual rentals. Such renewals are generally for a term of five years. Five properties with annual rental income of $613,000 were not renewed and are currently being marketed for sale or lease. The Company has not yet been

notified by tenants whether they plan to renew leases on the remaining four properties with annual rentals of $464,000.

By the end of the year 2005, net leases representing approximately 23% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2007, net leases representing approximately 35% 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 the property. 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. AREP also may become responsible for the payment of certain operating expenses, including maintenance, utilities, taxes, insurance and environmental compliance costs associated with such properties which are presently the responsibility of the tenant. In addition, net leases representing approximately 26% of AREP's net annual rentals from its portfolio are with tenants in the retail sector, some of which are currently experiencing cash flow difficulties and a number of which are in bankruptcy. As a result, operating expenses may be incurred with respect to the properties underlying any such leases rejected in bankruptcy and those expenses, coupled with the effects of a downturn in certain retail estate markets, may have an adverse impact on AREP's net cash flow.

BANKRUPTCIES AND DEFAULTS

AREP is aware that 18 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 18 present and former tenants known to be involved in bankruptcy proceedings or reorganization, 14 have rejected their leases, affecting 37 properties, all of which have been vacated. These rejections have had an adverse impact on annual net cash flow (including both the decrease in revenues from lost rents, as well as increased operating expenses). Active bankruptcy matters are as follows:

In January 2002, Kmart Corp., a tenant leasing seven properties owned by AREP which represent approximately $1,374,000 in annual rentals, filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code. Pursuant to an order of the Bankruptcy Court, four leases have been rejected representing $713,000 in annual rents. The rejected properties are being held for sale or lease and AREP has recorded a provision for loss of approximately $1.9 million on such properties in the year ended December 31, 2001. As of February 28, 2003 AREP has not been notified regarding the three remaining leases representing $661,000 in annual rents. At December 31, 2002, the carrying value of the seven properties was $6,529,000 which management believes is less than the estimate of net realizable value.

In September 2001, Ames Department Stores, a tenant in a property owned by AREP, filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code. The tenant rejected the lease effective March 15, 2002. The annual rent for this property was approximately $327,000. At December 31, 2002, the carrying value of this property was $2,158,000 which management believes is less than the estimate of net realizable value.

INSURANCE

AREP carries customary insurance for its properties and business segments. However AREP does not insure net lease properties where the tenant provides appropriate amounts of insurance. AREP is determining on a property by property basis whether or not to obtain terrorism insurance coverage.

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 will be subject to a Phase I environmental site assessment, which involves record review, visual site assessment and personnel interviews, but does not involve invasive procedures such as air and soil sampling or groundwater analysis. There can be no assurance, however, that these evaluations will reveal all potential liabilities or that future property uses or conditions or changes in applicable environmental laws and regulations or activities at nearby properties will not result in the creation of environmental liabilities with respect to a property.

Additionally, pursuant to the Resource Conservation and Recovery Act 42 U.S.C. 'SS'SS' 9601, et seq. and the regulations promulgated thereunder ('RCRA') certain owners, operators and other parties in control of a property that has a non-exempt underground storage tank ('UST') were required to remove, replace, retrofit or take such tanks out of service by December 22, 1998. AREP notified its tenants of the RCRA requirements. AREP believes that under the terms of its net leases with its tenants, the cost of, and obligation to comply with, this RCRA requirement generally would be the responsibility of its tenant. Furthermore, with respect to vacated properties and prior lease terminations, there cannot be any assurance that AREP would not be deemed responsible for this RCRA requirement. However, there also can be no assurance that a tenant will bear the costs of, or undertake compliance with, this RCRA requirement.

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 Offer were not subjected to any type of environmental site assessment at the time of the acquisition. Consequently, AREP undertook to have Phase I Environmental Site Assessments completed on most of its properties. AREP believes that under the terms of its net leases with its tenants, the costs of any environmental problems would be the responsibility of such tenants. 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 cost of remediation. Also as AREP acquires more operating properties, its exposure to environmental cleanup costs may increase.

The Phase I Environmental Assessments received on these properties inconclusively indicate that certain sites may have environmental conditions that should be further reviewed. AREP has notified the responsible tenants to attempt to ensure that they cause any required investigation and/or remediation to be performed and most tenants continue to take appropriate action. However, if the tenants fail to perform responsibilities under their leases in respect of such sites, based solely upon the consultant's preliminary estimates resulting from its Phase I Environmental Site Assessments referred to above, it is

presently estimated that AREP's exposure could amount to approximately $2-3 million. However, as no Phase II Environmental Site Investigations have been conducted by AREP, there can be no accurate estimation of the need for or extent of any required remediation. AREP is in the process of updating its Phase I Site Assessments for certain of its environmentally sensitive properties including properties with open RCRA requirements. Approximately 40 updates were completed in 2002 with another 33 scheduled for the year 2003.

In addition to conducting such Phase I Environmental Site Assessments, AREP has developed a site inspection program. This program is being conducted by an AREP employee (an experienced construction manager and registered architect) who visits AREP's properties and visually inspects the premises to assess the physical condition of the properties in an effort to determine whether there are

any obvious indications of environmental conditions which would potentially expose AREP to liability and to ensure that the physical condition of 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 or insolvent 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.

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, casinos, resorts, offices 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 defined 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.

Except for certain properties operated by AREP, the General Partner believes that the existing net leases require the tenants of many 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.

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. (See Item 3. -- 'Legal Proceedings.')

EMPLOYEES

AREP and its consolidated subsidiaries have approximately 2,700 full and part-time employees, which number of employees fluctuates due to the seasonal nature of certain of its businesses. Most of the employees are employed by AREP's consolidated subsidiaries. Approximately 1,200 employees of Stratosphere are covered by three collective bargaining agreements. Management believes it currently has sufficient staffing to operate effectively the day-to-day business of AREP.

COMPETITION

Competition in leasing and buying and selling remains strong. As previously discussed, many of AREP's tenants have rights to renew at prior rental rates. AREP's experience is that tenants will renew below market leases and permit leases that are less marketable or at above market rents to expire, making it difficult for AREP to re-let or sell on favorable terms properties vacated by tenants. The real estate market continues to be weak in certain areas of the

country, particularly in the retail and office categories. The economic recession and ongoing corporate consolidations and layoffs have contributed to increasing vacancy rates. 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.

Investments in the gaming and entertainment industries involve significant competitive pressures and political and regulatory considerations. In recent years, there have been several new gaming establishments opened as well as facility expansions, providing increased supply of competitive products and properties in the industry, which may adversely affect the operating margins and investment returns. The casino/hotel industry is highly competitive. Hotels located on or near the Las Vegas Strip compete primarily with other Las Vegas strip hotels and with a few major hotels in downtown Las Vegas. The Hotel and Casino also competes with a large number of hotels and motels located in and near Las Vegas. The Tower competes with all other forms of entertainment, recreational activities

and other attractions in and near Las Vegas. Many of the Company's competitors offer more products than the Company and have greater name recognition and may have greater resources.

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

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

ITEM 2. PROPERTIES.

As of February 28, 2003, AREP owned 136 separate real estate assets (excluding Stratosphere, Bayswater and the Sands). These primarily consist of fee and leasehold interests and, to a limited extent, interests in real estate mortgages in 31 states. Most of these properties are net-leased to single corporate tenants. Approximately 85% of these properties are currently net-leased, 9% are operating properties and 6% are vacant and being marketed for sale or lease.

The following table summarizes the type, number per type and average net effective rent per square foot of such properties:

TYPE OF PROPERTY	NUMBER OF PROPERTIES	AVERAGE NET EFFECTIVE RENT PER SQUARE FOOT(1)
Retail................................	54	$3.75
Industrial............................	18	$2.11
Office................................	30	$7.37
Supermarkets..........................	14	$2.74
Banks.................................	5	$3.90

Other	15	N/A

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(1) Based on net-lease rentals.

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

LOCATION OF PROPERTY	NUMBER OF PROPERTIES
United States:	
Southeast	59
Northeast	30
South Central	6
Southwest	5
North Central	32
Northwest	4

From January 1, 2002 through February 28, 2003, AREP sold or otherwise disposed of 11 properties. In connection with such sales and dispositions, AREP received an aggregate of approximately $23,000,000 in cash, net of closing costs and amounts utilized to satisfy mortgage indebtedness which encumbered such properties. As of December 31, 2002, AREP owned 8 properties that were being marketed for sale. The aggregate net realizable value of such properties is estimated to be approximately $4,300,000.

For each of the years ended December 31, 2002, 2001, and 2000, 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, 2002, 2001, and 2000, Portland General Electric Company ('PGEC') occupied a property, which represented approximately 13% of the carrying value of AREP's total real estate assets leased to others. PGEC is an electric utility engaged in the generation, purchase, transmission, distribution and sale of electricity. All of PGEC's common stock is owned by Enron Corp. which has filed for bankruptcy under Chapter 11 of the Federal Bankruptcy Code. PGEC is not included in the filing. PGEC's management has stated in public filings that it cannot predict with certainty what impact the Enron bankruptcy may have on PGEC. However, PGEC does not believe that the assets and liabilities of PGEC will become part of the Enron bankruptcy estate and therefore does not expect the Enron bankruptcy proceedings to have a material effect on PGEC's operations. At December 31, 2002 and February 28, 2003, PGEC is current in its rents.

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 PGEC Property is net-leased to a wholly owned subsidiary of PGEC through September 30, 2018, with two ten-year and one five-year renewal options. The annual rental is $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 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.

AREP owns 100% of Stratosphere. Stratosphere owns and operates the Stratosphere Tower, Casino & Hotel; located in Las Vegas, Nevada, which is centered around the Stratosphere Tower, the tallest free-standing observation tower in the United States. The hotel and entertainment facility has 2,444 rooms and suites, a 97,000 square foot casino and related amenities. See Item 1 -- 'Recent Acquisitions/Investments.'

AREP owns, primarily through its Bayswater subsidiary, residential development properties. Bayswater, a real estate investment, management and development company, focuses primarily on the construction and sale of single-family houses, multi-family homes and residential lots in subdivisions and in planned communities. See Item 1 -- 'Recent Acquisitions/Investments.'

Upon obtaining licenses from the New Jersey Casino Control Commission, AREP, in accordance with a prior agreement, acquired a 36% equity interest in GB Holdings, the parent company of the Sands. The Sands owns and operates the Sands Hotel and Casino, located in Atlantic City, New Jersey, containing 511 rooms and suites, a 79,000 square foot casino and related amenities. The Sands recently leased and completed renovations to an adjacent property, providing an additional 126 rooms and suites. See Item 1 -- 'Recent Acquisitions/Investments.'

AREP owns a resort property in New Seabury, Massachusetts. The New Seabury site is comprised of two golf courses, other recreational facilities, condominium and time share units and land for future residential and commercial development.

ITEM 3. LEGAL PROCEEDINGS.

a. On January 31, 2001, Stratosphere was named in an action styled Disabled Rights Action Committee v. Stratosphere Gaming Corp., Case No A430070, in the Eighth Judicial District Court of the State of Nevada. The complaint alleges a number of violations of the Americans with Disabilities Act ('ADA'), including inadequate room selection, door widths and other similar items. Simultaneously with the complaint, plaintiffs filed a Motion for Preliminary Injunction, seeking to have construction halted on the new hotel tower until the property fully complies with the ADA. Stratosphere removed the action to the United States District Court in Nevada, and it is now styled Disabled Rights Action Committee v. Stratosphere Gaming Corp., Case No. CV-S-01-0162-RLH (PAL). The federal district court held a hearing on plaintiffs' Motion for Preliminary Injunction and denied the motion, focusing upon what the Court believed to be the plaintiffs' lack of irreparable injury. The federal district court also granted Stratosphere's Motion to

Dismiss the plaintiffs' state law claims, leaving in place only the ADA claims. Stratosphere and the Plaintiffs then filed Motions for Summary Judgment. The District Court granted and denied in part each of the parties' respective motions. The Court ordered that Stratosphere must make certain renovations to 532 rooms that were opened in 1996. The Court issued an injunction requiring that these renovations be completed by August 9, 2002. Stratosphere had already commenced these renovations prior to the Court's Order and completed these renovations in June 2002. The renovations cost approximately $765,000.

b. In January 2002, the Cape Cod Commission, (the 'Commission'), a regional planning body created in 1989, concluded that AREP's New Seabury development is within its jurisdiction (the 'Administrative Decision'). It is the Company's position that the proposed residential and commercial development is allowed under a special permit issued for the property in 1964 and is exempt from the Commission's jurisdiction.

In February 2002, New Seabury Properties LLC, an AREP subsidiary and owner of the property, filed a civil complaint in Barnstable County Massachusetts Superior Court appealing the Administrative Decision by the Commission. On October 21, 2002 the Court vacated the Administrative

Decision on the grounds that the Commission's criteria for exercising their jurisdiction were not adopted in accordance with statutory regulations. The Court directed that the Commission properly adopt appropriate criteria for exercising their jurisdiction and reconsider New Seabury Properties LLC's claim that its proposed development is exempt from Commission review. The Company has also raised constitutional claims against the Commission which were not resolved by the Court's October 21, 2002 decision. The Company may appeal certain aspects of the Court's rulings and may continue to pursue its constitutional claims against the Commission. The Company cannot predict the effect on the development process if it loses any appeal or if the Commission is ultimately successful in asserting jurisdiction over the proposed development.

c. Tiffiny Decorating Company ('Tiffiny'), a subcontractor to Great Western Drywall ('Great Western'), filed a legal action against Stratosphere Corporation, Stratosphere Development, LLC, American Real Estate Holdings Limited Partnership (collectively referred to as the 'Stratosphere Parties'), Great Western, Nevada Title and Safeco Insurance, Case No. A443926 in the Eighth Judicial District Court of the State of Nevada. The legal action asserts claims that include breach of contract, unjust enrichment and foreclosure of lien. The Stratosphere Parties have filed a cross-claim against Great Western in that action. Additionally, Great Western has filed a separate legal action against the Stratosphere Parties setting forth the same disputed issues. That separate action, Case No. A448299 in the Eighth Judicial Court of the State of Nevada, has been consolidated with the case brought by Tiffiny.

The initial complaint brought by Tiffiny asserts that Tiffiny performed certain construction services at the Stratosphere and was not fully paid for those services. Tiffiny claims the sum of $521,562 against Great Western, the Statosphere Parties, and the other defendants, which the Stratosphere Parties contend has been paid to Great Western for payment to Tiffiny.

Great Western is alleging that it is owed payment from the Stratosphere Parties for work performed and for delay and disruption damages. Great Western is claiming damages in the sum of $3,935,438 plus interest, costs and legal fees from the Stratosphere Parties. This amount apparently includes the Tiffiny claim.

The Stratosphere Parties have evaluated the project and have determined that the amount of $1,004,059, of which $195,953 and $371,973 were disbursed to Tiffiny and Great Western in 2002, respectively, is properly due and payable to satisfy all claims for the work performed, including the claim by Tiffiny. The remaining amount has been segregated in a separate interest bearing account. The Stratosphere Parties intend to vigorously defend the action for claims in excess of $1,004,059.

d. In addition, in the ordinary course of business, AREP, its subsidiaries and other companies in which AREP has invested are parties to various legal actions. In management's opinion, the ultimate outcome of such legal actions will not have a material effect on the results of operations or the financial position of AREP.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of Unitholders during 2002.

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 New York Stock Exchange ('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, 2001 through December 31, 2002 is as follows:

QUARTER ENDED:	HIGH	LOW
March 31, 2002	$ 9.45	$ 8.75
June 30, 2002	10.35	8.95
September 30, 2002	9.75	8.77
December 31, 2002	9.50	8.40
March 31, 2001	$10.3125	$8.9375
June 30, 2001	10.75	9.04
September 30, 2001	10.25	8.75
December 31, 2001	9.95	8.80

On March 14, 2003 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 $10.24.

As of March 14, 2003, there were approximately 9,300 record holders of the Depositary Units.

Since January 1, 1994, AREP has made no cash distributions with respect to the Depositary Units.

DISTRIBUTIONS

On March 31, 2003, the Board of Directors of the General Partner announced that no distributions on its Depositary Units are expected to be made in 2003. AREP believes that it should continue to hold and invest, rather than distribute, cash. In making its announcement, AREP noted it plans to continue to apply available cash flow toward its operations, repayment of maturing indebtedness, tenant requirements, investments, acquisitions and other capital expenditures and cash reserves for Partnership contingencies, including environmental matters and scheduled lease expirations. By the end of the year 2005 net leases representing approximately 23% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2007, 35% of such rentals will be due for renewal. Another factor that AREP took into consideration was that net leases representing approximately 26% of AREP's net annual rentals from its portfolio are with tenants in the retail sector, some of which are currently experiencing cash flow difficulties and restructurings. See Item 7 -- 'Management's Discussion and Analysis of the Financial Condition and Results of Operations -- Capital Resources and Liquidity.'

As of February 28, 2003, there were 46,098,284 Depositary Units and 9,330,963 Preferred Units outstanding. Trading in the Preferred Units commenced March 31, 1995 on the NYSE under the symbol 'ACP PR.' The Preferred Units represent limited partner interests in AREP and have certain rights and designations, generally as follows. Each Preferred Unit has a liquidation preference of $10.00 and entitles the holder thereof to receive distributions thereon, payable solely in additional Preferred Units, at a rate of 5% of the liquidation preference thereof, payable annually on March 31, or the next succeeding business day thereafter, of each year (each, a 'Payment Date'). On any Payment Date, AREP, with the approval of the Audit Committee, may opt to redeem all, but not less than all, of the Preferred Units for a price, payable either in all cash or by issuance of additional Depositary Units, equal to the liquidation preference of the Preferred Units, plus any accrued but unpaid distributions thereon. On or before 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.

On March 31, 2002, AREP distributed to holders of record of its Preferred Units as of March 15, 2002, 444,332 additional Preferred Units. Pursuant to the terms of the Preferred Units, on February 21,

2003, AREP declared its scheduled annual preferred unit distribution payable in additional Preferred Units at the rate of 5% of the liquidation preference of $10.00. The distribution is payable March 31, 2003 to holders of record as of March 14, 2003. In February 2003, the number of authorized Preferred Units was increased to 9,900,000.

Each Depositary Unitholder will be taxed on the Unitholder's allocable share of AREP's taxable income and gains and, with respect to Preferred Unitholders, 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 1,000,000 Depositary Units. On June 16, 1993, AREP increased the amount of shares authorized to be repurchased to 1,250,000 Depositary Units. As of February 28, 2003, AREP had purchased 1,137,200 Depositary Units at an aggregate cost of approximately $11,921,000. Management recently has not been acquiring Depositary Units for AREP, although AREP may from time to time acquire additional Depositary Units.

ITEM 6. SELECTED FINANCIAL DATA

	(IN $000'S EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,				
	2002	2001	2000	1999	1998
Total revenues.	$ 326,916	$ 297,323	$ 312,877	$ 295,004	$ 173,241
Earnings before property and securities transactions and minority interest...	$ 72,842	$ 62,682	$ 69,024	$ 68,116	$ 68,707
Other gains (losses) and minority interest:					
Gain on sales and disposition of real estate......................	8,990	1,737	6,763	13,971	9,065
(Loss) gain on limited partnership interests........................	(3,750)	--	3,461	--	5,562
Gain on sale of marketable equity and debt securities..............	--	6,749	--	28,590	--
Write-down of equity securities available for sale...............	(8,476)	--	--	--	--
Provision for loss on real estate...........................	(3,212)	(3,184)	(1,351)	(1,946)	(1,180)
Minority interest in net (earnings)/loss of Stratosphere Corporation......................	(1,943)	(450)	(2,747)	(1,002)	95
Net earnings...........................	$ 64,451	$ 67,534	$ 75,150	$ 107,729	$ 82,249

(table continued on next page)

(table continued from previous page)

	(IN $000'S EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,				
	2002	2001	2000	1999	1998
Net earnings per limited partnership unit:					
Basic earnings	$ 1.27	$ 1.34	$ 1.48	$ 1.95	$ 1.42
Weighted average limited partnership units outstanding	46,098,284	46,098,284	46,098,284	46,098,284	46,173,284
Diluted earnings	$ 1.12	$ 1.19	$ 1.29	$ 1.67	$ 1.28
Weighted average limited partnership units and equivalent partnership units outstanding	56,466,698	55,599,112	56,157,079	56,078,394	54,215,339
Distributions to partners on depositary units	$ --	$ --	$ --	$ --	$ --
At year end:					
Real estate leased to others	$ 359,700	$ 358,597	$ 379,396	$ 375,268	$ 381,554
Hotel, casino and resort operating properties	$ 215,776	$ 228,181	$ 185,253	$ 141,829	$ 137,706
U.S. Government and agency obligations	$ 336,051	$ 313,641	$ 475,267	$ 468,529	$ 363,884
Note receivable due from affiliate	$ 250,000	$ 250,000	$ --	$ --	$ --
Marketable equity and debt securities	$ 26,728	$ 35,253	$ 54,736	$ 67,397	$ 248,455
Mortgages and notes receivable	$ 56,216	$ 35,529	$ 19,946	$ 10,955	$ 9,933
Equity interest in GB Holdings, Inc.	$ 37,280	$ 39,936	$ 38,359	$ --	$ --
Land and construction in-progress	$ 40,415	$ 69,429	$ 75,952	$ 99,252	$ 91,836
Total assets	$1,421,671	$1,451,642	$1,422,987	$1,364,861	$1,317,318
Mortgages payable	$ 171,848	$ 166,808	$ 182,049	$ 179,387	$ 173,559
Due to affiliate	$ --	$ 68,805	$ 77,521	$ --	$ 60,750
Minority interest	$ --	$ 67,433	$ 64,907	$ 66,307	$ 65,305
Partners' equity	$1,203,166	$1,100,629	$1,042,725	$1,029,308	$ 943,528

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature, are intended to be, and are hereby identified as, 'forward looking statements' for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended by Public Law 104-67.

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

GENERAL

AREP believes that it will benefit from diversification of its portfolio of assets. To further its investment objectives, AREP may consider the acquisition or seek effective control of land development companies and other real estate operating companies which may have a significant inventory of quality assets under development, as well as experienced personnel. Additionally, in selecting

future real estate investments, AREP intends to focus on assets that it believes are undervalued in the real estate market, which investments may require substantial liquidity to maintain a competitive advantage. From time to time AREP has discussed and in the future may discuss and may make such acquisitions from Icahn, the General Partner or their affiliates, provided the terms thereof are fair and reasonable to AREP. Despite the substantial capital pursuing real estate opportunities, AREP believes that there are still opportunities available to acquire investments that are undervalued. These may include commercial properties, land, assets in the gaming and entertainment industries,

non-performing loans, the securities of entities which own, manage or develop significant real estate assets, including limited partnership units and securities issued by real estate investment trusts and the acquisition of debt or equity securities of companies which may be undergoing restructuring and underperforming properties that may require active asset management and significant capital improvements. As noted above, AREP has made investments in the gaming industry, and may consider additional gaming industry investments and investments related to the entertainment industry. Such investments may include additional casino properties and those in the entertainment field, such as movie theater interests and the financing of, and investment in, the movie production and distribution industries. With respect to gaming and entertainment industry investments, AREP believes that there may be synergies between production companies for movies and live entertainment and supplying entertainment content to hotels and casinos. Such investments may be made in the form of acquisitions from, or in joint venture or co-management with, Icahn, the General Partner or their affiliates, provided that the terms thereof are fair and reasonable to AREP.

AREP notes that while there are still opportunities available to acquire investments that are undervalued, acquisition opportunities in the real estate market for value-added investors have become competitive to source and the increased competition may have some impact on the spreads and the ability to find quality assets that provide returns that are sought. These investments may not be readily financeable and may not generate immediate positive cash flow for AREP. As such, they require AREP to maintain a strong capital base in order to react quickly to these market opportunities as well as to allow AREP the financial strength to develop or reposition these assets. While this may impact cash flow in the near term and there can be no assurance that any asset acquired by AREP will increase in value or generate positive cash flow, AREP intends to focus on assets that it believes may provide opportunities for long-term growth and further its objective to diversify its portfolio.

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

By the end of the year 2005, net leases representing approximately 23% of AREP's net annual rentals from its portfolio will be due for renewal, and by the end of the year 2007, net leases representing approximately 35% of AREP's net annual rentals will be due for renewal. Since most of AREP's properties are net-leased to single, corporate tenants, 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 in the future from such properties.

The Amendment, which became effective in August, 1996, permits AREP to invest in securities issued by companies that are not necessarily engaged as one of their primary activities in the ownership, development or management of real

estate while remaining in the real estate business and continuing to pursue suitable investments for AREP in the real estate market.

AREP raised funds through a rights offering in September 1997 (the '1997 Offering') to increase its assets available for investment, take advantage of investment opportunities, further diversify its portfolio of assets and mitigate against the impact of potential lease expirations. The 1997 Offering was successfully completed in September 1997 and net proceeds of approximately $267 million were raised for investment purposes.

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. Also, as AREP acquires more operating properties, its exposure to environmental clean-up costs may increase. AREP completed Phase I Environmental Site Assessments on most of its

properties by third-party consultants. Based on the results of these Phase I Environmental Site Assessments, the environmental consultant has recommended that certain sites may have environmental conditions that should be further reviewed.

AREP has notified each of the responsible tenants to attempt to ensure that they cause any required investigation and/or remediation to be performed and most tenants continue to take appropriate action. However, if the tenants fail to perform responsibilities under their leases referred to above, based solely upon the consultant's estimates resulting from its Phase I Environmental Site Assessments referred to above, it is presently estimated that AREP's exposure could amount to $2 - 3 million, however, as no Phase II Environmental Site Assessments have been conducted by the consultants, there can be no accurate estimation of the need for or extent of any required remediation, or the costs thereof. In addition, AREP notified all tenants of the Resource Conservation and Recovery Act's ('RCRA') December 22, 1998 requirements for regulated underground storage tanks. AREP may, at its own cost, have to cause compliance with RCRA's requirements in connection with vacated properties, bankrupt tenants and new acquisitions. Phase I Environmental Site Assessments will also be performed in connection with new acquisitions and with such property refinancings as AREP may deem necessary and appropriate. AREP is in the process of updating its Phase I Site Assessments for certain of its environmentally sensitive properties including properties with open RCRA requirements. Approximately 40 updates were completed in 2002 with another 33 scheduled for the year 2003.

RESULTS OF OPERATIONS

CALENDAR YEAR 2002 COMPARED TO CALENDAR YEAR 2001

Gross revenues increased by $29,593,000, or 10.0%, during the year ended December 31, 2002 as compared to the same period in 2001. This increase reflects increases of $20,458,000 in land, house and condominium sales, $11,961,000 in hotel and casino operating income, $2,179,000 in hotel and resort operating income and $1,038,000 in rental income partially offset by decreases of $2,305,000 in dividend and other income, $2,213,000 in financing lease income, $1,502,000 in equity in earnings of GB Holdings, Inc. and $23,000 in interest income on U.S. Government and Agency obligations and other investments. The increase in land, house and condominium sales is primarily attributable to higher selling prices and an increase in the number of units sold, due to a strong residential housing market and low mortgage rates. The increase in hotel and casino operating income is primarily attributable to an increase in gaming and hotel revenues as a result of increased capacity brought about by the hotel expansion. The average daily rate ('ADR') remained at $48 during the years ended December 31, 2002 and 2001; however, percentage occupancy decreased 4% to 89.6%. The increase in hotel and resort operating income is primarily attributable to

increased revenues at New Seabury as prior year's revenues were negatively impacted by construction activities. The increase in rental income is primarily attributable to a property acquisition, and reclassifications of financing leases to operating leases. The decrease in dividend and other income is primarily due to lease termination and deferred maintenance payments received from tenants in 2001. The decrease in financing lease income is the result of lease expirations, reclassification of financing leases and normal financing lease amortization. The decrease in equity earnings of GB Holdings, Inc. is due to decreased casino revenue, primarily attributable to a reduction in the number of table games as new slot machines were added in 2002, which was partially offset by decreased promotional allowances and decreased casino expenses. In addition, GB Holdings recorded an impairment loss on certain property expansion costs determined to be unusable. Interest income on U.S. Government and Agency obligations decreased by approximately $8 million due to a decline in interest rates, however, the decrease was offset by interest earned on the prepayment of a mezzanine loan in 2002.

Expenses increased by $19,433,000, or 8.3%, during the year ended December 31, 2002 as compared to the same period in 2001. This increase reflects increases of $12,041,000 in the cost of land, house and condominium sales, $5,602,000 in hotel and casino operating expenses, $3,195,000 in depreciation and amortization, $2,116,000 in rental property expenses and $1,574,000 in hotel and resort operating expenses partially offset by decreases of $5,044,000 in interest expense and $51,000 in general and administrative expenses. The increase in the cost of land, house and condominium sales is due to

increased sales as explained above. Costs as a percentage of sales declined from 77% in 2001 to 72% in 2002 primarily due to higher margin sales in 2002. The increase in hotel and casino operating expenses is primarily attributable to increased costs associated with increased revenues. Costs as a percentage of sales declined from 89% in 2001 to 86% in 2002 as hotel and casino revenues increased at a greater rate than hotel and casino expenses due to the hotel expansion. The increase in depreciation and amortization expense is primarily attributable to the expansion of the Stratosphere Hotel and Casino. The increase in property expenses is primarily due to an increase in expenses related to off-lease properties and expenses of the New Seabury development litigation of approximately $1 million. The increase in hotel and resort operating expenses is primarily attributable to increased costs associated with increased revenues at New Seabury. Costs as a percentage of sales decreased from 86% in 2001 to 84% in 2002. The decrease in interest expense is primarily due to the repayment of debt to affiliates in May 2002 in connection with the Sands repurchase obligation, as well as decreased interest rates prior to repayment of this debt.

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

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

Earnings before property and securities transactions and minority interest increased during the year ended December 31, 2002 by $10,160,000 as compared to the same period in 2001.

Gain on sale of real estate increased by $7,253,000 during the year ended December 31, 2002 as compared to the same period in 2001 due to the size and number of transactions.

During the year ended December 31, 2002, AREP recorded a provision for loss on real estate of $3,212,000 as compared to $3,184,000 in the same period in 2001. A substantial portion of the 2002 provision resulted from vacated

properties where leases were not renewed or were rejected by tenants in bankruptcy.

A write-down of equity securities available for sale of $8,476,000 was recorded in the year ended December 31, 2002. The market value of Philips' common stock has declined steadily since it was acquired by the Company. In 2002, based on a review of Philips' financial statements, management of the Company deemed the decrease in value to be other than temporary. As a result, the Company wrote down its investment in Philips' common stock by a charge to earnings. There was no such write-down in 2001.

Gain on sale of marketable equity and debt securities was $6,749,000 in the year ended December 31, 2001. There was no such income in 2002.

A write-down of a limited partnership investment of $3,750,000 was recorded in the year ended December 31, 2002. AREP invested $6.0 million in an unaffiliated biotechnology partnership. Upon review of this investment in 2002, management of the Company determined that the investment was impaired and wrote down its value by a charge to earnings. There was no such write-down in 2001.

Minority interest in the net earnings of Stratosphere Corporation increased by $1,493,000 during the year ended December 31, 2002 as compared to the same period in 2001, due to an increase in Stratosphere's net hotel and casino operating income. As a result of the acquistion of the minority interest in December 2002, there will be no minority interest in net earnings of Stratosphere Corporation in 2003 and thereafter.

Net earnings for the year ended December 31, 2002 decreased by $3,083,000 as compared to the year ended December 31, 2001 primarily due to a write-down of equity securities available for sale ($8.5 million), decreased gain on sale of marketable equity securities ($6.7 million) and the write-down of a limited partnership investment ($3.8 million) partially offset by increased earnings from land house and condominium operations ($8.4 million) and increased gain on sale of real estate ($7.3 million).

CALENDAR YEAR 2001 COMPARED TO CALENDAR YEAR 2000

Gross revenues decreased by $15,554,000, or 5.0%, during the year ended December 31, 2001 as compared to the same period in 2000. This decrease reflects decreases of $20,614,000 in land, house and condominium sales, $5,841,000 in interest income on U.S. Government and Agency obligations and other investments, $5,199,000 in hotel and resort operating income and $2,717,000 in financing lease income partially offset by increases of $11,592,000 in hotel and casino operating income, $3,910,000 in equity in earnings of GB Holdings, Inc., $3,271,000 in rental income and $44,000 in dividend and other income. The decrease in land, house and condominium sales is primarily due to a decline in inventory of completed units available for sale. The decrease in interest income on U.S. Government and Agency obligations and other investments is primarily attributable to a decrease in interest rates on short-term investments. The decrease in hotel and resort operating income is primarily attributable to New Seabury resort operations, including membership initiation fees, which were negatively impacted by the construction of a new club house and golf course improvements. The decrease in financing lease income is the result of lease expirations and normal financing lease amortization. The increase in hotel and casino operating income is primarily attributable to an increase in gaming and hotel revenues. The equity in earnings of GB Holdings, Inc. is the result of accounting for the Company's interest under the equity method effective October 1, 2000. In 2001, the Company included a full year of GB Holdings, Inc.'s operations, whereas in 2000 only the fourth quarter of operations was included, historically a seasonably weak quarter. The increase in rental income is primarily attributable to operating lease rentals.

Expenses decreased by $9,212,000, or 3.8%, during the year ended December 31, 2001 as compared to the same period in 2000. This decrease reflects decreases of $15,894,000 in the cost of land, house and condominium sales, $6,056,000 in hotel and resort operating expenses, $1,750,000 in Bayswater

acquisition costs and $395,000 in general and administrative expenses partially offset by increases of $9,472,000 in hotel and casino operating expenses, $2,936,000 in depreciation and amortization $1,320,000 in interest expense and $1,155,000 in rental property expenses. The decrease in cost of land, house and condominium sales is due to decreased sales as explained above. The decrease in hotel and resort operating expenses is primarily attributable to cost controls at the New Seabury resort to offset decreased revenues as explained above. The increase in hotel and casino operating expenses is primarily attributable to increased costs associated with increased revenues. The increase in interest expense is primarily attributable to increased interest due affiliates in connection with repurchase obligations.

As a result of the completion of Stratosphere's additional 1,000 rooms and related amenities in June 2001, hotel and casino operating revenues and expenses have increased. Increased room capacity provided more hotel guests thereby increasing revenues. These increases were partially offset by a $3 decrease in the average daily rate per room and a 2.6% decrease in percentage occupancy. Hotel and casino operating expenses increased due to additional operating costs and increased marketing and advertising expenses.

The increase in hotel and casino revenues were muted by the September 11, 2001 terrorist attack. Management anticipates increased hotel and casino operating revenues and expenses through the second quarter of 2002. However, these increases are expected to be tempered by decreased air travel to Las Vegas as a result of the terrorist threat, increased competition and the recent economic recession.

Earnings before property and securities transactions and minority interest decreased during the year ended December 31, 2001 by $6,342,000 as compared to the same period in 2000.

Gain on property transactions decreased by $5,026,000 during the year ended December 31, 2001 as compared to the same period in 2000 due to the size and number of transactions.

During the year ended December 31, 2001, AREP recorded a provision for loss on real estate of $3,184,000 as compared to $1,351,000 in the same period in 2000. A substantial portion of the 2001 provision resulted from tenant bankruptcies.

Gain on sale of marketable equity and debt securities was $6,749,000 in the year ended December 31, 2001. There was no such income in 2000.

In the year ended December 31, 2000, AREP recorded a gain on sale of limited partnership units of $3,461,000. There was no such income in 2001.

Minority interest in the net earnings of Stratosphere Corporation decreased by $2,297,000 during the year ended December 31, 2001 as compared to the same period in 2000 due to a decrease in Stratosphere's net hotel and casino operating income.

Net earnings for the year ended December 31, 2001 decreased by $7,616,000 as compared to the year ended December 31, 2000 primarily due to decreased interest income ($5.8 million), decreased earnings from land, house and condominium operations ($4.7 million) and decreased gain on property and securities transactions ($3.3 million) partially offset by increased equity in earnings of GB Holdings, Inc. ($3.9 million) and decreased minority interest in earnings of Stratosphere ($2.3 million). Earnings from land, house and condominium operations decreased due to a decline in inventory of completed units available for sale. Based on existing contracts, sales may increase during 2002 compared to 2001. However, the decrease in land inventory in approved sub-divisions is expected to negatively impact earnings from this business segment in the longer term unless mitigated by the purchase of land, development and sale of units in approved sub-divisions.

For accounting purposes Bayswater's earnings prior to the date of

acquisition (March 23, 2000) were allocated to the General Partner and therefore excluded from the computation of basic and diluted earnings per limited partnership unit.

CAPITAL RESOURCES AND LIQUIDITY

Cash provided by operating activities was $122.3 million for the year ended December 31, 2002 as compared to $81.8 million in the comparable period of 2001. This increase resulted primarily from an increase in the land, house and condominium operations ($30.7 million) and an increase in cash flow from the other operations ($9.8 million). The Company expects the decrease in land inventory in approved sub-divisions to negatively impact cash flow from the land, house and condominium operations.

The following table reflects the Company's contractual cash obligations, as of December 31, 2002, due during the indicated periods (in $millions):

	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS	TOTAL
Mortgages payable	$ 7.7	$22.6	$72.4	$ 69.1	$171.8
Mezzanine loan commitments	5.0	15.0	--	--	20.0
Construction and development obligations	13.3	--	--	--	13.3
Total	$26.0	$37.6	$72.4	$ 69.1	$205.1

In 2002, fourteen leases covering fourteen properties and representing approximately $2.1 million in annual rentals expired. Seven leases, originally representing $916,000 in annual rental income, were renewed for $625,000 in annual rentals. Such renewals are generally for a term of five years. One property with an annual rental income of $173,000 was not renewed and subsequently leased for $117,000 per annum. Another property with annual rents of $167,000 was not renewed and was sold for approximately $1.6 million. Five leases with annual rentals of $855,000 were not renewed and are currently being marketed for sale or lease.

In 2003, seventeen leases covering seventeen properties and representing approximately $2.2 million in annual rentals are scheduled to expire. Eight leases originally representing $1.1 million in annual rental income were renewed for $924,000 in annual rentals. Such renewals are generally for a term of five years. Five properties with annual rental income of $613,000 were not renewed and are currently being marketed for sale or lease. The Company has not yet been notified by tenants whether they plan to renew leases on four properties with annual rentals of $464,000.

On March 31, 2003, the Board of Directors of the General Partner announced that no distributions on its Depositary Units are expected to be made in 2003. AREP believes that it should continue to hold and invest, rather than distribute, cash. In making its announcement, AREP noted it plans to continue to apply available cash flow toward its operations, repayment of maturing indebtedness, tenant requirements, investments, acquisitions and other capital expenditures and cash reserves for Partnership contingencies including environmental matters and scheduled lease expirations. By the end of the year 2005, net leases representing approximately 23% of AREP's net annual rentals will be due for renewal,

and by the end of the year 2007, 35% of such rentals will be due for renewal. Another factor that AREP took into consideration was that net leases representing approximately 26% of AREP's net annual rentals from its portfolio are with tenants in the retail sector, some of which are currently experiencing

cash flow difficulties and restructurings.

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

Sales proceeds from the sale or disposal of portfolio properties totaled approximately $20.5 million in 2002. During 2001, such sales proceeds totaled approximately $3.7 million. AREP intends to use asset sales, financing and refinancing proceeds for new investments.

In May 2002, the Company was qualified as a holding company by the New Jersey Casino Control Commission and in accordance with a prior agreement repurchased its interest in the Sands Hotel and Casino, located in Atlantic City New Jersey, from affiliates of the General Partner. As a result, the Company acquired approximately 3.6 million common shares (36%) of GB Holdings Inc. and $26.9 million face amount of GB Property First Mortgage Notes. The Company paid approximately $68.8 million to reacquire its interests representing the affiliates advances plus accrued interest of approximately $11 million. In accordance with the agreement, interest was accrued from March 2000 to May 2002 at an annual rate of 1 1/2% over the prime rate.

On December 19, 2002 AREP acquired the remaining 49% of Stratosphere that AREP did not own. The initial determination to engage in the transaction at the prices set forth below was previously announced by AREP in September 2000. Under the merger agreement the stockholders who were unaffiliated with Mr. Icahn received a cash price of $45.32 per share (approximately $9.6 million) and the Icahn related stockholders (other than AREP) received a cash price of $44.33 per share (approximately $34.7 million). AREP paid an aggregate of approximately $44.3 million for the Stratosphere shares. In addition, approximately $400,000 of transaction costs were incurred. The acquisition by the Company of the minority shares not owned by an Icahn affiliate has been accounted for as a purchase in accordance with Financial Accounting Standards Board ('FASB') Statement No. 141, 'Business Combinations.' The acquisition by the Company of the common stock held by an Icahn affiliate has been recorded at historical cost. The excess of the historical cost over the amount of the cash disbursed, which amounted to $21,151,000, has been accounted for as a net addition to the General Partner's equity.

In September 2002, the Company purchased an industrial building located in Nashville, Tennessee for approximately $18.2 million. The building was constructed in 2001 and is fully leased to two tenants, Alliance Healthcare Corporation and WMH Tool Group, Inc., with leases expiring in 2011. The annual net operating income is anticipated to be approximately $1.6 million increasing to approximately $1.9 million by 2011. In October 2002, the Company borrowed $12.7 million secured by the Nashville, Tennessee property. The loan is non-recourse, bears interest at 6.4% per annum and matures in ten years. Required payments are interest only for the first three years and then principal amortization will commence based on a thirty-year amortization schedule.

Capital expenditures for real estate and hotel, casino and resort operations were approximately $4.8 million during 2002. During 2001, such expenditures totaled approximately $63.7 million. In 2003, capital expenditures are estimated to be approximately $10 million.

During the year ended December 31, 2002, approximately $7.7 million of principal payments were repaid. During the year ended December 31, 2001, approximately $15.1 million of principal payments were repaid.

AREP may consider possible tender offers for real estate operating companies and real estate limited partnership units. AREP may also consider indirect investments in real estate by making loans secured by the indirect ownership interests of certain real properties.

To further its investment objectives, AREP may consider the acquisition or seek effective control of other land development companies and other real estate operating companies which may have a

significant inventory of quality assets under development. This may enhance its ability to further diversify its portfolio of properties and gain access to additional operating and development capabilities.

AREP's cash and cash equivalents and investment in U.S. Government and Agency obligations increased by $12.8 million during the year ended December 31, 2002, primarily due to net cash flow from operations ($122.3 million), mezzanine loan repayments ($23 million), property dispositions ($20.5 million) and miscellaneous other items ($1.7 million) partially offset by the repurchase of Sands interest ($68.8 million), acquisition of minority interest in Stratosphere ($44.7 million), mezzanine loan advances ($23.2 million), principal payments on mortgages payable ($7.7 million), property acquisitions net of financing proceeds ($5.5 million) and capital expenditures for real estate and hotel, casino and resort operating properties ($4.8 million).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The Company believes the following accounting policies are critical to its business operations and the understanding of results of operations and affect the more significant judgments and estimates used in the preparation of its consolidated financial statements.

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

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

Commitments and Contingencies -- Litigation -- On an ongoing basis, the Company assesses the potential liabilities related to any lawsuits or claims brought against the Company. While it is typically very difficult to determine the timing and ultimate outcome of such actions, the Company uses its best judgment to determine if it is probable that it will incur an expense related to the settlement or final adjudication of such matters and whether a reasonable estimation of such probable loss, if any, can be made. In assessing probable losses, the Company makes estimates of the amount of insurance recoveries, if any. The Company accrues a liability when it believes a loss is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertainties related to the eventual outcome of litigation and potential insurance recovery, it is possible that certain matters may be resolved for amounts materially different from any provisions or disclosures that the Company has previously made.

Marketable Equity and Debt Securities and Investment in U.S. Government and Agency Obligations -- Investments in equity and debt securities are classified as either held-to-maturity or available for sale for accounting purposes.

Investment in U.S. Government and Agency Obligations are classified as available for sale. Available for sale securities are carried at fair value on the balance sheet of the Company. Unrealized holding gains and losses are excluded from earnings and reported as a separate component of Partners' Equity. Held-to-maturity securities are recorded at amortized cost.

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

Mortgages and Notes Receivable

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

b. The Company has provided development financing for certain real estate projects. The security for these loans is a pledge of the developers' ownership interest in the properties. Such loans are subordinate to construction financing and are generally referred to as mezzanine loans. Current mezzanine loans accrue interest at approximately 22% per annum. However interest is not paid periodically and is due at maturity or earlier from unit sales or refinancing proceeds. The Company defers recognition of interest income on mezzanine loans pending receipt of principal and interest payments.

Revenue Recognition

1. Revenue from real estate sales and related costs are recognized at the time of closing primarily by specific identification. The Company follows the guidelines for profit recognition set forth by Financial Accounting Standards Board (FASB) Statement No. 66, 'Accounting for Sales of Real Estate.'

2. Casino revenues and promotional allowances -- The Company recognizes revenues in accordance with industry practice. Casino revenue is the net win from gaming activities (the difference between gaming wins and losses). Casino revenues are net of accruals for anticipated payouts of progressive and certain other slot machine jackpots. Revenues include the retail value of rooms, food and beverage and other items that are provided to customers on a complimentary basis. A corresponding amount is deducted as promotional allowances. The cost of such complimentaries is included in 'Hotel and casino operating expenses'.

3. Sales, advertising and promotion -- These costs are expensed as incurred.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

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

Other related risks include liquidity risks, which arise in the course of AREP's general funding activities and the management of its balance sheet. This includes both risks relating to the raising of funding with appropriate maturity and interest rate characteristics and the risk of being unable to liquidate an asset in a timely manner at an acceptable price. Real estate investments by their nature are often difficult or time-consuming to liquidate. Also, buyers of minority interests may be difficult to secure, while transfers of large block positions may be subject to legal, contractual or market restrictions. Other

operating risks for AREP include lease terminations, whether scheduled terminations or due to tenant defaults or bankruptcies, development risks, and environmental and capital expenditure matters, as described elsewhere herein. AREP's mortgages payable are primarily fixed-rate debt and, therefore, are not subject to market risk.

AREP invests in U.S. Government and Agency obligations which are subject to interest rate risk. As interest rates fluctuate, the Company will experience changes in the fair value of these investments

with maturities greater than one year. If interest rates increased 100 basis points, the fair value of these investments at December 31, 2002, would decline by approximately $800,000.

Whenever practical, AREP employs internal strategies to mitigate exposure to these and other risks. AREP's management, on a case by case basis with respect to new investments, performs internal analyses of risk identification, assessment and control. AREP reviews credit exposures, and seeks to mitigate counterparty credit exposure through various techniques, including obtaining and maintaining collateral, and assessing the creditworthiness of counterparties and issuers. Where appropriate, an analysis is made of political, economic and financial conditions, including those of foreign countries. Operating risk is managed through the use of experienced personnel. AREP seeks to achieve adequate returns commensurate with the risk it assumes. AREP utilizes qualitative as well as quantitative information in managing risk.

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 subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of earnings, changes in partners' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2002. In connection with our audits of the consolidated financial statements, we also have audited the 2002 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 auditing standards generally accepted in the United States of America. 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 disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial

position of American Real Estate Partners, L.P. and subsidiaries as of December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. 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.

/s/ KPMG LLP

New York, New York
March 26, 2003

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2002 AND 2001

	2002	2001
	(IN $000'S EXCEPT PER UNIT AMOUNTS)	
ASSETS		
Real estate leased to others:		
Accounted for under the financing method (Notes 4 and 13)	$ 155,458	$ 176,757
Accounted for under the operating method, net of accumulated depreciation (Notes 5 and 13)	204,242	181,840
Investment in U.S. Government and Agency obligations (Note 6)	336,051	313,641
Note receivable due from affiliate (Note 11)	250,000	250,000
Cash and cash equivalents (Note 2)	51,394	61,015
Marketable equity and debt securities (Note 7)	26,728	35,253
Mortgages and notes receivable (Note 10)	56,216	35,529
Equity interest in GB Holdings, Inc. (Note 8)	37,280	39,936
Hotel, casino and resort operating properties net of accumulated depreciation:		
Stratosphere Corporation hotel and casino (Note 9)	171,430	184,191
Hotel and resort (Notes 5 and 12)	44,346	43,990
Land and construction-in-progress	40,415	69,429
Receivables and other assets	48,111	60,061
Total	$1,421,671	$1,451,642
LIABILITIES AND PARTNERS' EQUITY		
Mortgages payable (Notes 4, 5 and 14)	$ 171,848	$ 166,808
Due to affiliate (Note 7)	--	68,805
Accounts payable, accrued expenses and other liabilities	46,657	47,967
	218,505	283,580
Minority interest in Stratosphere Corporation hotel and casino (Note 9)	--	67,433
Commitments and contingencies (Notes 3 and 19)		
Limited partners:		
Preferred units, $10 liquidation preference, 5% cumulative pay-in-kind redeemable; 9,400,000 authorized; 9,330,963 and 8,886,631 issued and outstanding as of December 31, 2002 and 2001	96,808	92,198
Depositary units; 47,850,000 authorized; 47,235,484 outstanding	1,071,857	996,701
General partner	46,422	23,651
Treasury units at cost:		

1,137,200 depositary units (Note 22)	(11,921)	(11,921)
Partners' equity (Notes 2, 3, 15 and 23)	1,203,166	1,100,629
Total	$1,421,671	$1,451,642

See notes to consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
	(IN $000'S EXCEPT PER UNIT AMOUNTS)		
Revenues:			
Hotel and casino operating income (Note 9)	$156,315	$144,354	$132,762
Land, house and condominium sales	76,024	55,566	76,180
Interest income on financing leases	14,722	16,935	19,652
Interest income on U.S. Government and Agency obligations and other investments	30,344	30,367	36,208
Rental income	27,925	26,887	23,616
Hotel and resort operating income (Note 12)	18,597	16,418	21,617
Dividend and other income (Notes 7 and 10)	2,684	4,989	4,945
Equity in earnings (loss) of GB Holdings, Inc. (Note 8)	305	1,807	(2,103)
	326,916	297,323	312,877
Expenses:			
Hotel and casino operating expenses (Note 9)	134,071	128,469	118,997
Cost of land, house and condominium sales	54,640	42,599	58,493
Hotel and resort operating expenses (Note 12)	15,738	14,164	20,220
Interest expense (Notes 7, 13 and 14)	14,096	19,140	17,820
Depreciation and amortization	21,229	18,034	15,098
General and administrative expenses (Note 3)	7,029	7,080	7,475
Property expenses	7,271	5,155	4,000
Bayswater acquisition costs (Note 1)	--	--	1,750
	254,074	234,641	243,853
Earnings before property and securities transactions and minority interest	72,842	62,682	69,024
Other gains (losses):			
Provision for loss on real estate	(3,212)	(3,184)	(1,351)
Gain on sale of marketable equity and debt securities	--	6,749	--
Write-down of equity securities available for sale (Note 7)	(8,476)	--	--
Gain on sales and disposition of real estate (Note 13)	8,990	1,737	6,763
(Loss) gain on limited partnership interests	(3,750)	--	3,461
Minority interest in net earnings of Stratosphere Corporation (Note 9)	(1,943)	(450)	(2,747)
Net earnings	$ 64,451	$ 67,534	$ 75,150
Net earnings attributable to (Note 3):			
Limited partners	$ 63,168	$ 66,190	$ 72,225
General partner	1,283	1,344	2,925
	$ 64,451	$ 67,534	$ 75,150

Net earnings per limited partnership unit (Note 2):			
Basic earnings	$ 1.27	$ 1.34	$ 1.48
Weighted average limited partnership units outstanding	46,098,284	46,098,284	46,098,284
Diluted earnings	$ 1.12	$ 1.19	$ 1.29
Weighted average limited partnership units and equivalent partnership units outstanding	56,466,698	55,599,112	56,157,079

See notes to consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' EQUITY AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (IN $000'S)

	GENERAL PARTNER'S EQUITY	LIMITED PARTNERS' EQUITY		HELD IN TREASURY		TOTAL PARTNERS' EQUITY
		DEPOSITARY UNITS	PREFERRED UNITS	AMOUNTS	UNITS	
Balance, December 31, 1999	$ 80,842	$ 876,760	$83,627	$(11,921)	1,137	$1,029,308
Comprehensive income:						
Net earnings	2,925	72,225	--	--	--	75,150
Net unrealized losses on securities available for sale	(9)	(464)				(473)
Comprehensive income	2,916	71,761	--	--	--	74,677
Net adjustment for Bayswater acquisition (Note 1)	(62,801)	--	--	--	--	(62,801)
Capital contribution (Note 1)	1,541	--	--	--	--	1,541
Pay-in-kind distribution (Note 15)	--	(4,181)	4,181	--	--	--
Balance, December 31, 2000	22,498	944,340	87,808	(11,921)	1,137	1,042,725
Comprehensive income:						
Net earnings	1,344	66,190	--	--	--	67,534
Reversal of unrealized loss on sale of debt securities	78	3,818	--	--	--	3,896
Net unrealized losses on securities available for sale	(269)	(13,257)	--	--	--	(13,526)
Comprehensive income	1,153	56,751	--	--	--	57,904
Pay-in-kind distribution (Note 15)	--	(4,390)	4,390	--	--	--
Balance, December 31, 2001	23,651	996,701	92,198	(11,921)	1,137	1,100,629
Comprehensive income:						
Net earnings	1,283	63,168	--	--	--	64,451
Reversal of unrealized loss						

on sale of debt securities	211	10,384	--	--	--	10,595
Adjustment to reverse unrealized loss on investment securities reclassified to notes receivable	131	6,451	--	--	--	6,582
Net unrealized losses on securities available for sale	(5)	(237)	--	--	--	(242)
Comprehensive income	1,620	79,766	--	--	--	81,386
Net adjustment for acquisition of minority interest (Note 9)	21,151	--	--	--	--	21,151
Pay-in-kind distribution (Note 15)	--	(4,610)	4,610	--	--	--
Balance, December 31, 2002	$ 46,422	$1,071,857	$96,808	$(11,921)	1,137	$1,203,166

Accumulated other comprehensive loss at December 31, 2002, 2001 and 2000 was $242, $17,178, and $7,548, respectively.

See notes to consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (IN $000'S)

	2002	2001	2000
Cash flows from operating activities:			
Net earnings	$ 64,451	$ 67,534	$ 75,150
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	21,229	18,034	15,098
Gain on sale of marketable equity securities	--	(6,749)	--
Gain on sales and disposition of real estate	(8,990)	(1,737)	(6,759)
Gain on sale of limited partnership interests	--	--	(3,461)
Provision for loss on real estate	3,212	3,184	1,351
Write-downs of equity securities available for sale and limited partnership interests	12,226	--	--
Minority interest in net earnings of Stratosphere Corporation	1,943	450	2,747
Equity in (earnings) losses of GB Holdings, Inc.	(305)	(1,807)	2,103
Changes in operating assets and liabilities:			
Decrease (increase) in land and construction-in progress	24,215	7,753	(7,863)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	656	(641)	(6,478)
Decrease (increase) in receivables and other assets	3,619	(4,266)	4,550
Net cash provided by operating activities	122,256	81,755	76,438
Cash flows from investing activities:			
Increase in mortgages and notes receivable	(23,200)	(15,583)	(9,502)
Repayments of mortgages and notes receivable	23,000	--	--
Net proceeds from the sales and disposition of real estate	20,513	3,656	20,060
Principal payments received on leases accounted for under the financing method	5,941	6,858	7,560
Increase in equity interest in GB Holdings, Inc.	--	--	(32,500)
Acquisition of Bayswater's net assets	--	--	(84,352)

Additions to hotel, casino and resort operating property	(4,577)	(62,662)	(22,703)
Acquisitions of rental real estate	(18,226)	--	(27,326)
Additions to rental real estate	(181)	(1,064)	(2,760)
(Increase) decrease in investment in U.S. Government and Agency Obligations	(22,410)	162,046	(6,738)
Disposition of marketable equity & debt securities	--	17,929	4,297
Increase in marketable equity & debt securities	(4,415)	--	--
Increase in note receivable from affiliate	--	(250,000)	--
Acquisition of minority interest in Stratosphere Corp.	(44,744)	--	(1,970)
(Decrease) increase in due to affiliate	(68,815)	(8,716)	77,530
Increase in investment in joint ventures	--	(5,856)	--
Net disposition of limited partnership interests	--	--	7,805
Other	197	--	--
Net cash used in investing activities	(136,917)	(153,392)	(70,599)
Cash flows from financing activities:			
Partners' equity:			
Net capital distributions	--	--	(4,100)
Debt:			
Proceeds from mortgages payable	12,700	--	19,600
Payments on mortgages payable	(462)	(6,457)	--
Periodic principal payments	(7,198)	(6,840)	(8,699)
Balloon payments	--	(1,756)	(7,632)
Net cash provided by (used in) financing activities	5,040	(15,053)	(831)
Net (decrease) increase in cash and cash equivalents	(9,621)	(86,690)	5,008
Cash and cash equivalents, beginning of year	61,015	147,705	142,697
Cash and cash equivalents at end of year	$ 51,394	$ 61,015	$ 147,705
Supplemental information:			
Cash payments for interest, net of amounts capitalized	$ 14,399	$ 14,980	$ 19,818
Cash payments for income taxes	$ --	$ 1,200	$ 400
Supplemental schedule of noncash investing and financing activities:			
Reclassification of real estate to operating lease	$ 13,403	$ 3,082	$ 17,274
Reclassification of real estate from operating lease	--	--	(6,781)
Reclassifications from hotel and resort operating properties	--	(1,167)	--
Reclassification of real estate from financing lease	(13,503)	(9,754)	(18,560)
Reclassification of real estate to property held for sale	100	6,672	8,067
Reclassification of real estate to construction-in-progress	--	1,167	--
Reclassification from marketable equity and debt securities	(20,494)	--	--
Reclassification to mortgages and notes receivable	20,494	--	--
	$ --	$ --	$ --
Net unrealized losses on securities available for sale	$ (242)	$(13,526)	$ (473)
Increase in equity and debt securities	$ 2,890	$ 2,500	$ --

See notes to consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

1. DESCRIPTION OF BUSINESS 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 thirteen separate limited partnerships (collectively, the 'Predecessor Partnerships'), pursuant to which the Subsidiary acquired all the assets, subject to the liabilities of the Predecessor Partnerships.

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. American Property Investors, Inc. (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.

An amendment (the 'Amendment') to the Company's Partnership Agreement became effective on August 16, 1996, which permits the Company to make non-real estate investments. The Amendment permits the Company to invest in securities issued by companies that are not necessarily engaged as one of their primary activities in the ownership, development or management of real estate to further diversify its investments while remaining in the real estate business and continuing to pursue suitable investments in the real estate markets. Under the Amendment, investments may include equity and debt securities of domestic and foreign issuers. The portion of the Company's assets invested in any one type of security or any single issuer will not be limited.

The Company will conduct its activities in such a manner so as not to be deemed an investment company under the Investment Company Act of 1940. Generally, this means that no more than 40% of the Company's total assets will be invested in securities. In addition, the Company will structure its investments to continue to be taxed as a partnership rather than as a corporation under the applicable publicly traded partnership rules of the Internal Revenue Code.

The Company and its consolidated subsidiaries are engaged in the following operating businesses: (i) rental real estate, (ii) hotel, casino and resort operations, (iii) land, house and condominium development and (iv) investment in securities including investment in other entities and marketable equity and debt securities.

In March 2000, the Company acquired from affiliates of the General Partner the assets of Bayswater Realty & Capital Corp. and the ownership interests of its affiliated entities ('Bayswater') for approximately $84.35 million. Bayswater, a real estate investment, management and development company has focused primarily on the construction and sale of single-family homes. The assets acquired included interests in ten residential subdivisions in New York and Florida.

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

The Bayswater assets acquired and the liabilities assumed have been accounted for at historical cost. The excess of the historical cost of the net assets over the amount of cash disbursed, which amounted to $1,541,000, has been accounted for as a capital contribution by the General Partner. The Company's costs of $1.75 million related to the Bayswater transaction have been included as 'Bayswater acquisition costs' in the Consolidated Statements of Earnings in the year ended December 31, 2000. Previously an increase of $49,568,000 was made to the General Partner's equity at December 31, 1997 as a result of the Bayswater acquisition. A reduction of $62,801,000 has been made to the General Partner's equity as an adjustment for the Bayswater acquisition in the year ended December 31, 2000. See Consolidated Statements of Changes in Partners' Equity and Comprehensive Income.

In March 2000, the Company purchased an additional 50,000 shares of the Stratosphere Corporation ('Stratosphere') from an affiliate of the General Partner resulting in the Company owning approximately 51% of Stratosphere and has included its accounts on a consolidated basis. In December 2002, the Company purchased the remaining 49% minority interest. See Note 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Principles of Consolidation -- The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include only those assets, liabilities and results of operations, which relate to the Company and its wholly owned and majority owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. The Company accounts for its investments for subsidiaries that are less than 50% owned under the equity method of accounting.

Net Earnings Per Limited Partnership Unit -- Basic earnings per share are based on earnings after the preferred pay-in-kind distribution to Preferred Unitholders. The resulting net earnings available for limited partners are divided by the weighted average number of shares of limited partnership units outstanding.

Diluted earnings per share uses net earnings attributable to limited partner interests as the numerator with the denominator based on the weighted average number of units and equivalent units outstanding. The Preferred units are considered to be unit equivalents. The number of limited partnership units used in the calculation of diluted income per limited partnership unit increased as follows: 10,368,414, 9,500,828 and 10,058,795 limited partnership units for the years ended December 31, 2002, 2001 and 2000, respectively, to reflect the effects of the conversion of preferred units.

For accounting purposes, Bayswater's earnings and distributions/dividends prior to the Bayswater acquisition in March 2000 have been allocated to the General Partner and therefore excluded from the computation of basic and diluted earnings per limited partnership unit.

Cash and Cash Equivalents -- The Company considers short-term investments, which are highly liquid with original maturities of three months or less at date of purchase, to be cash equivalents. Included in cash and cash equivalents at December 31, 2002 and 2001 are investments in government backed securities of approximately $5,467,000 and $5,967,000, respectively.

Marketable Equity and Debt Securities and Investment in U.S. Government and Agency Obligations -- Investments in equity and debt securities are classified as either held-to-maturity or available for sale for accounting purposes. Investment in U.S. Government and Agency Obligations are classified as available for sale. Available for sale securities are carried at fair value on the balance sheet of the Company. Unrealized holding gains and losses are excluded from earnings and reported as a separate component of Partners' Equity. Held-to-maturity securities are recorded at amortized cost.

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

Mortgages and Notes Receivable --

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

b. The Company has provided development financing for certain real estate projects. The security for these loans is a pledge of the developers' ownership interest in the properties. Such loans are subordinate to construction financing and are generally referred to as mezzanine loans. Current mezzanine loans accrue interest at approximately 22% per annum. However interest is not paid periodically and is due at maturity or earlier from unit sales or refinancing

proceeds. The Company defers recognition of interest income on mezzanine loans pending receipt of principal and interest payments.

Income Taxes -- No provision has been made for Federal, state or local income taxes on the results of operations generated by partnership activities as such taxes are the responsibility of the partners. Stratosphere accounts for its income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Stratosphere has made an insignificant provision for income taxes which are included in 'Hotel and casino operating expenses' in the Consolidated Statements of Earnings.

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 an 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.

Properties -- Properties held for investment, other than those accounted for under the financing method, are carried at cost less accumulated depreciation unless declines in the values of the properties are considered other than temporary at which time the property is written down to net realizable value. Properties held for sale are included in 'Receivables and other assets' in the consolidated financial statements and are carried at the lower of cost or net realizable value.

Depreciation -- Depreciation is computed using the straight-line method over the estimated useful life of the particular property or property components, which range from 3 to 45 years.

Use of Estimates -- Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates. The more significant estimates include the valuation of (i) long-lived assets, (ii) mortgages and notes receivable (iii) marketable equity and debt securities, (iv) costs to complete for land, house and condominimum developments and (v) gaming-related liability and loyalty programs.

Revenue Recognition

1. Revenue from real estate sales and related costs are recognized at the time of closing primarily by specific identification. The Company follows the guidelines for profit recognition set forth by Financial Accounting Standards Board (FASB) Statement No. 66, 'Accounting for Sales of Real Estate.'

2. Casino revenues and promotional allowances -- The Company recognizes

revenues in accordance with industry practice. Casino revenue is the net win from gaming activities (the difference between gaming wins and losses). Casino revenues are net of accruals for anticipated payouts of progressive and certain other slot machine jackpots. Revenues include the retail value of rooms, food and beverage and other items that are provided to customers on a complimentary basis. A corresponding amount is deducted as promotional allowances. The cost of such complimentaries is included in 'Hotel and casino operating expenses'.

3. Sales, advertising and promotion -- These costs are expensed as incurred.

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

Accounting for Impairment of a Loan -- If it is probable that based upon current information the Company will be unable to collect all amounts due according to the contractual terms of a loan agreement, the Company considers the asset to be 'impaired'. Reserves are established against impaired loans in amounts equal to the difference between the recorded investment in the asset and either the present value of the cash flows expected to be received, or the fair value of the underlying collateral if foreclosure is deemed probable or if the loan is considered collateral dependent.

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

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

Recent Accounting Standards:

1. In July 2001, the Financial Accounting Standards Board (FASB) issued FASB Statements Nos. 141 and 142 (SFAS 141 and SFAS 142): 'Business Combinations' and 'Goodwill and Other Intangible Assets.' SFAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. SFAS 141 and SFAS 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of SFAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS 141 will be reclassified to goodwill. As of January 1, 2002 the Company has adopted SFAS 141 and 142. The adoption of SFAS 141 and 142 has not had any material impact on the Company's consolidated financial statements.

2. In August 2001, the FASB issued SFAS No. 144, 'Accounting for the Impairment or Disposal of Long-Lived Assets.' SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. This statement supersedes SFAS No. 121 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of.' SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. As of January 1, 2002 the Company has adopted SFAS 144.

Under SFAS No. 144, the properties sold by the Company to third parties are considered to be discontinued operations. For the year ended December 31, 2002, the Company is not reporting discontinued operations for the properties disposed of to third properties, which excludes those grandfathered by the effective date of SFAS 144, during the period as the effect of such presentation in the Company's Consolidated Statements of Earnings is not material. The adoption of SFAS 144 has not had any material impact on the Company's consolidated financial statements.

3. In April 2002, the FASB issued SFAS No. 145 which rescinds SFAS's Nos. 4, 44 and 64 which, among other things, required all gains and losses on extinguishment of debt to be classified as an extraordinary item. The Company will adopt the provisions of SFAS No. 145 effective January 1, 2003. The adoption of SFAS 145 is not expected it to have any material effect on the Company's consolidated financial statements.

3. RELATED PARTY TRANSACTIONS

a. The Company has a $250 million note receivable from Carl C. Icahn, Chairman of the General Partner (See Note 11).

b. In addition, in 1997 the Company entered into a license agreement for a portion of office space from an affiliate. The license agreement dated as of February 1, 1997 expires May 22, 2004 unless sooner terminated in accordance with the agreement. Pursuant to the license agreement, the Company has the non-exclusive use of 3,547 square feet of office space and common areas (of an aggregate 21,123 rentable square feet sublet by such affiliate) for which it pays $17,068 per month, together with 16.79% of certain 'additional rent'. In November 2000, the Company reduced its office size to approximately 2,275 square feet, which decreased its monthly rental to $11,185 plus 10.77% of certain additional rent. In 2002, 2001 and 2000, the Company paid such affiliate approximately $153,000, $147,000 and $206,000 of rent, respectively, in connection with this licensing agreement. The terms of such sublease were reviewed and approved by the Audit Committee.

c. Stratosphere received as reimbursement from affiliates of the General Partner approximately $2,872,000, $1,343,000, and $240,000 in the years ended December 31, 2002, 2001 and 2000, respectively, for administrative services performed by Stratosphere personnel.

d. 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 Company'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 Company 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 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. There were no significant fees paid in the years ended December 31, 2002, 2001, and 2000.

Stratosphere also received hotel revenue of approximately $123,000, $600,000 and $500,000 in the years ended December 31, 2002, 2001 and 2000, respectively, in connection with a tour and travel agreement entered into with an affiliate of the General Partner.

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 (in $000's):

	DECEMBER 31	
	2002	2001
Minimum lease payments receivable	$180,943	$204,176
Unguaranteed residual value	87,160	101,329
	268,103	305,505
Less unearned income	112,645	128,748
	$155,458	$176,757

The following is a summary of the anticipated future receipts of the minimum lease payments receivable at December 31, 2002 in ($000's):

YEAR ENDING DECEMBER 31,	AMOUNT
2003	$ 18,843
2004	17,347
2005	16,243
2006	15,491
2007	14,577
Thereafter	98,442
	$180,943

At December 31, 2002, approximately $116,023,000 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 (in $000's):

	DECEMBER 31,	
	2002	2001
Land	$ 55,034	$ 53,702
Commercial buildings	194,521	168,757
	249,555	222,459
Less accumulated depreciation	45,313	40,619

	$204,242	$181,840

As of December 31, 2002 and 2001, accumulated depreciation on the hotel and resort operating properties (not included above) amounted to approximately $9,665,000 and $7,438,000, respectively (See Note 12).

The following is a summary of the anticipated future receipts of minimum lease payments under noncancelable leases at December 31, 2002 (in $000's):

YEAR ENDING DECEMBER 31,	AMOUNT
2002	$ 17,641
2003	18,276
2004	16,214
2005	11,730
2006	9,868
Thereafter	37,813
	$111,542

At December 31, 2002, approximately $138,297,000 of net real estate leased to others was pledged to collateralize the payment of non-recourse mortgages payable.

6. INVESTMENT IN U.S. GOVERNMENT AND AGENCY OBLIGATIONS

The Company has investments in U.S. Government and Agency Obligations whose maturities range from January 2003 to January 2019 as follows (in $ millions):

	DECEMBER 31,			
	2002		2001	
	COST BASIS	CARRYING VALUE	COST BASIS	CARRYING VALUE
Available for Sale:				
Matures in:				
less than 1 year	$292.9	$292.9	$129.2	$129.2
2 - 5 years	39.7	39.7	160.0	157.0
6 - 10 years	--	--	25.0	24.3
Thereafter	3.4	3.4	3.2	3.1
	$336.0	$336.0	$317.4	$313.6

7. MARKETABLE EQUITY AND DEBT SECURITIES (IN $ MILLIONS)

	DECEMBER 31,			
	2002		2001	
	COST BASIS	CARRYING VALUE	COST BASIS	CARRYING VALUE
Available for Sale:				
Philip Service Corporation debt & equity (b):				
Equity	$ 9.4	$ .2	$ 9.4	$ 2.6
Debt	--	--	17.9	11.4
	9.4	.2	27.3	14.0
Other	2.5	3.0	--	--
	11.9	3.2	27.3	14.0
Held-to-maturity:				
GB Notes (a)	21.3	23.5	21.3	21.3
Total	$ 33.2	$ 26.7	$ 48.6	$ 35.3

a. In 1998 and 1999, the Company acquired an interest in the Sands Hotel and Casino (the 'Sands') located in Atlantic City, New Jersey by purchasing the principal amount of approximately $31.4 million of First Mortgage Notes ('Notes') issued by GB Property Funding Corp. ('GB Property'). GB Property was organized as a special purpose entity for the borrowing of funds by Greate Bay Hotel and Casino, Inc. ('Greate Bay'). The purchase price for such notes was approximately $25.3 million. An affiliate of the General Partner also made an investment in the Notes of GB Property. A total of $185 million of such Notes were issued.

Greate Bay owned and operated the Sands, a destination resort complex, located in Atlantic City, New Jersey. On January 5, 1998, GB Property and Greate Bay filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code to restructure its long term debt.

Furthermore, in 1998 and 1999, the Company acquired an interest in the Claridge Hotel and Casino (the 'Claridge Hotel') located in Atlantic City, New Jersey by purchasing the principal amount of $16.7 million of First Mortgage Notes of the Claridge Hotel and Casino Corporation (the 'Claridge Corporation'). The purchase price of such notes was approximately $15.1 million. A total of $85 million of such notes were issued. An affiliate of the General Partner also made an investment in the Notes of the Claridge Corporation. In August 1999, the Claridge Corporation announced that it had filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code to facilitate a financial restructuring.

The Company, the General Partner, and the directors and officers of the General Partner were in the process of pursuing gaming applications to obtain licenses from the New Jersey Casino Control Commission. In March 2000, in an effort to facilitate the consummation of the reorganization process of Greate Bay and Claridge Hotel, the Company entered into separate agreements to transfer its interests

in such entities to an affiliate of the General Partner for $40.5 million, which is equal to the Company's cost for such Notes. The affiliate of the General Partner was obligated to sell back to the Company, and the Company was obligated to repurchase such interests at the same price (together with a commercially reasonable interest factor), when the appropriate licenses were obtained by the Company. The Company would also acquire its proportionate share of all sale proceeds, stock rights, acquired shares and other benefits, if any, that may have accreted to or obtained in connection with such interests while held by the affiliate of the General Partner. Subsequent to the transfer, the affiliate of

the General Partner purchased $1.7 million of the Claridge Notes for approximately $.9 million on the Company's behalf.

In July 2000, the U.S. Bankruptcy Court ruled in favor of the reorganization plan proposed by affiliates of the General Partner which provided for an additional investment of $65 million by the Icahn affiliates in exchange for a 46% equity interest, with bondholders (which also includes the Icahn affiliates) to receive $110 million in new notes and a 54% ownership position. The plan, which became effective September 29, 2000, provided the Icahn affiliates with a controlling interest.

In February 2001, the Icahn affiliates sold their entire Claridge Corporation portfolio ($37.1 million face amount of Claridge Notes) for the following additional interest in GB Holdings, Inc. ('GB Holdings'): (i) 779,861 common shares of GB Holdings and (ii) $15.96 million face amount of GB Property First Mortgage Notes ('GB Notes'), plus $21.56 million in cash. The Company recognized a gain of approximately $1.3 million as a result of this sale in the year ended December 31, 2001. As a result, affiliates of the General Partner were, in effect, holding on behalf of the Company (i) approximately 3.6 million common shares of GB Holdings and (ii) $26.9 million face amount of GB Notes, to which the Company would become entitled and obligated to purchase when it was fully licensed. As of February 2001, the Company no longer had any interests in the Claridge.

In May 2002, the Company was qualified as a holding company by the New Jersey Casino Control Commission (the 'Casino Control Commission') and in accordance with the prior agreement repurchased its interest in the Sands Hotel and Casino (the 'Sands'), located in Atlantic City, New Jersey, from affiliates of the General Partner. As a result, the Company acquired approximately 3.6 million common shares (36%) of GB Holdings Inc. and $26.9 million face amount of GB Property First Mortgage Notes. The Company paid approximately $68.8 million to reacquire its interests representing the affiliates' advances plus accrued interest of approximately $11 million. In accordance with the agreement, interest was accrued from March 2000 to May 2002 at an annual rate of 1 1/2% over the prime rate. Interest expense of approximately $919,000, $5,306,000 and $3,595,000 for the years ended December 31, 2002, 2001, and 2000, respectively, has been included in 'Interest expense' in the Consolidated Statements of Earnings. As required by the New Jersey Casino Control Act (the 'Casino Control Act'), the Partnership Agreement was amended to provide that securities of the Company are held subject to the condition that if a holder thereof is found to be disqualified by the Casino Control commission, pursuant to the provisions of the Casino Control Act, such holder shall dispose of his interest in the Company in accordance with the Casino Control Act.

For accounting purposes, the Company reflects its interest in the GB Notes as held to maturity. The Company's corresponding obligations to repurchase its interests in the GB Property, including interest, was included in 'Due to Affiliates' in the Consolidated Balance Sheets and totalled $68.8 million at December 31, 2001.

The Company reflects it pro rata equity interest in Greate Bay as 'Equity interest in GB Holdings, Inc.' in the Consolidated Balance Sheets (See Note 8).

b. At December 31, 2002 and 2001, the Company owned the following approximate interests in Philip Service Corporation ('Philips'): (i) 1.8 million common shares, (ii) $14.2 million in secured term debt, and (iii) $10.9 million in accreted secured convertible payment-in-kind debt. The Company has an approximate 7% equity interest in Philips and an Icahn affiliate has an approximate 38% equity interest. Icahn affiliates also own term and payment-in-kind debt.

The secured term debt matures March 31, 2005 and bears interest at 9% per annum. Interest is payable quarterly, in arrears, beginning July 1, 2000. The secured convertible payment-in-kind debt

matures March 31, 2005 and bears interest at 10% per annum. Interest is accreted

quarterly with interest on the accreted interest also calculated at the rate of 10% per annum.

The market value of Philip's common stock has declined steadily since it was acquired by the Company. In 2002, based on a review of Philip's financial statements, management of the Company deemed the decrease in value to be other than temporary. As a result, the Company wrote down its investment in Philip's common stock by charges to earnings of $8,476,000 and charges to other comprehensive income ('OCI') of $761,000 in the year ended December 31, 2002. This investment had been previously written down by approximately $6.8 million in charges to earnings. The Company's adjusted carrying value of Philip's common stock is approximately $200,000 at December 31, 2002.

The Company also has a participation in Philip's debt with an original cost at the date of their acquisition of approximately $19.7 million. At December 31, 2001, such notes were classified as available-for-sale securities and were written down through charges to OCI, to an estimated fair market value of approximately $13.2 million. In 2002, upon concluding its review of these investments, management determined that such investments were more properly classified as notes receivable. Approximately $6.6 million of charges to OCI were reversed and the investments were reclassified at their original cost to 'Mortgages and notes receivable' at December 31, 2002. These adjustments had no effect on the Company's reported earnings for the year ended December 31, 2002 (See Note 10).

8. EQUITY INTEREST IN GB HOLDINGS, INC.

The Company reflects its pro rata equity interest in GB Holdings, Inc., which is approximately 36%, under this caption in the Consolidated Balance Sheets. 'Equity in the earnings (losses) of GB Holdings, Inc.' of $.3 million, $1.8 million and ($2.1 million) have been recorded in the Consolidated Statements of Earnings in the years ended December 31, 2002, 2001 and 2000, respectively (See Note 7).

9. HOTEL AND CASINO OPERATING PROPERTY

In September 2000, Stratosphere Corp.'s Board of Directors approved a going private transaction proposed by the Company and an affiliate of Icahn. On February 1, 2001 the Company entered into a merger agreement with Stratosphere Corp. ('Stratosphere') under which the Company would acquire the remaining shares of Stratosphere that it did not currently own. The Company owned approximately 51% of Stratosphere and Carl C. Icahn owned approximately 38.6%. The Company, subject to certain conditions, agreed to pay approximately $44.3 million for the outstanding shares of Stratosphere not currently owned by it. Stratosphere stockholders not affiliated with Icahn would receive a cash price of $45.32 per share and Icahn related stockholders would receive a cash price of $44.33 per share. This transaction was completed in December 2002 after shareholders' approval.

The acquisition by the Company of the minority shares not owned by an Icahn affiliate has been accounted for as a purchase in accordance with Financial Accounting Standards Board ('FASB') Statement No. 141, 'Business Combinations.' The acquisition by the Company of the common stock held by an Icahn affiliate has been recorded at historical cost. The excess of the historical cost over the amount of the cash disbursed, which amounted to $21,151,000, has been accounted for as a net addition to the General Partner's equity.

Stratosphere has invested approximately $95 million for the construction of an additional 1,000 hotel rooms and related amenities and to purchase the leasehold interest in the shopping center located on its premises. The improvements were substantially completed in June 2001.

Stratosphere's property and equipment consist of the following as of December 31, 2002 and 2001 (in $000's):

	2002	2001
Land and improvements, including land held for development	$ 20,110	$ 20,824
Building and improvements	135,989	138,981
Furniture, fixtures and equipment	57,158	52,865
Construction in progress	329	697
	213,586	213,367
Less accumulated depreciation and amortization	(42,156)	(29,176)
	$171,430	$184,191

Included in property and equipment at December 31, 2001 are assets recorded under capital leases of $17.2 million. Accumulated depreciation and amortization at December 31, 2001 was $11.6 million.

Stratosphere's operations for the years ended December 31, 2002, 2001 and 2000 have been included in 'Hotel and casino operating income and expenses' in the consolidated Statements of Earnings. Hotel and casino operating expenses include all expenses except for approximately $13,328,000, $11,257,000 and $8,582,000 of depreciation and amortization for the years ended December 31, 2002, 2001 and 2000, respectively. Such amounts have been included in 'Depreciation and amortization expense' in the Consolidated Statements of Earnings.

10. MORTGAGES AND NOTES RECEIVABLE

COLLATERALIZED BY PROPERTY TENANTED BY OR DEBTOR	INTEREST RATE	MATURITY DATE	BALANCE AT MATURITY	MONTHLY PAYMENT AMOUNT	BALANCE AT DECEMBER 31, (IN $000'S) 2002	2001
931 First Avenue (a)	Various	Various	--	--	$ --	$23,000
Peninsula/Hampton & Alex Hotel (b)	Various	Various	--	--	23,200	--
Philip debt (c)	--	--	--	--	20,494	--
Other	--	--	--	--	12,522	12,529
					$56,216	$35,529

The Company has provided development financing for certain real estate projects. The security for these loans is a pledge of the developers' ownership interest in the properties. Such loans are subordinate to construction financing and are generally referred to as mezzanine loans. The Company's mezzanine loans accrue interest at approximately 22% per annum. However interest is not paid periodically and is due at maturity or earlier from unit sales or refinancing proceeds. The Company defers recognition of interest income on mezzanine loans pending receipt of principal and interest payments.

a. On November 30, 2000, the Company entered into a mezzanine loan agreement to fund $23 million in two tranches to an unaffiliated borrower. The funds were to be used for certain initial development costs associated with a 65 unit condominium property located at 931 1st Avenue in New York City. The first tranche of $10 million was funded on November 30, 2000 and provided for interest accruing at a rate of 25% per annum, with principal and interest due at maturity, May 29, 2003. Also, in November 2000, approximately $3.7 million of the second tranche of the loan was funded. The balance of approximately $9.3 million was funded in installments during 2001. The second tranche provided for interest accruing at a rate of 21.5% per annum with principal and interest due at maturity, November 29, 2002. The loans were payable at anytime from the proceeds of unit sales after satisfaction of senior debt of approximately $45 million. The loans were secured by the pledge of membership interests in the

entity that owns the real estate. In May 2002, the Company received approximately $31.3 million for prepayment of the mezzanine loans. The balance of the prepayment of $8.3 million represented accrued interest ($7.9 million) and exit fees ($.4 million) which amounts were recognized as 'Interest income on U.S. Government and Agency obligations and other investments' and 'Other

income' respectively, in the Consolidated Statements of Earnings for the year ended December 31, 2002.

b. At December 31, 2002, the Company had funded two mezzanine loans for approximately $23.2 million and had commitments to fund, under certain conditions, additional advances of approximately $5 million. Both loans have an interest rate of 22% per annum compounded monthly. The Peninsula loan, for a Florida condominium development, has a term of 24 months from date of funding, February 2002, with 2 six month extensions. The Alex Hotel loan, for a New York City hotel with approximately 200 rooms, has a term of 36 months from the closing date, April 2002 . At December 31, 2002, accrued interest of approximately $4.1 million has been deferred for financial statement purposes pending receipt of principal and interest payments in connection with these loans. Origination fees of $3.0 million have been received in connection with one of the mezzanine loans and approximately $1.1 million has been recognized as 'Other income' in the Consolidated Statements of Earnings in the year ended December 31, 2002. In February 2003, the Company funded the Hampton mezzanine loan for approximately $30 million on a Florida condominium development. The loan is due in 18 months with 1 six month extension and has an interest rate of 22% per annum compounded monthly. The Company has committed to fund an additional $15 million if required by the borrower to complete the project.

c. See Note 7.

11. NOTE RECEIVABLE DUE FROM AFFILIATE

On December 27, 2001, the Company entered into a transaction with Carl C. Icahn, Chairman of the Board of the General Partner, pursuant to which the Company made a two-year $250 million loan to Mr. Icahn, secured by securities consisting of (i) 21,136,044 and 8,073,466 of the Company's depositary units and preferred units, respectively, owned by Mr. Icahn, such units having an aggregate market value on that date of $250 million and (ii) shares of a private company owned by Mr. Icahn, which shares were represented to have an aggregate book value of at least $250 million, together with an irrevocable proxy on sufficient additional shares of the private company so that the pledged shares and the shares covered by the proxy equal in excess of 50% of the private company's shares. The loan bears interest at a per annum rate equal to the greater of (i) 3.9% and (ii) 200 basis points over 90 day LIBOR to be reset each calendar quarter. Interest is payable semi-annually and is paid up to date. The loan must be prepaid in an amount of up to $125 million to the extent that the Company needs such funds for an investment opportunity and may be prepaid at any time by Mr. Icahn. In the event of a loan default, the Company would, at its option, liquidate the shares of the private company or reacquire its own units, or both, to satisfy the loan. The terms of this transaction were reviewed and approved by the Audit Committee. Approximately $9,968,000 and $135,000 of interest income was recorded in the years ended December 31, 2002 and 2001, respectively, and is included in 'Interest income on U.S. Government and Agency obligations and other investments' in the Consolidated Statements of Earnings.

12. HOTEL AND RESORT OPERATING PROPERTIES

a. The Company owns a hotel and resort property that is part of a master planned community situated in the town of Mashpee located on Cape Cod in Massachusetts. This property includes two golf courses, other recreational facilities, condominium and time share units and land for future development.

Total initial costs of approximately $28 million were classified as follows: approximately $17.4 million as 'Hotel and resort properties', $8.9 million as 'Land and construction-in-progress' and $1.7 million as 'Other assets' on the Consolidated Balance Sheet.

Resort operations have been included in the 'Hotel and resort operating income and expenses' in the Consolidated Statements of Earnings. Net hotel and resort operations ('hotel and resort operating income' less 'hotel and resort operating expenses') resulted in income of approximately $1,909,000, $712,000, and $907,000 for the years ended December 31, 2002, 2001, and 2000, respectively. Hotel and resort operating expenses include all expenses except for approximately $1,833,000, $970,000, and $931,000 of depreciation and amortization for each of the years ended December 31, 2002, 2001 and

2000, respectively, which is included in its respective captions in the Consolidated Statements of Earnings.

In the year ended December 31, 2001, the Company made improvements to the golf course and built a new clubhouse that totalled approximately $13.4 million.

Resort operations are highly seasonal in nature with peak activity occurring from June to September.

b. The Company owns a hotel located in Miami, Florida which has a carrying value of approximately $6.3 and $5.4 million at December 31, 2002 and 2001, respectively, and is unencumbered by any mortgages. Approximately $1.3 million of capital improvements were completed in the year ended December 31, 2002.

The Company has a management agreement for the operation of the hotel with a national management organization. Net hotel and resort operations ('hotel and resort operating revenues' less 'hotel and resort operating expenses') totaled approximately $404,000, $770,000, and $614,000 for the years ended December 31, 2002, 2001 and 2000, respectively. The renovations incurred during 2002 had a negative impact on the net operating income. Hotel and resort operating expenses include all expenses except for approximately $374,000, $512,000 and $602,000 of depreciation for the years ended December 31, 2002, 2001 and 2000, respectively. These amounts are included in their respective captions in the Consolidated Statements of Earnings.

13. SIGNIFICANT PROPERTY TRANSACTIONS

Information on significant property transactions during the three-year period ended December 31, 2002 is as follows:

a. On March 30, 2000, the Company acquired a five-story multi-tenant office building located in Alexandria, VA for approximately $27.5 million cash. The building, which had been renovated, has approximately 140,000 square feet of rentable space and is 97.8% occupied. Lease terms range from 5 - 12 years with lease expirations ranging from December 2004 to March 2011. Annual net operating income has been approximately $2.8 million since inception. See Note 14a for mortgage details.

b. On March 31, 2000, the Company entered into a lease cancellation and termination agreement with the Grand Union Company, a tenant in a Mt. Kisco, N.Y. distribution center owned by the Company. In accordance with the agreement, the Company paid $1.15 million to the tenant to cancel the lease (which had an annual rental of approximately $900,000) to obtain control of the property. The lease cancellation payment has been capitalized in 'Real estate leases accounted for under the operating method' in the Consolidated Balance Sheets.

At December 31, 2002, the property, which is vacant, had a carrying value of approximately $7,934,000. The mortgage balance of approximately $4,137,000 was repaid in August 2000.

c. In September 2002, the Company purchased an industrial building located in Nashville, Tennessee for approximately $18.2 million. The building was constructed in 2001 and is fully leased to two tenants, Alliance Healthcare and Jet Equipment & Tools Inc., with leases expiring in 2011. The annual net operating income is anticipated to be approximately

$1.6 million increasing to approximately $1.9 million by 2011. In October 2002, the Company closed a $12.7 million non-recourse mortgage loan on the Nashville, Tennessee property. The loan bears interest at 6.4% per annum and matures in ten years. Required payments are interest only for the first three years and then principal amortization will commence based on a thirty-year amortization schedule.

At December 31, 2002, the property had a carrying value of approximately $16,166,000 and was encumbered by a non-recourse mortgage in the amount of $12,700,000.

d. In October 2002, the Company sold a property located in North Palm Beach, Florida for a selling price of $3.5 million. A gain of approximately $2.4 million was recognized in the year ended December 31, 2002.

14. MORTGAGES PAYABLE

Mortgages payable, all of which are nonrecourse to the Company, are summarized as follows (in $000's):

RANGE OF INTEREST RATES	RANGE OF MATURITIES	ANNUAL PRINCIPAL AND INTEREST PAYMENT	BALANCE AT DECEMBER 31, 2002	BALANCE AT DECEMBER 31, 2001
6.400% - 8.430%	1/31/03 - 12/31/18	$20,963	$166,287	$159,088
9.000 - 9.500	11/30/03 - 11/30/09	2,723	5,561	7,720
		$23,686	$171,848	$166,808

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

YEAR ENDING DECEMBER 31,	AMOUNT
2003	$ 7,674
2004	7,976
2005	7,541
2006	7,056
2007	13,854
2008 - 2012	104,120
2013 - 2017	19,560
2018	4,067
	$171,848

a. On August 22, 2000, the Company executed a mortgage loan and obtained funding in the principal amount of $19.6 million, which is secured by a mortgage on a five story multi-tenant office building located in Alexandria, VA. The loan bears interest at 8.43% per annum and matures September 2012, at which time the remaining principal balance of approximately $14.9 million will be due. Annual debt service is approximately $1,883,000.

b. See Note 13 c.

15. RIGHTS OFFERINGS

a. A registration statement relating to the 1995 Rights Offering (the '1995 Offering') was filed with the Securities and Exchange Commission and declared effective February 23, 1995.

On March 1, 1995, the Company issued to record holders of its Depositary Units one transferable subscription right (a 'Right'), for each seven Depositary Units of the Company held on February 24, 1995, the record date. The Rights entitled the holders thereof (the 'Rights Holders') to acquire during the subscription period at a subscription price of $55, six Depositary Units and one 5% cumulative pay-in-kind redeemable preferred unit representing a limited partner interest ('Preferred Units'). The subscription period commenced on March 1, 1995 and expired at the close of business on March 30, 1995.

The Preferred Units have certain rights and designations, generally as follows. Each Preferred Unit has a liquidation preference of $10.00 and entitles 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'). On any Payment Date commencing with the Payment Date on March 31, 2000, the Company with the approval of the Audit Committee of the Board of Directors of the General Partner may opt to redeem all, but not less than all, of the Preferred Units for a price, payable either in all cash or by issuance of additional Depositary Units, equal to the liquidation preference of the Preferred Units, plus any accrued but unpaid distributions thereon. On March 31, 2010, the Company must redeem all, but not less than all, of the Preferred Units on the same terms as any optional redemption.

On April 12, 1995, the Company received approximately $108.7 million, the gross proceeds of the 1995 Offering, from its subscription agent and a capital contribution of approximately $2.2 million from its General Partner. The Company issued 1,975,640 Preferred Units and an additional 11,853,840 Depositary Units. Trading in the Preferred Units commenced March 31, 1995 on the New York Stock Exchange ('NYSE') under the symbol 'ACP PR'. The Depositary Units trade on the NYSE under the symbol 'ACP'.

b. In September 1997, the Company completed its 1997 Rights Offering (the '1997 Offering') to holders of its Depositary Units. The aggregate amount raised in the 1997 Rights Offering was approximately $267 million, which is expected to be used primarily for additional investment opportunities. The Preferred and Depositary Units issued under the 1997 Rights Offering carry the same rights and designations as those issued in 1995.

On September 25, 1997 the Company received approximately $267 million, the gross proceeds of the 1997 Offering, from its subscription agent and a capital contribution of approximately $5.4 million from its General Partner. Expenses incurred in connection with the 1997 Offering were approximately $400,000. The Company issued an additional 5,132,911 Preferred Units and 20,531,644 Depositary Units. The Preferred and Depositary Units trade on the New York Stock Exchange under the symbols 'ACP PR' and 'ACP', respectively.

On March 31, 2002, the Company distributed 444,332 Preferred Units to holders of record as of March 15, 2002. On March 31, 2001, the Company distributed 423,172 Preferred Units to holders of record as of March 15, 2001. As of December 31, 2002 and 2001, 9,330,963 and 8,886,631 Preferred Units, respectively, are issued and outstanding.

At December 31, 2002, affiliates of the General Partner owned 8,073,466 Preferred Units and 39,706,836 Depositary Units.

16. INCOME TAXES (IN $000'S)

	DECEMBER 31,	
	2002	2001
The difference between the book basis and the tax basis of the net assets of the Company, not directly subject to income taxes, is as follows:		
a. Book basis of American Real Estate Partner's net assets excluding Stratosphere Corp.	$1,177,329	$1,103,050
Excess of book over tax basis.........................	(1,778)	(18,307)
Tax basis of net assets..............................	$1,175,551	$1,084,743

b. Stratosphere Corporation --

Stratosphere recorded a provision for income taxes of $2,412, $378 and $2,772 in the years ended December 31, 2002, 2001 and 2000, respectively, which has been included in 'Hotel and casino operating expenses' in the Consolidated Statements of Earnings.

The tax effect of significant differences representing deferred tax assets and liabilities (the difference between financial statement carrying values and the tax basis of assets and liabilities) for the Company is as follows at December 31:

	2002	2001
Excess of tax over book basis of assets due primarily to write-down of assets...........................	$ 67,938	$ 70,760
Other...	11,455	10,611
Total temporary differences and carry forwards........	79,393	81,371
Valuation allowance..................................	(79,393)	(81,371)
Total deferred tax assets (liabilities)..............	$ --	$ --

Stratosphere recorded a valuation allowance at December 31, 2002 and 2001 relating to recorded tax benefits because of the significant uncertainty as to whether such benefits will ever be realized.

SFAS 109 requires a 'more likely than not' criterion be applied when evaluating the realizability of a deferred tax asset. Given Stratosphere's history of losses for income tax purposes, the volatility of the industry within which Stratosphere operates, and certain other factors, Stratosphere has established a valuation allowance principally for the deductible temporary differences, including the excess of the tax basis of Stratosphere's assets over the basis of such assets for financial purposes, which may not be realizable in future periods. After application of the valuation allowance, Stratosphere's net deferred tax assets and liabilities are zero. In the event that Stratosphere recognizes, in subsequent years, the tax benefit of any deferred tax asset that existed on the date the reorganization became effective, such tax benefit will be reported as a direct addition to contributed capital.

17. QUARTERLY FINANCIAL DATA (UNAUDITED) (IN $000'S, EXCEPT PER UNIT DATA)

	THREE MONTHS ENDED							
	MARCH 31,		JUNE 30,		SEPTEMBER 30,		DECEMBER 31,	
	2002	2001	2002	2001	2002	2001	2002	2001
Revenues	$78,419	$66,907	$84,358	$69,182	$76,128	$83,703	$88,011	$76,954
Earnings before property and securities transactions and minority interest	$17,590	$15,178	$23,647	$14,969	$14,946	$17,785	$16,659	$14,750
Gains on property transactions	1,639	--	--	1,362	2,891	--	4,460	375
Gain on sale of marketable equity secruities	--	1,334	--	--	--	--	--	5,415
Provision for loss on real estate	--	--	(926)	--	--	--	(2,286)	(3,184)
Write-down of equity securities available for sale	--	--	(8,476)	--	--	--	--	--
Loss on limited partnership interest	--	--	--	--	--	--	(3,750)	--
Minority interest in net earnings of Stratosphere Corp.	(407)	(681)	(589)	(116)	(612)	(14)	(335)	361
Net earnings	$18,822	$15,831	$13,656	$16,215	$17,225	$17,771	$14,748	$17,717
Net earnings per limited Partnership unit:								
Basic earnings	$ .38	$ .31	$ .27	$ .32	$ .34	$ .35	$ .29	$ .35
Diluted earnings	$ .33	$ .28	$ .24	$ .29	$ .30	$ .31	$ .25	$ .31

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.

18. SEGMENT REPORTING

The Company is engaged in five operating segments consisting of the ownership and operation of (i) rental real estate (ii) hotel and resort operating properties (iii) hotel and casino operating property (iv) property development, and (v) investment in securities including investment in other limited partnerships and marketable equity and debt securities. The Company's reportable segments offer different services and require different operating strategies and management expertise.

Non-segment revenue to reconcile to total revenue consists primarily of interest income on treasury bills and other investments. Non-segment assets to reconcile to total assets includes investment in U.S. Government and Agency obligations, cash and cash equivalents, receivables and other assets.

The accounting policies of the segments are the same as those described in Note 2.

The Company assesses and measures segment operating results based on segment earnings from operations as disclosed below. Segment earnings from operations is not necessarily indicative of cash available to fund cash requirements nor synonymous with cash flow from operations.

The revenues, net earnings, assets and real estate investment capital expenditures for each of the reportable segments are summarized as follows for the years ended and as of December 31, 2002, 2001, and 2000 (in $000's):

	2002	2001	2000
Revenues:			
Hotel & casino operating property	$ 156,315	$ 144,354	$ 132,762
Land, house and condominium sales	76,024	55,566	76,180
Rental real estate	42,647	43,822	43,268
Hotel & resort operating properties	18,597	16,418	21,617
Other investments	15,552	7,209	5,740
Subtotal	309,135	267,369	279,567
Reconciling items	17,781(1)	29,954(1)	33,310(1)
Total revenues	$ 326,916	$ 297,323	$ 312,877
Net earnings:			
Segment earnings:			
Hotel & casino operating property	$ 22,244	$ 15,885	$ 13,765
Land, house and condominium sales	21,384	12,967	17,687
Rental real estate	35,376	38,667	39,268
Hotel and resort operating properties	2,859	2,254	1,397
Other investments	15,552	7,209	5,740
Total segment earnings	97,415	76,982	77,857
Interest income	17,781	29,954	33,310
Interest expense	(14,096)	(19,140)	(17,820)
General and administrative expenses	(7,029)	(7,080)	(7,475)
Depreciation and amortization	(21,229)	(18,034)	(15,098)
Bayswater acquisition costs	--	--	(1,750)
Earnings before property and securities transactions and minority interest	72,842	62,682	69,024
Gain on sales and disposition of real estate	8,990	1,737	6,763
(Loss) gain on sale of limited partnership interests	(3,750)	--	3,461
Provision for loss on real estate	(3,212)	(3,184)	(1,351)
Write-down of equity securities available for sale	(8,476)	--	--
Gain on sale of marketable equity securities	--	6,749	--
Minority interest in net earnings of Stratosphere Corp.	(1,943)	(450)	(2,747)
General partner's share of net income	(1,283)	(1,344)	(2,925)
Net earnings-limited partners' unitholders	$ 63,168	$ 66,190	$ 72,225
Assets:			
Rental real estate	$ 359,700	$ 358,597	$ 379,396
Hotel and casino operating property	171,430	184,191	152,335
Land and construction-in-progress	40,415	69,429	75,952
Hotel and resort operating properties	44,346	43,990	32,918
Other investments	370,224	360,718	113,041
	986,115	1,016,925	753,642
Reconciling items	435,556	434,717	669,345
Total	$1,421,671	$1,451,642	$1,422,987

(table continued on next page)

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(1) Primarily interest income on U.S. Government and Agency obligations and other short-term investments.

(table continued from previous page)

	2002	2001	2000
Real estate investment capital expenditures:			
Acquisitions:			
Rental real estate	$ 18,226	$ --	$ 27,326
Land and construction-in-progress	--	--	--
Hotel and casino operating property	--	--	16,666
Hotel and resort operating properties	--	--	--
	$ 18,226	$ --	$ 43,992
Developments:			
Rental real estate	$ 181	$ 1,064	$ 2,760
Land and construction-in-progress	1,138	3,804	847
Hotel and casino operating property	2,582	48,909	28,135
Hotel and resort operating properties	1,995	13,753	6,091
	$ 5,896	$ 67,530	$ 37,833

19. COMMITMENTS AND CONTINGENCIES

a. In October 2000, Stratosphere Corp. settled the litigation regarding rental of its retail space and acquired the leasehold interest to the shopping center located on its premises for approximately $12.5 million.

b. In January 2001, Stratosphere Gaming Corp. ('Stratosphere Gaming'), a wholly-owned subsidiary of Stratosphere, was named in an action styled Disabled Rights Action Committee v. Stratosphere Gaming Corp., Case No. A430070, in the Eighth Judicial District Court of the State of Nevada. The complaint alleges a number of violations of the Americans with Disabilities Act ('ADA'), including inadequate room selection, door widths and other similar items. Simultaneously with the complaint, plaintiffs filed a Motion for Preliminary Injunction, seeking to have construction halted on the new tower until the property fully complies with the ADA. Stratosphere Gaming removed the action to the United States District Court in Nevada and it is now styled as Disabled Rights Action Committee v. Stratosphere Gaming Corp., Case No. CV-S-01-0162-RLH (PAL).

The federal district court held a hearing on plaintiffs' Motion for Preliminary Injunction and denied the motion, focusing upon what the Court believed to be the plaintiffs' lack of irreparable injury. The federal district court also granted Stratosphere Gaming's Motion to Dismiss the plaintiffs' state law claims, leaving in place only the ADA claims. Stratosphere Gaming and the plaintiffs then filed Motions for Summary Judgement. The District Court granted and denied in part each of the parties' respective motions. The Court ordered that Stratosphere must make certain renovations to 532 rooms that were opened in 1996. The Court issued an injunction requiring that these renovations be completed by August 9, 2002. Stratosphere had already commenced these renovations prior to the Court Order and completed these renovations in June 2002.

In May, 2001, Stratosphere was named in an action brought by Harrah's Entertainment, Inc. alleging infringement of a purported patent covering a business method allegedly developed by Harrah's. The use of an allegedly similar business method by Stratosphere in its advertising and promotions is said by plaintiff to infringe upon its patent rights. In January 2002, the parties entered into a sealed Consent Judgement resolving the dispute which was the subject matter of this action.

c. In January 2002, Kmart Corp., a tenant leasing seven properties owned by the Company which represent approximately $1,374,000 in annual rentals, filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code. Pursuant to an order of the Bankruptcy Court, four leases have been rejected representing approximately $713,000 in annual rents. Three of the rejected properties have been classified as available for sale. The Company recorded a provision for loss of approximately $1.9 million on the four properties, whose leases were rejected, for the year ended December 31, 2001. The Company has not been notified regarding the three remaining leases representing approximately $661,000 in annual rents. At December 31, 2002, the carrying value of the

seven properties was approximately $6,529,000 which management believes is less than the estimate of net realizable value.

d. Tiffiny Decorating Company ('Tiffiny'), a subcontractor to Great Western Drywall ('Great Western'), filed a legal action against Stratosphere Corporation, Stratosphere Development, LLC, American Real Estate Holdings Limited Partnership (collectively referred to as the 'Stratosphere Parties'), Great Western, Nevada Title and Safeco Insurance, Case No. A443926 in the Eighth Judicial District Court of the State of Nevada. The legal action asserts claims that include breach of contract, unjust enrichment and foreclosure of lien. The Stratosphere Parties have filed a cross-claim against Great Western in that action. Additionally, Great Western has filed a separate legal action against the Stratosphere Parties setting forth the same disputed issues. That separate action, Case No. A448299 in the Eighth Judicial Court of the State of Nevada, has been consolidated with the case brought by Tiffiny.

The initial complaint brought by Tiffiny asserts that Tiffiny performed certain construction services at the Stratosphere and was not fully paid for those services. Tiffiny claims the sum of $521,562 against Great Western, the Statosphere Parties, and the other defendants, which the Stratosphere Parties contend has been paid to Great Western for payment to Tiffiny.

Great Western is alleging that it is owed payment from the Stratosphere Parties for work performed and for delay and disruption damages. Great Western is claiming damages in the sum of $3,935,438 plus interest, costs and legal fees from the Stratosphere Parties. This amount apparently includes the Tiffiny claim.

The Stratosphere Parties have evaluated the project and have determined that the amount of $1,004,059, of which $195,953 and $371,973 were disbursed to Tiffiny and Great Western in 2002, respectively, is properly due and payable to satisfy all claims for the work performed, including the claim by Tiffiny. The remaining amount has been segregated in a separate interest bearing account. The Stratosphere Parties intend to vigorously defend the action for claims in excess of $1,004,059.

The General Partner monitors all tenant bankruptcies and defaults and may, when it deems it necessary or appropriate, establish additional reserves for such contingencies.

In addition, in the ordinary course of business, the Company is party to various legal actions. In management's opinion, the ultimate outcome of such legal actions will not have a material effect on the Company's consolidated financial statements taken as a whole.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

CASH AND CASH EQUIVALENTS, RECEIVABLES, NOTE RECEIVABLE DUE FROM AFFILIATE, ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

The carrying amount of cash and cash equivalents, receivables, note receivable due from affiliate, and accounts payable, accrued expenses and other liabilities are carried at cost, which approximates their fair value.

MORTGAGES AND NOTES RECEIVABLE

The fair values of the mortgages and notes 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 and notes receivable satisfied after year end are based on the amount of the net proceeds received.

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

The approximate estimated fair values of the mortgages and notes receivable held as of December 31, 2002 and 2001 are summarized as follows (in $000's):

	AT DECEMBER 31, 2002		AT DECEMBER 31, 2001	
	NET INVESTMENT	ESTIMATED FAIR VALUE	NET INVESTMENT	ESTIMATED FAIR VALUE
Total	$51,449	$53,973	$30,862	$33,286

The net investment at December 31, 2002 and 2001 is equal to the carrying amount of the mortgage receivable less any deferred income recorded.

MORTGAGES PAYABLE

The approximate estimated fair values of the mortgages payable as of December 31, 2002 and 2001 are summarized as follows (in $000's):

	AT DECEMBER 31, 2002		AT DECEMBER 31, 2001	
	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Total	$171,848	$190,000	$166,808	$177,000

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.

21. EMPLOYEE BENEFIT PLANS

a. Employees of the Company who are members of various unions are covered by union-sponsored, collectively bargained, multi-employer health and welfare and defined benefit pension plans. The Company recorded expenses for such plans of approximately $6,500,000, $4,900,000 and $4,600,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Sufficient information is not available from the plans' sponsors to permit the Company to determine the adequacy of the plans' funding status.

b. The Company has retirement savings plans under Section 401(k) of the Internal Revenue Code covering its non-union employees. The plans allow employees to defer, within prescribed limits, up to 15% of their income on a pre-tax basis through contributions to the plans. The Company currently matches, within prescribed limits, up to 6% of eligible employees' compensation at rates ranging from 33 1/3% to 50%. The Company recorded charges for matching contributions of approximately $433,000, $477,000, and $355,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

22. REPURCHASE OF DEPOSITARY UNITS

The Company has previously been authorized to repurchase up to 1,250,000 Depositary Units. As of December 31, 2002, the Company has purchased 1,137,200 Depositary Units at an aggregate cost of approximately $11,921,000.

23. SUBSEQUENT EVENTS

Pursuant to the terms of the Preferred Units, on February 21, 2003, the Company declared its scheduled annual preferred unit distribution payable in additional Preferred Units at the rate of 5% of the liquidation preference of $10. The distribution is payable March 31, 2003 to holders of record as of March 14, 2003. In addition, the Company increased the number of authorized Preferred Units to 9,900,000.

ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

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	67	Chairman of the Board
William A. Leidesdorf	57	Director
James L. Nelson	53	Director
Jack G. Wasserman	66	Director
Albo J. Antenucci, Jr	46	President and Chief Executive Officer
Martin L. Hirsch	48	Executive Vice President and Director of Acquisitions and Development
John P. Saldarelli	61	Vice President, Chief Financial Officer, Secretary and Treasurer

Carl C. Icahn has been Chairman of the Board of the General Partner since November 15, 1990. He is also President and a Director of Starfire Holding Corporation (formerly Icahn Holding Corporation), a Delaware corporation ('SHC') and Chairman of the Board and a Director of various of SHC's subsidiaries, including ACF Industries, Incorporated, a New Jersey corporation ('ACF'). SHC is primarily engaged in the business of holding, either directly or through subsidiaries, a majority of the common stock of ACF and its address is 100 South Bedford Road, Mount Kisco, New York 10549. 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. He has also been 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 National Association of Securities Dealers.

ACF and Icahn & Co., Inc. are deemed to be directly or indirectly owned and controlled by Carl C. Icahn. In January 2003, Mr. Icahn became Chairman of the Board and a Director of XO Communications Inc., a telecommunications company. Mr. Icahn has been a Director of Cadus Pharmaceutical Corporation, a firm which holds various biotechnology patents, since 1993. Since October 1998, Mr. Icahn has been the President and a Director of Stratosphere Corporation which operates the Stratosphere Hotel and Casino. Since September 29, 2000, Mr. Icahn has also served as the Chairman of the Board of GB Holdings, Inc., GB Property Funding, Inc. and Greate Bay Hotel & Casino, Inc. which owns and operates the Sands Hotel. Mr. Icahn also has substantial equity interests in and controls various partnerships and corporations that invest in publicly traded securities.

William A. Leidesdorf has served as Director of the General Partner since March 26, 1991. Since June 1997, Mr. Leidesdorf has been an owner and a managing director of Renaissance Housing, LLC, a company primarily engaged in acquiring multifamily residential properties. From April 1995 through December 1997, Mr. Leidesdorf acted as an independent real estate investment banker. From January 1, 1994 through April 1995, Mr. Leidesdorf was 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.

On June 12, 2001, James L. Nelson, was elected to the Board of Directors of the General Partner. Since March 1998, Mr. Nelson has been Chairman and Chief Executive Officer of Orbit Aviation, Inc., a company engaged in the acquisition and completion of Boeing 737 Business Jets for private and corporate clients. From 1986 until the present, Mr. Nelson has been Chairman and Chief Executive Officer of Eaglescliff Corporation, a specialty investment banking, consulting and wealth management company. From August 1995 until July 1999 he was Chief Executive Officer and Co-Chairman of Orbitex Management, Inc. and until March 2001 he was on the Board of Orbitex Financial Services Group, a financial services company in the mutual fund sector. From January 1994 until August 1995 Mr. Nelson and Eaglescliff Corporation were affiliated with Rosecliff Inc., a leveraged buyout firm. From January 1992 until August 1994 Mr. Nelson was President of AVIC, Inc., a company involved in financing and building telecom systems in China and creating network connectivity devices.

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. Mr. Wasserman also serves as a director of Cadus Pharmaceutical Corporation, a public biotechnology company. In addition, in 1998 Mr. Wasserman was appointed to the Board of Directors of National Energy Group, Inc., an independent public energy company primarily engaged in the acquisition, exploitation, development, exploration and production of oil and natural gas. In addition, at the direction of the Nevada State Gaming Control Board, Mr. Wasserman sits as a member of the Compliance Committee of the Stratosphere Hotel and Casino, Inc. Mr. Wasserman is not a member of the Board of Directors of Stratosphere Hotel and Casino, Inc.

Albo J. Antenucci, Jr has served as President and Chief Executive Officer of the General Partner since August 30, 2002. Mr. Antenucci served as Executive Vice President and Chief Operating Officer of the General Partner from March 23, 2000 until August 29, 2002. Mr. Antenucci was Executive Vice President of Bayswater Realty and Capital Corp. from January 1996 until March 22, 2000. Mr. Antenucci was also Vice President of Bayswater from June, 1989 until January, 1996.

Martin L. Hirsch has served as a Vice President of the General Partner since 1991, focusing on investment, management and disposition of real estate properties and other assets. On March 23, 2000, Mr. Hirsch was elected to serve as Executive Vice President and Director of Acquisitions and Development of the General Partner. From January, 1986 to January, 1991, Mr. Hirsch was a Vice President of Integrated Resources, Inc. where he was involved in the acquisition of commercial real estate properties and asset management. In 1985 and 1986, Mr. Hirsch was a Vice President of Hall Financial Group where he was involved in acquiring and financing commercial and residential properties. Mr. Hirsch has served as a Director of Stratosphere Corporation since October 14, 1998. In 1998, Mr. Hirsch was appointed to the Board of Directors of National Energy Group, Inc., an independent public energy company primarily engaged in the acquisition, exploitation, development, exploration and production of oil and natural gas. Mr. Hirsch has served as Director of GB Holdings, Inc. and GB Property Funding, Inc. since September 29, 2000 and Director of Greate Bay Hotel & Casino, Inc., which owns and operates the Sands Hotel in Atlantic City, NJ, since February 28, 2001.

John P. Saldarelli has served as Vice President, Secretary and Treasurer of the General Partner since March 18, 1991 and in June 2000, Mr. Saldarelli was given the additional title of Chief Financial Officer. Mr. Saldarelli was 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. Mr. Saldarelli has served as a Director of Stratosphere since October 14, 1998. Since February 28, 2001, Mr. Saldarelli has served as a Director of GB Holdings, Inc., GB Property Funding, Inc. and Greate Bay Hotel & Casino, Inc., which owns and operates the Sands Hotel in Atlantic City, NJ.

James L. Nelson, William A. Leidesdorf and Jack G. Wasserman are on the Audit Committee of the Board of Directors of the General Partner. AREP believes that the Audit Committee members are 'independent' as defined in the currently applicable listing standards of the New York Stock Exchange.

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. Directors who are also Audit Committee members receive quarterly fees of $6,250 and may receive additional compensation for Special

Committee assignments. Messrs. Leidesdorf, Nelson and Wasserman each received $40,000 of such fees in 2002.

Each of the executive officers of the General Partner may perform 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, will 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 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 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 have no other rights to participate in the management of AREP and are not entitled to vote on any matters submitted to a vote of the holders of Depositary Units.

FILING OF REPORTS

To the best of AREP's knowledge, no director, executive officer or beneficial owner of more than 10% of AREP's Depositary Units failed to file on a timely basis reports required by 'SS'16(a) of the Securities Exchange Act of 1934, as amended, during the year ended December 31, 2002.

ITEM 11. EXECUTIVE COMPENSATION.(1)

The following table sets forth information in respect of the compensation of the Chief Executive Officer and each of the other most highly compensated executive officers of AREP for services in all capacities to AREP for the fiscal years ended December 31, 2002, 2001, 2000.(2)

SUMMARY COMPENSATION TABLE

(a) NAME AND PRINCIPAL POSITION	(b) YEAR	ANNUAL COMPENSATION (c) SALARY ($)
Albo J. Antenucci, Jr.(3)	2002	349,442
President and Chief Executive Officer	2001	323,750
	2000	274,808
Martin L. Hirsch(3)	2002	255,500
Executive Vice President and Director of Acquisitions and	2001	255,000
Development	2000	290,000
John P. Saldarelli(3)	2002	190,400
Vice President, Chief Financial Officer, Secretary and	2001	182,000
Treasurer	2000	170,000

(footnotes on next page)

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(1) 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.

(2) Carl C. Icahn, the Chairman of the Board, received no compensation as such for the periods indicated. In addition, other than Albo J. Antenucci, Jr., Martin L. Hirsch and John P. Saldarelli, no other executive officer received compensation in excess of $100,000 from AREP for the applicable period.

(3) On March 18, 1991, John P. Saldarelli was elected Vice President, Secretary and Treasurer of the General Partner, and in June 2000, John P. Saldarelli

was given the additional title of Chief Financial Officer. On March 23, 2000, Martin L. Hirsch was elected Executive Vice President and Director of Acquisitions and Development of the General Partner. On August 30, 2002, Albo J. Antenucci, Jr. was elected President and Chief Executive Officer of the General Partner. Messrs. Saldarelli and Hirsch devote all of their time to the performance of services for AREP and its investments and the General Partner. Mr. Antenucci devotes a substantial portion of his time to the performance of services for AREP and Bayswater. The directors of the General Partner devote only a portion of their time to performance of service for AREP. 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 of February 28, 2003, affiliates of Icahn, including High Coast Limited Partnership, a Delaware limited partnership, owned 39,706,836 Depositary Units, or approximately 86.1% of the outstanding Depositary Units, and 8,073,466 Preferred Units, or approximately 86.5% of the outstanding Preferred Units.

The affirmative vote of Unitholders holding more than 75% of the total number of all Depositary Units then outstanding, including Depositary Units held by the General Partner and its affiliates, is required to remove the General Partner. Thus, since Icahn, through affiliates, holds approximately 86.1% of the Depositary Units outstanding, 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 affiliates of Icahn, 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, as affiliates of Icahn hold in excess of 50% of the Depositary Units outstanding, Icahn, through affiliates, will have effective control over such approval rights.

The following table provides information, as of February 28, 2003, as to the beneficial ownership of the Depositary Units and Preferred Units of AREP for each 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 DEPOSITARY UNITS	PERCENT OF CLASS	BENEFICIAL OWNERSHIP OF PREFERRED UNITS	PERCENT OF CLASS
Carl C. Icahn(1)	39,706,836	86.1%	8,073,466	86.5%
All directors and executive officers as a group (7 persons)	39,706,836	86.1%	8,073,466	86.5%

(footnote on next page)

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(1) Carl C. Icahn, through affiliates, is the beneficial owner of the 39,706,836 Depositary Units set forth above and may also be deemed to be the beneficial owner of the 2,424 Depositary Units owned of record by API Nominee Corp., which in accordance with state law are in the process of being turned over

to the relevant state authorities as unclaimed property; however, Mr. Icahn disclaims such beneficial ownership. The foregoing is exclusive of a 1.99% ownership interest in AREP which the General Partner holds by virtue of its 1% General Partner interest in each of AREP and the Subsidiary. Furthermore, pursuant to a registration rights agreement entered into by affiliates of Icahn in connection with the 1997 Offering, AREP has agreed to pay any expenses incurred in connection with two demand and unlimited piggy-back registrations requested by affiliates of Icahn.

As described above, affiliates of Icahn hold 86.1% of the Depositary Units and 86.5% of the outstanding Preferred Units. Entities directly or indirectly owned by Icahn that are members of a controlled group for purposes of the Employee Retirement Income Security Act of 1974, as amended ('ERISA') and Section 414 of the Internal Revenue Code of 1986, as amended (the 'Code'), which in general terms includes entities in which there is at least 80% common ownership, may have joint and several responsibility for various benefits-related liabilities arising under ERISA and the Code. As a result of the more than 80% ownership interest in AREP of Icahn and his affiliates, AREP will be deemed to be included in the same controlled group that includes ACF and Pichin Corp. ('Pichin'), an affiliate of ACF (the 'Controlled Group').

ERISA and the Code require, among other things, that a contributing sponsor of a defined benefit pension plan make certain minimum funding contributions to fund the benefits that participants accrue under the pension plan and make the sponsor liable for any unfunded benefit liabilities that may exist at termination. As a member of the Controlled Group, AREP would be jointly and severally liable with the other members of the Controlled Group for such potential pension plan minimum funding and termination liabilities. In addition, upon the failure to make minimum funding contributions in excess of $1 million when due or pay termination liabilities after demand by the Pension Benefit Guaranty Corporation (the 'PBGC'), liens in favor of the relevant pension plans or the PBGC, respectively, would attach to the assets of all members of the sponsor's controlled group.

ACF and other members of the Controlled Group sponsor several pension plans (the 'ACF Pension Plans') which (not including the 'TWA Plans,' as defined below) are underfunded in the aggregate by approximately $14 million on an ongoing actuarial basis and by approximately $102 million on a termination basis, in each case as most recently determined by the plans' actuaries. The liability upon plan termination could be more or less than this amount depending on future changes in promised benefits, investment returns, the assumptions used to calculate the liability and the outcome of any litigation relating to the amount of liability. As a member of the Controlled Group, AREP is jointly and severally liable for any failure of ACF or any other member of the Controlled Group to make minimum funding contributions or pay termination liabilities with respect to the ACF Pension Plans.

Pursuant to a settlement (the 'Settlement') entered into in 1993 by the PBGC and Trans World Airlines, Inc. ('TWA'), among others, in connection with the Chapter 11 bankruptcy case of TWA, as amended and revised to date, Pichin became the sponsor directly liable for minimum funding obligations of the pension plans for TWA employees (the 'TWA Plans'), which TWA Plans had theretofore been frozen. As a member of the Controlled Group (which includes Pichin), AREP would be jointly and severally liable, together with all the other entities in the Controlled Group, for minimum funding obligations applicable with respect to the TWA Plans. Effective as of January 1, 2001, pursuant to the Settlement, the PBGC, at Pichin's request, terminated the TWA Plans. Upon termination of the TWA Plans, the Settlement provides that termination payments are limited to $30 million per year for eight years commencing eighteen months after the termination and the PBGC's recourse for those termination payments is limited to collateral pledged to secure those payments. To date, $75 million of termination payments have been made, none of which was paid by AREP.

The current underfunded status of the ACF Pension Plans requires ACF and Pichin to notify the PBGC of certain corporate transactions that are deemed to be 'reportable events' under ERISA. Such

reportable events include, among other things, any transaction which would result in a Controlled Group member's leaving the Controlled Group, and certain extraordinary dividends and stock redemptions. Thus, any transaction in which AREP would cease to be a member of the Controlled Group and certain extraordinary distributions and redemptions with respect to the Units would be among those that would have to be reported to the PBGC.

Starfire Holding Corporation, a Delaware corporation ('Starfire'), which is directly 100% owned by Icahn, has undertaken to indemnify AREP from losses resulting from any imposition of termination or minimum funding liabilities on AREP or its assets. The Starfire indemnity provides, among other things, that so long as such contingent liabilities exist and could be imposed on AREP, Starfire will not make any distributions to its stockholders that would reduce its net worth to below $250 million.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

RELATED TRANSACTIONS WITH THE GENERAL PARTNER AND ITS AFFILIATES

On December 27, 2001, AREP entered into a transaction with Carl C. Icahn, Chairman of the Board of the General Partner, pursuant to which AREP made a two-year $250 million loan to Mr. Icahn, secured by securities consisting of (i) approximately $250 million aggregate market value of AREP's units owned by Mr. Icahn (approximately 21.1 million depositary units and 8.1 million preferred units) and (ii) shares of a private company owned by Mr. Icahn, which shares have an aggregate book value of at least $250 million, together with an irrevocable proxy on sufficient additional shares of the private company so that the pledged shares and the shares covered by the proxy equal in excess of 50% of the private company's shares. The private company owns other Icahn investments and does not own AREP units. The loan is due on or before December 27, 2003 and by law may not be renewed or extended. The loan bears interest, payable semi-annually, at a per annum rate equal to the greater of (i) 3.9% and (ii) 200 basis points over 90 day LIBOR to be reset each calendar quarter. The applicable rates in 2002 ranged from 3.9% to 4.03%. In 2002, pursuant to the loan agreement Mr. Icahn paid approximately $10.1 million to the Company representing accrued interest on the loan. The loan must be prepaid in an amount of up to $125 million to the extent that AREP requests such funds for an investment opportunity and may be prepaid at any time by Mr. Icahn. AREP entered into this transaction to earn interest income on a secured investment. In the event of a loan default, AREP would, at its option, liquidate the shares of the private company or reacquire its own units, or both, to satisfy the loan. The terms of this transaction were reviewed and approved by the Audit Committee. See Item 1 -- 'Recent Acquisitions/Investments' for a discussion of this investment.

In May 2002, the Company was qualified as a holding company by the New Jersey Casino Control Commission and in accordance with a prior agreement repurchased its interest in the Sands Hotel and Casino located in Atlantic City New Jersey, from affiliates of the General Partner. As a result, the Company acquired approximately 3.6 million common shares (36%) of GB Holdings Inc. and $26.9 million face amount of GB Property First Mortgage Notes. The Company paid approximately $68.8 million to reacquire its interests representing the affiliates advances plus accrued interest of approximately $11 million. In accordance with the agreement, interest was accrued from March 2000 to May 2002 at an annual rate of 1 1/2% over the prime rate. The terms of this agreement were reviewed and approved by the Audit Committee.

On December 19, 2002 AREP acquired the remaining 49% of Stratosphere that AREP did not own. The initial determination to engage in the transaction at the prices set forth below was previously announced by AREP in September 2000. Under the merger agreement the stockholders who were unaffiliated with Mr. Icahn received a cash price of $45.32 per share (approximately $9.6 million) and the Icahn related stockholders (other than AREP) received a cash price of $44.33 per share (approximately $34.7 million). AREP paid an aggregate of approximately $44.3 million for the Stratosphere shares. The terms of the Stratosphere purchase were reviewed and approved by the Audit Committee. See Item 1. 'Recent Acquisitions/Investments' for a discussion of AREP's investment in Stratosphere.

A committee of the Board of Directors of the General Partner is considering the possible acquisition by the Company of interests in National Energy Group, Inc. and related companies from

entities owned by Carl C. Icahn. The committee, in consultation with its advisors, has been engaged in evaluating the possible acquisition. To date, such evaluation is continuing and no determination has been made by the committee.

Icahn, in his capacity as majority Unitholder, will not receive any additional benefit with respect to distributions and allocations of profits and losses not shared on a pro rata basis by all other Unitholders. In addition, Icahn has confirmed to AREP that neither he nor any of his affiliates will receive any fees from AREP in consideration for services rendered in connection with non-real estate related investments by AREP such as advice to purchase and sell RJR shares which generated approximately $29 million of profits for AREP in each of 1997 and 1999. AREP may determine to make investments in which Icahn or his affiliates have independent investments in such assets; in addition, AREP may enter into other transactions with the General Partner and its affiliates, including, without limitation, buying and selling assets from or to the General Partner or its affiliates and participating in joint venture investments in assets with the General Partner or its affiliates, whether real estate or non-real estate related, provided the terms of all such transactions are fair and reasonable to AREP. Furthermore, it should be noted that the Partnership Agreement provides that the General Partner and its affiliates are permitted to have other business interests and may engage in other business ventures of any nature whatsoever, and may compete directly or indirectly with the business of AREP. Icahn and his affiliates currently invest in and perform investment management services with respect to assets that may be similar to those AREP may invest in and intend to continue to do so; pursuant to the Partnership Agreement, however, AREP shall not have any right to participate therein or receive or share in any income or profits derived therefrom.

For the years ended December 31, 2002 and 2001, AREP made no payments with respect to the Depositary Units owned by the General Partner. However, in 2002 and 2001 the General Partner was allocated approximately $1,283,000 and approximately $1,344,000 respectively, of the net earnings of AREP as a result of its 1.99% general partner interest in AREP.

On March 31, 2002, Icahn received 384,450 Preferred Units as part of AREP's scheduled annual preferred unit distribution and is expected to receive an additional 403,673 Preferred Units in March 2003 as part of such scheduled annual preferred unit distribution.

In 1997 AREP entered into a license agreement for a portion of office space from an affiliate of the General Partner. The license agreement dated as of February 1, 1997 expires May 22, 2004 unless sooner terminated in accordance with the agreement. Pursuant to the license agreement, AREP has the non-exclusive use of approximately 3,547 square feet of office space and common areas (of an aggregate 21,123 rentable square feet sublet by such affiliate) for which it pays $17,436.20 per month, together with 16.79% of certain 'additional rent.' In November, 2000, AREP reduced its office size to approximately 2,275 square feet, which decreased its monthly rental to $11,185 plus 10.77% of certain 'additional rent.' For the years ended December 31, 2002, 2001 and 2000 AREP paid an affiliate of the General Partner approximately $153,000, $147,000 and $206,000, respectively, of rent in connection with this licensing agreement. The terms of such license agreement were reviewed and approved by the Audit Committee.

For the years ended December 31, 2002, 2001 and 2000 Stratosphere billed affiliates of the General Partner approximately $2,872,000, $1,343,000 and $240,000, respectively, for administrative services performed by Stratosphere personnel. For the years ended December 31, 2002, 2001 and 2000 Stratosphere also received hotel revenue of $123,000, $600,000 and $500,000, respectively, in connection with a tour and travel agreement entered into with an affiliate of the General Partner.

PROPERTY MANAGEMENT AND OTHER RELATED TRANSACTIONS

The General Partner and its affiliates may receive fees in connection with the acquisition, sale, financing, development, construction, marketing and management of new properties acquired by AREP. As development and other 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 the Partnership 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 therewith since the amount thereof is dependent upon the specific circumstances of each investment, including the nature of the services provided, the location of the investment and the amount customarily paid in such locality for such services. However, Unitholders 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 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.

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

In addition, employees of AREP may, from time to time, provide services to

affiliates of the General Partner, with AREP being reimbursed therefore. Reimbursement to AREP by such affiliates in respect of such services is subject to review and approval by the Audit Committee. In 2002, AREP received approximately $47,000 for such services. Also, an affiliate of the General Partner provided certain administrative services to AREP in the amount of approximately $77,000, $73,000 and $5,000 in the years ended December 31, 2002, 2001, and 2000, respectively.

The Audit Committee meets on an annual basis, or more often if necessary, to review any conflicts of interest which may arise, including the payment by AREP of any fees to the General Partner or any of its affiliates. The General Partner and its affiliates may not receive duplicative fees.

The functions of AREP's Audit Committee as set forth in the Partnership Agreement include (i) the review of AREP's financial and accounting policies and procedures, (ii) the review of the results of audits of the books and records of AREP made by AREP's outside auditors, (iii) the review of allocations of overhead expenses in connection with the reimbursement of expenses to the General Partner and its affiliates, and (iv) the review and approval of related party transactions and conflicts of interest in accordance with the terms of the Partnership Agreement.

Pursuant to the Rules of the New York Stock Exchange ('NYSE'), on June 14, 2001, AREP approved and adopted its Audit Committee Charter. On June 12, 2001, AREP appointed James L. Nelson as the independent director to the Board of Directors of the General Partner who, along with Messrs. Leidesdorf and Wasserman, comprise the Audit Committee.

The Audit Committee, has confirmed that: (i) the Audit Committee reviewed and discussed AREP's 2002 audited financial statements with management, (ii) the Audit Committee has discussed with AREP's independent auditors the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU 'SS'380), (iii) the Audit Committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1, and (iv) based on the review and discussions referred to in clauses (i), (ii) and (iii) above, the Audit Committee recommended to the Board of Directors that AREP's 2002 audited financial statements be included in this Annual Report on Form 10-K.

ITEM 14. CONTROLS AND PROCEDURES

a. Within 90 days prior to the date of this report, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's and its subsidiaries' disclosure controls and procedures pursuant to the Exchange Act Rule 13a-14. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission filings.

b. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation date.

PART IV

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' Reports	II-13
Consolidated Balance Sheets -- December 31, 2002 and 2001	II-14
Consolidated Statements of Earnings -- Years ended December 31, 2002, 2001 and 2000	II-15
Consolidated Statements of Changes in Partners' Equity and Comprehensive Income -- Years ended December 31, 2002, 2001, and 2000	II-16
Consolidated Statements of Cash Flows -- Years ended December 31, 2002, 2001 and 2000	II-17
Notes to Consolidated Financial Statements	II-18-36

(a)(2) Financial Statement Schedules:

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 Amended and Restated Agreement of Limited Partnership of AREP (filed as Exhibit 3.3 to AREP's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).

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 and 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).

3.6 -- Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of AREP dated as of August 16, 1996 and filed as Exhibit 10.1 to 8-K filed on August 16, 1996 and incorporated herein by reference.

3.7 -- Amendment No. 1 to the Amended and Restated Agreement of Limited Partnership of the Subsidiary dated August 16, 1996 filed as Exhibit 10.2 to the 8-K dated August 16, 1996 and incorporated herein by reference.

3.8 -- Amendment No. 3. to the Amended and Restated Agreement of Limited Partnership of AREP dated May 9, 2002. (attached hereto as Exhibit No. 3.8)

3.9 -- Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of the Subsidiary dated June 14, 2002. (attached hereto as Exhibit No. 3.9)

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 (filed as Exhibit 4.2 to AREP's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).

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).

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 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).

10.10 -- Subscription Guaranty Agreement between AREP and High Coast Limited Partnership (the 'Guarantor') (filed as Exhibit 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 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 (filed as Exhibit 10.12 to AREP's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).

10.13 -- Subscription Agent Agreement (filed as Exhibit 10.13 to AREP's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).

10.14 -- Subscription Guaranty Agreement between AREP and the Guarantor (filed as Exhibit 4.10 to Amendment No. 1 to AREP's Registration Statement on Form S-3 (Registration No. 333-31561) and incorporated herein by reference).

10.15 -- Registration Rights Agreement between AREP and the Guarantor (filed as Exhibit 4.11 to Amendment No. 1 to AREP's Registration Statement on Form S-3 (Registration No. 333-31561) and incorporated herein by reference).

10.16 -- Subscription Agent Agreement filed as Exhibit 99.1 to AREP's Registration Statement on Form S-3 (Registration No. 333-31561) and incorporated herein by reference).

10.17 -- Note dated December 27, 2001 from Carl Icahn to American Real Estate Holdings, L.P. in the amount of $250 million and incorporated herein by reference.

10.18 -- Pledge Agreement dated December 27, 2001 between American Real Estate Holdings, L.P. and Carl Icahn and incorporated herein by reference.

10.19 -- Accommodation Pledge Agreement dated December 27, 2001, between American Real Estate Holdings, L.P. and various pledgors and incorporated herein by reference.

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).

99.1 -- Audit Committee Charter filed with the NYSE on June 14, 2000 incorporated herein by reference.

(b) Reports on Form 8-K:

(1) A Form 8-K was filed on December 19, 2002 -- American Real Estate Partners, L.P. Acquires Remaining Interest in Stratosphere Corporation

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, 2003.

AMERICAN REAL ESTATE PARTNERS, L.P.

By: AMERICAN PROPERTY INVESTORS, INC.
General Partner

By: /s/ ALBO J. ANTENUCCI, JR.
....
ALBO J. ANTENUCCI, JR.
PRESIDENT AND CHIEF EXECUTIVE OFFICER

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/ ALBO J. ANTENUCCI, JR. (ALBO J. ANTENUCCI, JR.)	President and Chief Executive Officer	March 31, 2003
/s/ CARL C. ICAHN (CARL C. ICAHN)	Chairman of the Board	March 31, 2003
/s/ WILLIAM A. LEIDESDORF (WILLIAM A. LEIDESDORF)	Director	March 31, 2003
/s/ JAMES L. NELSON (JAMES L. NELSON)	Director	March 31, 2003
/s/ JACK G. WASSERMAN (JACK G. WASSERMAN)	Director	March 31, 2003
/s/ JOHN P. SALDARELLI (JOHN P. SALDARELLI)	Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 31, 2003

AMERICAN REAL ESTATE PARTNERS, L.P.
FORM 10K SIGNATURE PAGE

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

I, Albo J. Antenucci, Jr., President and Chief Executive Officer (Principal Executive Officer) of American Property Investors, Inc., the General Partner of American Real Estate Partners, L.P. (the 'Registrant'), certify that to the best of my knowledge, based upon a review of the American Real Estate Partners, L.P., annual report on Form 10-K for the period ended December 31, 2002 of the Registrant (the 'Report'):

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ ALBO J. ANTENUCCI, JR.
....
ALBO J. ANTENUCCI, JR.
PRESIDENT AND CHIEF EXECUTIVE OFFICER
OF AMERICAN PROPERTY INVESTORS, INC.,
THE GENERAL PARTNER OF
AMERICAN REAL ESTATE PARTNERS, L.P.

Date: March 31, 2003

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. 1350
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, John P. Saldarelli, Treasurer and Chief Financial Officer (Principal Financial Officer) of American Property Investors, Inc., the General Partner of American Real Estate Partners, L.P. (the 'Registrant'), certify that to the best of my knowledge, based upon a review of the American Real Estate Partners, L.P. annual report on Form 10-K for the period ended December 31, 2002 of the Registrant (the 'Report'):

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ JOHN P. SALDARELLI
....
JOHN P. SALDARELLI
TREASURER AND CHIEF FINANCIAL OFFICER
AMERICAN PROPERTY INVESTORS, INC.,
THE GENERAL PARTNER OF
AMERICAN REAL ESTATE PARTNERS, L.P.

Date: March 31, 2003

FORM OF SARBANES-OXLEY ACT OF 2002
SECTION 302(A) CERTIFICATION

I, Albo J. Antenucci, Jr. certify that:

1. I have reviewed the annual report on Form 10-K of American Real Estate Partners, L.P. for the period ended December 31, 2002, (the 'Report');

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;

3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the Report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the Report (the 'Evaluation Date'); and

c) presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ ALBO J. ANTENUCCI, JR.
....
ALBO J. ANTENUCCI, JR.
PRESIDENT AND CHIEF EXECUTIVE OFFICER OF
AMERICAN PROPERTY INVESTORS, INC.,
THE GENERAL PARTNER OF
AMERICAN REAL ESTATE PARTNERS, L.P.

FORM OF SARBANES-OXLEY ACT OF 2002
SECTION 302(A) CERTIFICATION

I, John P. Saldarelli, certify that:

1. I have reviewed the annual report on Form 10-K of American Real Estate Partners, L.P. for the period ended December 31, 2002; (the 'Report');

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;

3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the Report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the Report (the 'Evaluation Date'); and

c) presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ JOHN P. SALDARELLI
....
JOHN P. SALDARELLI
TREASURER AND CHIEF FINANCIAL OFFICER OF
AMERICAN PROPERTY INVESTORS, INC.,
THE GENERAL PARTNER OF
AMERICAN REAL ESTATE PARTNERS, L.P.

AMERICAN REAL ESTATE PARTNERS, L.P.
A LIMITED PARTNERSHIP

SCHEDULE III
PAGE 1

REAL ESTATE OWNED AND REVENUES EARNED

	STATE	NO. OF LOCATIONS	AMOUNT OF ENCUMBRANCES
COMMERCIAL PROPERTY LAND AND BUILDING			
Acme Markets, Inc. and FPBT of Penn.	PA	1	
Alabama Power Company	AL	5	
Amer Stores, Eckerd & Marburn	NJ	1	
Atrium	VA	1	$19,007,831
Best Products Co., Inc.	VA	1	
Chesebrough-Pond's Inc.	CN	1	
Chomerics, Inc.	MA	1	
Collins Foods International, Inc.	OR	3	
Collins Foods International, Inc.	CA	1	
Dillon Companies, Inc.	MO	1	
Duke Power Co.	NC	1	
European American Bank and Trust Co.	NY	1	
Farwell Bldg.	MN	1	
First National Supermarkets, Inc.	CT	1	4,357,634
Fisher Scientific Company	IL	1	
Forte Hotels International, Inc.	NJ	1	
Fox Grocery Company	WV	1	
Gino's, Inc.	MO	1	
Gino's, Inc.	OH	1	
Golf Road	IL	1	6,779,628
Grand Union Co.	MD	1	
Grand Union Co.	NY	1	
Grand Union Co.	VA	1	
Whalen	NY	1	
Gunite	IN	1	
G.D. Searle & Co.	IL	1	
G.D. Searle & Co.	MN	1	
G.D. Searle & Co.	IL	1	
Integra A Hotel and Restaurant Co.	AL	2	
Integra A Hotel and Restaurant Co.	IL	1	
Integra A Hotel and Restaurant Co.	IN	1	
Integra A Hotel and Restaurant Co.	OH	1	
Integra A Hotel and Restaurant Co.	MO	1	
Integra A Hotel and Restaurant Co.	TX	1	
Integra A Hotel and Restaurant Co.	MI	1	
Intermountain Color	KY	1	

J.C. Penney Company, Inc.	MA	1	
K-Mart Corporation	LA	1	
K-Mart Corporation	WI	1	
K-Mart Corporation	MN	1	
K-Mart Corporation	FL	1	
K-Mart Corporation	IA	1	
K-Mart Corporation	FL	2	
K-Mart Corporation	IL	1	
Kobacker Stores, Inc.	MI	2	
Kobacker Stores, Inc.	KY	1	
Kobacker Stores, Inc.	OH	4	
Landmark Bancshares Corporation	MO	1	
Levitz Furniture Corporation	NY	1	
Louisiana Power and Light Company	LA	6	
Louisiana Power and Light Company	LA	7	
Marsh Supermarkets, Inc.	IN	1	
Mid-South	TN	1	12,700,000
Montgomery Ward, Inc.	PA	1	
Montgomery Ward, Inc.	NJ	1	
Morrison, Inc.	AL	1	
Morrison, Inc.	GA	1	
Morrison, Inc.	FL	1	
Morrison, Inc.	VA	2	
North Carolina National Bank	SC	2	
Occidental Petroleum Corp.	CA	1	
Ohio Power Co. Inc.	OH	1	
Park West	KY	1	11,914,947
Park West UPS	KY	1	18,007,627

PART I--REAL ESTATE OWNED AT DECEMBER 31, 2002--ACCOUNTED FOR UNDER THE:

	OPERATING METHOD					FINANCING METHOD	
	INITIAL COST TO COMPANY	COST OF IMPROVEMENTS	AMOUNT CARRIED AT CLOSE OF PERIOD	RESERVE FOR DEPRECIATION	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 FPBT of Penn.	$ 2,004,393		$ 2,004,393	$ 1,560,784	$ (7,885)		
Alabama Power Company						$ 5,405,366	$ (92,770)
Amer Stores, Eckerd & Marburn	2,045,641		2,045,641	1,614,545	(39,489)		
Atrium	27,725,921	$ 195,325	27,921,246	1,676,745			
Best Products Co., Inc.	3,303,553		3,303,553				
Chesebrough-Pond's Inc.	1,549,805		1,549,805	1,182,075	(11,770)		
Chomerics, Inc.	3,700,000		3,700,000	44,699	280,210		
Collins Foods International, Inc.	250,812		250,812	12,265	(2,707)		
Collins Foods International, Inc.	134,253		134,253	6,966	(1,471)		
Dillon Companies, Inc.	546,681		546,681	373,977	(19,630)		
Duke Power Co.	3,464,225		3,464,225	229,409			
European American Bank and Trust Co.	1,355,210		1,355,210	1,284,888			
Farwell Bldg.	5,081,105		5,081,105	2,343,975			
First National Supermarkets, Inc.						20,616,369	(221,459)
Fisher Scientific Company	597,806		597,806	254,436	13,583		
Forte Hotels International, Inc.						5,570,967	(59,447)
Fox Grocery Company						2,360,298	
Gino's, Inc.							
Gino's, Inc.	314,012		314,012	16,811			
Golf Road	9,288,263		9,288,263	1,171,740			
Grand Union Co.							
Grand Union Co.	874,765		874,765	62,454			
Grand Union Co.	266,468		266,468	196,893			
Whalen	7,934,020		7,934,020		170		
Gunite	1,134,565		1,134,565	1,065,034			
G.D. Searle & Co.							
G.D. Searle & Co.	339,358		339,358	167,376	(3,083)		
G.D. Searle & Co.	323,559		323,559	246,065	(3,776)		

Integra A Hotel and Restaurant Co.	638,248		638,248	2,701	(6,479)	480,105	(19,300)
Integra A Hotel and Restaurant Co.	395,137		395,137	1,967	(12,335)		
Integra A Hotel and Restaurant Co.	231,513		231,513			244,358	(11,378)
Integra A Hotel and Restaurant Co.					(6,833)		
Integra A Hotel and Restaurant Co.	414,887		414,887	1,901	(7,651)		
Integra A Hotel and Restaurant Co.	438,097		438,097	2,093	(8,663)		
Integra A Hotel and Restaurant Co.	431,486		431,486	1,970	(17,405)		
Intermountain Color	560,444		560,444	523,715	(7,741)		
J.C. Penney Company, Inc.	2,484,262		2,484,262	1,985,808	(41,707)		
K-Mart Corporation					30,533		
K-Mart Corporation					37,167		
K-Mart Corporation							
K-Mart Corporation							
K-Mart Corporation						1,113,199	(13,921)
K-Mart Corporation	4,162,653		4,162,653	1,896,880	(41,152)		
K-Mart Corporation	600,000		600,000		(4,791)		
Kobacker Stores, Inc.	112,225		112,225		1,068	139,996	2,412
Kobacker Stores, Inc.	88,364		88,364		769	76,990	1,115
Kobacker Stores, Inc.	298,496		298,496		2,487	335,020	5,531
Landmark Bancshares Corporation						3,876,559	(61,385)
Levitz Furniture Corporation							
Louisiana Power and Light Company	5,636,053		5,636,053	329,642	4,746		
Louisiana Power and Light Company	6,984,806		6,984,806	378,448	5,017		
Marsh Supermarkets, Inc.	5,001,933		5,001,933	2,966,080			
Mid-South		18,226,344	18,226,344	160,603			
Montgomery Ward, Inc.	3,289,166		3,289,166	2,276,308	(26,190)		
Montgomery Ward, Inc.						1,228,425	(19,990)
Morrison, Inc.	858,112		858,112				
Morrison, Inc.					13,890		
Morrison, Inc.	910,425		910,425		(268)		
Morrison, Inc.	1,765,899		1,765,899	5,137			
North Carolina National Bank	1,450,047		1,450,047	621,698	6,365		
Occidental Petroleum Corp.							
Ohio Power Co. Inc.						3,374,835	(59)
Park West	19,199,296		19,199,296	2,325,770			
Park West UPS	21,109,367		21,109,367	2,020,688			

	PART 2--REVENUES EARNED FOR THE YEAR ENDED DECEMBER 31, 2002		
	TOTAL REVENUE APPLICABLE TO PERIOD	EXPENDED FOR INTEREST, TAXES, REPAIRS AND EXPENSES	NET INCOME APPLICABLE TO PERIOD
COMMERCIAL PROPERTY LAND AND BUILDING			
Acme Markets, Inc. and FPBT of Penn.	$ 188,473	$ 182,816	$ 5,657
Alabama Power Company	607,751	2,038	605,713
Amer Stores, Eckerd & Marburn	562,623	69,959	492,664
Atrium	3,930,668	3,294,786	635,882
Best Products Co., Inc.		193,018	(193,018)
Chesebrough-Pond's Inc.	141,236	8,987	132,249
Chomerics, Inc.	65,906	700,870	(634,964)
Collins Foods International, Inc.	32,489	4,088	28,401
Collins Foods International, Inc.	17,646	2,322	15,324
Dillon Companies, Inc.	33,652	12,756	20,896
Duke Power Co.	797,177	114,705	682,472
European American Bank and Trust Co.	175,000		175,000
Farwell Bldg.	1,121,693	331,805	789,888
First National Supermarkets, Inc.	1,926,506	490,657	1,435,849
Fisher Scientific Company	163,000	22,538	140,462
Forte Hotels International, Inc.	513,358	46	513,312
Fox Grocery Company	215,368	0	215,368
Gino's, Inc.		104	(104)
Gino's, Inc.	51,733	5,604	46,129
Golf Road	943,344	807,369	135,975
Grand Union Co.	0	122	(122)
Grand Union Co.	81,000	30,810	50,190
Grand Union Co.	24,150	4,257	19,893
Whalen	28,200	666,315	(638,115)
Gunite	247,336	2,058	245,278
G.D. Searle & Co.	0	9,970	(9,970)
G.D. Searle & Co.	37,000	3,137	33,863
G.D. Searle & Co.	45,310	4,600	40,710
Integra A Hotel and Restaurant Co.	175,690	1,994	173,696
Integra A Hotel and Restaurant Co.	148,003	2,461	145,542
Integra A Hotel and Restaurant Co.	75,696	109	75,587
Integra A Hotel and Restaurant Co.	65,375	926	64,449
Integra A Hotel and Restaurant Co.	91,818	2,024	89,794
Integra A Hotel and			

Restaurant Co.	108,676	2,202	106,474
Integra A Hotel and Restaurant Co.	96,280	2,080	94,200
Intermountain Color	92,837	16,890	75,947
J.C. Penney Company, Inc.	250,244	91,643	158,601
K-Mart Corporation	15,267	35,947	(20,680)
K-Mart Corporation	18,583	119,977	(101,394)
K-Mart Corporation	0	125,579	(125,579)
K-Mart Corporation	0	66,192	(66,192)
K-Mart Corporation	106,310	39,831	66,479
K-Mart Corporation	493,820	29,678	464,142
K-Mart Corporation	64,521	36,168	28,353
Kobacker Stores, Inc.	27,181	700	26,481
Kobacker Stores, Inc.	17,049	0	17,049
Kobacker Stores, Inc.	62,362	151	62,211
Landmark Bancshares Corporation	552,665	0	552,665
Levitz Furniture Corporation	148,692	0	148,692
Louisiana Power and Light Company	1,240,853	175,920	1,064,933
Louisiana Power and Light Company	1,299,275	180,329	1,118,946
Marsh Supermarkets, Inc.	506,300	131,479	374,821
Mid-South	519,137	340,503	178,634
Montgomery Ward, Inc.	314,280	14,856	299,424
Montgomery Ward, Inc.	159,168	1,539	157,629
Morrison, Inc.	73,834	36,286	37,548
Morrison, Inc.	175,020	9,856	165,164
Morrison, Inc.	67,954	7,238	60,716
Morrison, Inc.	121,909	30,155	91,754
North Carolina National Bank	108,797	40,081	68,716
Occidental Petroleum Corp.		30,147	(30,147)
Ohio Power Co. Inc.	318,727	216	318,511
Park West	1,610,830	1,420,025	190,805
Park West UPS	1,861,248	1,753,756	107,492

REAL ESTATE OWNED AND REVENUES EARNED

	STATE	NO. OF LOCATIONS	AMOUNT OF ENCUMBRANCES
Penske Corp.	OH	1	
Pneumo Corp.	OH	1	
Portland General Electric Company	OR	1	$36,085,645
Rayovac	WI	1	15,619,762
Rouse Company	MD	1	873,108
Safeway Stores, Inc.	LA	1	
Sams	MI	1	
Smith's Management Corp.	NV	1	172,473
Southland Corporation	FL	5	
Staples	NY	1	
Stone Container	WI	1	5,943,919
Stop & Shop	NY	1	
Stop & Shop	NJ	1	
Stop 'N Shop Co., Inc.	VA	1	
Super Foods Services, Inc.	MI	1	4,795,166
SuperValu Stores, Inc.	MN	1	
SuperValu Stores, Inc.	OH	1	
SuperValu Stores, Inc.	GA	1	
SuperValu Stores, Inc.	IN	1	
Telecom Properties, Inc.	OK	1	
Telecom Properties, Inc.	KY	1	
The A&P Company	MI	1	
The TJX Companies, Inc.	IL	1	
Tire Distribution Systems Inc.	TN	1	
Tops Market	NY	1	
Toys 'R' Us, Inc.	TX	1	
Waban	NY	1	
Watkins	MO	1	
Webcraft Technologies	MD	1	
Wetterau, Inc.	PA	1	
Wetterau, Inc.	NJ	1	
Wickes Companies, Inc.	CA	1	
RESIDENTIAL PROPERTY LAND AND BUILDING			
Crown Cliffs	AL	1	7,444,317
COMMERCIAL PROPERTY --			

LAND			
Easco Corp.	NC	1	
Foodarama supermarkets, Inc.	NY	1	
Foodarama supermarkets, Inc.	PA	1	
Gino's, Inc.	PA	1	
Gino's, Inc.	MA	1	
Gino's, Inc.	NJ	1	
J.C. Penney Company, Inc.	NY	1	
COMMERCIAL PROPERTY -- BUILDING			
AT&T	CA	1	
Bank South	GA	1	
Baptist Hospital 1	TN	1	20,527,354
Baptist Hospital 2	TN	1	7,618,817
Harwood Square	IL	1	
Safeway Stores, Inc.	CA	1	
Toys 'R' Us, Inc.	RI	1	
United Life & Accident Ins. Co.	NH	1	
Wickes Companies, Inc.	PA	1	
			171,848,228

PART I--REAL ESTATE OWNED AT DECEMBER 31, 2002--ACCOUNTED FOR UNDER THE:

	OPERATING METHOD					FINANCING METHOD	
	INITIAL COST TO COMPANY	COST OF IMPROVEMENTS	AMOUNT CARRIED AT CLOSE OF PERIOD	RESERVE FOR DEPRECIATION	RENT DUE AND ACCRUED OR RECEIVED IN ADVANCE AT END OF PERIOD	NET INVESTMENT	MINIMUM LEASE PAYMENTS DUE AND ACCRUED AT END OF PERIOD
Penske Corp.	$ 524,956		$ 524,956	$ 3,905	$ 8,624		
Pneumo Corp.	1,629,713		1,629,713	13,698			
Portland General Electric Company						$ 47,919,029	
Rayovac	22,065,852		22,065,852	1,735,262			
Rouse Company						5,163,375	
Safeway Stores, Inc.	1,782,885		1,782,885	1,122,920	(7,096)		
Sams	8,844,225		8,844,225	2,178,697			
Smith's Management Corp.						682,550	
Southland Corporation	1,162,971		1,162,971	712,724			
Staples	2,486,744	$ (95,204)	2,391,540	229,455			
Stone Container	9,028,574		9,028,574	1,047,437	(72,807)		
Stop & Shop	900,865		900,865	62,454	(54,000)		
Stop & Shop	800,770		800,770	55,516	(48,000)		
Stop 'N Shop Co., Inc.						2,158,095	$ 41,105
Super Foods Services, Inc.						8,999,916	
SuperValu Stores, Inc.							
SuperValu Stores, Inc.							
SuperValu Stores, Inc.							
SuperValu Stores, Inc.					17,001		
Telecom Properties, Inc.						82,203	800
Telecom Properties, Inc.	281,253		281,253			63,096	
The A&P Company						1,055,488	(13,375)
The TJX Companies, Inc.						2,067,395	(27,047)
Tire Distribution Systems Inc.	120,946		120,946	75,200	(1,100)		
Tops Market	262,357		262,357	18,187	(15,726)		
Toys 'R' Us, Inc.							
Waban	8,478,095		8,478,095	1,055,102	(63,090)		
Watkins							
Webcraft Technologies							
Wetterau, Inc.							
Wetterau, Inc.	747,116		747,116	6,418			
Wickes Companies, Inc.	700,333		700,333	174,362	(4,533)		
RESIDENTIAL PROPERTY LAND AND BUILDING							
Crown Cliffs	11,416,711	40,935	11,457,646(1)	3,263,168			
COMMERCIAL PROPERTY -- LAND							
Easco Corp.	157,560		157,560		26,750		
Foodarama supermarkets, Inc.	140,619		140,619		(1,400)		
Foodarama supermarkets, Inc.	112,554		112,554				
Gino's, Inc.	36,271		36,271		(714)		
Gino's, Inc.	50,904		50,904				
Gino's, Inc.	61,050		61,050				
J.C. Penney Company, Inc.	51,009		51,009		458		
COMMERCIAL PROPERTY -- BUILDING							
AT&T	2,538,512	7,627	2,546,139				
Bank South						2,999,585	
Baptist Hospital 1						23,786,460	1,105,517
Baptist Hospital 2						8,855,567	410,319
Harwood Square	6,909,821	33,552	6,943,373	3,987,210	29,900		
Safeway Stores, Inc.	558,652		558,652	558,652			
Toys 'R' Us, Inc.						845,803	10,430
United Life & Accident Ins. Co.						3,415,897	(43,665)
Wickes Companies, Inc.						2,540,554	(55,068)
	231,146,649	18,408,579	249,555,228	45,312,913	(60,754)	155,457,500	938,365

	PART 2--REVENUES EARNED FOR THE YEAR ENDED DECEMBER 31, 2002		
	TOTAL REVENUE APPLICABLE TO PERIOD	EXPENDED FOR INTEREST, TAXES, REPAIRS AND EXPENSES	NET INCOME APPLICABLE TO PERIOD
Penske Corp.	$ 108,945	$ 3,905	$ 105,040
Pneumo Corp.	208,946	15,914	193,032
Portland General Electric Company	4,156,786	2,866,510	1,290,276
Rayovac	1,993,330	1,775,717	217,613
Rouse Company	464,050	126,417	337,633
Safeway Stores, Inc.	85,150	11,974	73,176
Sams	1,198,142	161,385	1,036,757
Smith's Management Corp.	62,245	18,491	43,754
Southland Corporation	140,331	4,632	135,699
Staples	315,077	111,971	203,106
Stone Container	867,975	686,878	181,097
Stop & Shop	108,000	20,899	87,101
Stop & Shop	96,000	19,015	76,985
Stop 'N Shop Co., Inc.	84,293	91,502	(7,209)
Super Foods Services, Inc.	965,213	433,628	531,585
SuperValu Stores, Inc.	18,430	10,010	8,420
SuperValu Stores, Inc.	0	32,520	(32,520)
SuperValu Stores, Inc.	(56,054)	16,206	(72,260)
SuperValu Stores, Inc.	181,813	2,568	179,245
Telecom Properties, Inc.	1,546	4,947	(3,401)
Telecom Properties, Inc.	34,132	(4,817)	38,949
The A&P Company	140,976	20,544	120,432
The TJX Companies, Inc.	184,591	150	184,441
Tire Distribution Systems Inc.	12,283	150	12,133
Tops Market	31,453	6,062	25,391
Toys 'R' Us, Inc.	0	29,869	(29,869)
Waban	757,079	121,177	635,902
Watkins	95,100	17,133	77,967
Webcraft Technologies	0	27,385	(27,385)
Wetterau, Inc.	0	89,089	(89,089)
Wetterau, Inc.	150,800	8,402	142,398
Wickes Companies, Inc.	145,452	42,546	102,906
RESIDENTIAL PROPERTY LAND AND BUILDING			
Crown Cliffs	1,854,000	1,845,067	8,933
COMMERCIAL PROPERTY -- LAND			
Easco Corp.	0		0
Foodarama supermarkets, Inc.	16,800		16,800
Foodarama supermarkets, Inc.	14,400	53	14,347
Gino's, Inc.	8,571		8,571
Gino's, Inc.	8,571		8,571
Gino's, Inc.	8,571		8,571
J.C. Penney Company, Inc.	5,500		5,500
COMMERCIAL PROPERTY -- BUILDING			
AT&T	435,473	61,333	374,140
Bank South	311,352	25,000	286,352
Baptist Hospital 1	1,889,294	1,623,618	265,676
Baptist Hospital 2	701,219	601,721	99,498
Harwood Square	1,013,128	523,192	489,936
Safeway Stores, Inc.	26,900		26,900
Toys 'R' Us, Inc.	81,519		81,519
United Life & Accident Ins. Co.	293,938	92	293,846
Wickes Companies, Inc.	487,944		487,944
	42,648,284	23,165,530	19,482,754

AMERICAN REAL ESTATE PARTNERS, L.P.
A LIMITED PARTNERSHIP

REAL ESTATE OWNED AND REVENUES EARNED

	STATE	NO. OF LOCATIONS	AMOUNT OF ENCUMBRANCES
HOTEL AND RESORT OPERATING PROPERTIES			

New Seabury	MA
Holiday Inn	FL
Bayswater	FL

0
$171,848,228

PART I--REAL ESTATE OWNED AT DECEMBER 31, 2002--ACCOUNTED FOR UNDER THE:

	OPERATING METHOD					FINANCING METHOD	
	INITIAL COST TO COMPANY	COST OF IMPROVEMENTS	AMOUNT CARRIED AT CLOSE OF PERIOD	RESERVE FOR DEPRECIATION	RENT DUE AND ACCRUED OR RECEIVED IN ADVANCE AT END OF PERIOD	NET INVESTMENT	MINIMUM LEASE PAYMENTS DUE AND ACCRUED AT END OF PERIOD
HOTEL AND RESORT OPERATING PROPERTIES							
New Seabury	$35,838,000	$ 1,652,989	$ 37,490,989	$ 4,353,989			
Holiday Inn	9,923,431	1,180,416	11,103,847	4,894,111	$129,547		
Bayswater	5,666,365	(356,000)	5,310,365	417,000			
	51,427,796	2,477,405	53,905,201	9,665,100	129,547	0	0
	$282,574,445	$20,885,984	$303,460,429	$54,978,013	$ 68,793	$155,457,500	$ 938,365

PART 2--REVENUES EARNED FOR THE YEAR ENDED DECEMBER 31, 2002

	TOTAL REVENUE APPLICABLE TO PERIOD	EXPENDED FOR INTEREST, TAXES, REPAIRS AND EXPENSES	NET INCOME APPLICABLE TO PERIOD
HOTEL AND RESORT OPERATING PROPERTIES			
New Seabury	$12,296,014	$12,219,746	$ 76,268
Holiday Inn	3,678,729	3,558,685	120,044
Bayswater	2,622,000	2,166,000	456,000
	18,596,743	17,944,431	652,312
	$61,245,027	$41,109,961	$20,135,066

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(1) The Company owns a 70% interest in the joint venture which owns this property.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 2002 (IN $000'S)

1a. A reconciliation of the total amount at which real estate owned, accounted for under the operating method and hotel and resort 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, 2002	$273,887
Additions during period	20,886
Reclassifications during period from financing leases	13,503
Write downs	(1,992)
Disposals during period	(2,824)

Balance -- December 31, 2002	$303,460

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, 2002	$ 48,057
Depreciation during period	7,105
Disposals during period	(184)
Balance -- December 31, 2002	$ 54,978

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 7 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 close of the period, is shown below:

Balance -- January 1, 2002	$176,757
Reclassifications during period	(13,503)
Write downs	(257)
Disposals during period	(1,560)
Amortization of unearned income	14,722
Minimum lease rentals received	(20,663)
Other	(38)
Balance -- December 31, 2002	$155,458

3. The aggregate cost of real estate owned for Federal income tax purposes is $382,208 before accumulated depreciation.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
REAL ESTATE OWNED AND REVENUES EARNED -- (CONTINUED)
YEAR ENDED DECEMBER 31, 2002 (IN $000'S)

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 and hotel and resort operating properties	$ 20,135
Net income applicable to Stratosphere hotel and casino	8,916(1)
Net income applicable to land, house and condominium sales	20,384
Add:	
Interest income on U.S. Government and Agency Obligations and other investments	30,344
Dividend and unallocated other income	2,684
Equity in earnings of GB Holdings, Inc.	305
	82,768
Deduct expenses not allocated:	
General and administrative expenses	7,029
Nonmortgage interest expense	1,272
Other	1,625
	9,926
Earnings before property and securities transactions and minority interest	72,842
Provision for loss on real estate	(3,212)

Gain on sale of real estate	8,990
Write down of securities	(12,226)
Minority interest in net earnings of Stratosphere Corporation	(1,943)
Net earnings	$ 64,451

----

(1) Includes depreciation expense

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 2001 (IN $000'S)

1a. A reconciliation of the total amount at which real estate owned, accounted for under the operating method and hotel and resort 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, 2001	$262,356
Additions during period	14,586
Reclassifications during period from financing leases	9,755
Write downs	(3,184)
Reclassifications during period to assets held for sale	(8,072)
Other reclassifications	(1,130)
Disposals during period	(424)
Balance -- December 31, 2001	$273,887

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, 2001	$ 43,471
Depreciation during period	6,252
Disposals during period	(266)
Reclassifications during period to assets held for sale	(1,400)
Balance -- December 31, 2001	$ 48,057

Depreciation on properties accounted for under the operating method is computed using the straight-line method over the estimated 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, 2001	$193,428
Reclassifications during period to operating properties	(9,755)
Disposals during period	(71)
Amortization of unearned income	16,935
Minimum lease rentals received	(23,780)
Balance -- December 31, 2001	$176,757

3. The aggregate cost of real estate owned for Federal income tax

purposes is $399,813 before accumulated depreciation.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
REAL ESTATE OWNED AND REVENUES EARNED -- (CONTINUED)
YEAR ENDED DECEMBER 31, 2001 (IN $000'S)

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 and hotel and resort operating properties............	$ 21,850
Net income applicable to Stratosphere hotel and casino..	4,628(1)
Net income applicable to land, house and condominium sales..	12,967
Add:	
Interest income on U.S. Government and Agency Obligations and other investments................	30,367
Dividend and unallocated other income..............	4,989
Equity in earnings of GB Holdings, Inc.	1,807
	76,608
Deduct expenses not allocated:	
General and administrative expenses................	7,080
Non-mortgage interest expense......................	6,227
Other..	619
	13,926
Earnings before gain on property and securities transactions and minority interest...................	62,682
Provision for loss on real estate.....................	(3,184)
Gain on sale of marketable equity and debt securities...	6,749
Gain on sale of real estate...........................	1,737
Minority interest in net earnings of Stratosphere Corporation...	(450)
Net earnings..	$ 67,534

----
(1) Includes depreciation expense

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
REAL ESTATE OWNED AND REVENUES EARNED
YEAR ENDED DECEMBER 31, 2000 (IN $000'S)

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

Balance -- January 1, 2000............................	$239,237
Additions during period...............................	32,782
Reclassifications during period from financing leases...	17,274

Less development properties	(11,942)
Reclassifications during period to assets held for sale	(6,781)
Disposals during period	(8,214)
Balance -- December 31, 2000	$262,356

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, 2000	$ 44,740
Depreciation during period	6,137
Disposals during period	(4,636)
Reclassifications during period to assets held for sale	(2,770)
Balance -- December 31, 2000	$ 43,471

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 close of the period, is shown below:

Balance -- January 1, 2000	$223,391
Reclassifications during period to operating properties	(17,274)
Write downs	(232)
Disposals during period	(3,647)
Amortization of unearned income	19,652
Minimum lease rentals received	(27,212)
Reclassifications during period to assets held for sale	(1,286)
Additions during period	36
Balance -- December 31, 2000	$193,428

3. The aggregate cost of real estate owned for Federal income tax purposes is $371,227 before accumulated depreciation.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
REAL ESTATE OWNED AND REVENUES EARNED -- (CONTINUED)
YEAR ENDED DECEMBER 31, 2000 (IN $000'S)

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 and hotel and resort operating properties	$ 20,909
Net income applicable to Stratosphere hotel and casino	5,501(1)
Net income applicable to land, house and condominium sales	17,687
Add:	
Interest income on U.S. Government and Agency Obligations and other investments	36,208
Dividend and unallocated other income	4,627
	84,932
Deduct expenses not allocated:	

General and administrative expenses	7,475
Nonmortgage interest expense	3,792
Bayswater acquisition costs	1,750
Equity in losses of GB Holdings, Inc.	2,103
Other	788
	15,908
Earnings before property and securities transactions and minority interest	69,024
Provision for loss on real estate	(1,351)
Gain on sale of real estate	6,763
Gain on sale of limited partnership interests	3,461
Minority interest in net earnings of Stratosphere Corporation	(2,747)
Net earnings	$ 75,150

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(1) Includes depreciation expense

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
REAL ESTATE OWNED AND RESERVE FOR DEPRECIATION BY STATE
(ACCOUNTED FOR UNDER THE OPERATING METHOD)
DECEMBER 31, 2002 (IN $000'S)

STATE	AMOUNT AT WHICH CARRIED AT CLOSE OF YEAR	RESERVE FOR DEPRECIATION
Alabama	$ 12,954	$ 3,266
California	3,939	740
Connecticut	1,550	1,182
Florida	22,650	7,921
Illinois	18,148	5,661
Indiana	6,368	4,031
Kentucky	41,239	4,870
Louisiana	14,404	1,831
Massachusetts	43,726	6,385
Michigan	9,388	2,181
Minnesota	5,420	2,511
Missouri	962	376
New Jersey	3,655	1,676
New York	22,388	2,713
North Carolina	3,622	229
Ohio	2,767	34
Oregon	251	12
Pennsylvania	5,442	3,837
South Carolina	1,450	622
Tennessee	18,347	236
Texas	438	2
Virginia	33,258	1,879
Wisconsin	31,094	2,783
	$303,460	$54,978

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

REAL ESTATE OWNED BY STATE
(ACCOUNTED FOR UNDER THE FINANCING METHOD)
DECEMBER 31, 2002 (IN $000'S)

STATE	NET INVESTMENT
Alabama	$ 5,886
Connecticut	20,616
Georgia	3,000
Illinois	2,067
Indiana	244
Iowa	1,113
Kentucky	140
Maryland	5,163
Michigan	10,196
Missouri	3,877
Nevada	683
New Hampshire	3,416
New Jersey	6,799
Ohio	3,710
Oklahoma	82
Oregon	47,919
Pennsylvania	2,541
Rhode Island	846
Tennessee	32,642
Virginia	2,158
West Virginia	2,360
	$155,458

EXHIBITS

STATEMENT OF DIFFERENCES

The section symbol shall be expressed as ....'SS'

EXHIBIT 3.8

AMENDMENT NO. 3
TO
AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP
OF AMERICAN REAL ESTATE PARTNERS, L.P.
(A DELAWARE LIMITED PARTNERSHIP)

Amendment No. 3 (the, 'Amendment') dated May 9, 2002 to the Amended and Restated Agreement of Limited Partnership (the 'Partnership Agreement') of American Real Estate Partners, L.P. (the 'Partnership'), dated as of May 12, 1987, 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 the Partnership. Except as otherwise indicated, all capitalized terms used herein have the meaning ascribed to such terms in the Partnership Agreement.

WITNESSETH:

WHEREAS, the Partnership desires to amend the Partnership Agreement to include the applicability of the New Jersey Casino Control Act;

NOW, THEREFORE, the parties hereby agree as follows:

1. The Partnership Agreement is hereby amended to add the following Section 16.16;

'16.16. New Jersey Casino Control Act

This Agreement will be deemed to include all provisions required by the New Jersey Casino Control Act and the regulations thereunder and to the extent that anything contained in this Agreement is inconsistent with the Casino Control Act, the provisions of the Casino Control act shall govern. All provisions of the Casino Control Act, to the extent required by law, to be included in this Agreement, or incorporated herein by references are fully stated in this Agreement.

Any securities of the Partnership are held, subject to the condition that if a holder thereof is found to be disqualified by the Casino Control Commission pursuant to the provisions of the Casino Control Act, such holder shall dispose of his interest in the Partnership in accordance with the Casino Control Act.'

2. Except as expressly amended hereby, all other provisions of the Partnership Agreement shall continue in full force and effect.

3. This Amendment shall become effective as of the date hereof upon its execution by all parties hereto.

IN WITNESS WHEREOF, the undersigned have evidenced their adoption and ratification of the foregoing Amendment to the Partnership Agreement and have duly executed this Amendment or have caused this Amendment to be duly executed on their behalf, as of the 9th day of May, 2002.

General Partner
AMERICAN PROPERTY INVESTORS INC.

By: /s/ JOHN P. SALDARELLI
....
Name: John P. Saldarelli
Title: Vice President

Limited Partners
By: AMERICAN PROPERTY INVESTORS, INC.
(Attorney-in-Fact)

By: /s/ JOHN P. SALDARELLI

....

Name: John P. Saldarelli

Title: Vice President

[Signature Page to Amendment No. 3 of the Amended and Restated Agreement of Limited Partnership of American Real Estate Partners, L.P.]

EXHIBIT 3.9

AMENDMENT NO. 2
TO
AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP
OF AMERICAN REAL ESTATE HOLDINGS, L.P.
(A DELAWARE LIMITED PARTNERSHIP)

Amendment No. 2 (the, 'Amendment') dated June 14, 2002 to the Amended and Restated Agreement of Limited Partnership (the 'Partnership Agreement') of American Real Estate Holdings, L.P. (the 'Partnership'), dated as of August 16, 1996, by and among American Property Investors, Inc., a Delaware corporation, as general partner (the 'General Partner'), American Real Estate Partners, L.P., as limited partner ('AREP') and all other persons and entities who are or shall in the future become limited partners (the 'Limited Partners') of the Partnership. Except as otherwise indicated, all capitalized terms used herein have the meaning ascribed to such terms in the Partnership Agreement.

WITNESSETH:

WHEREAS, the Partnership desires to amend the Partnership Agreement to include the applicability of the New Jersey Casino Control Act;

NOW, THEREFORE, the parties hereby agree as follows:

1. The Partnership Agreement is hereby amended to add the following Section 16.16;

'14.15. New Jersey Casino Control Act

a. This Agreement will be deemed to include all provisions required by the New Jersey Casino Control Act and the regulations thereunder and to the extent that anything contained in this Agreement is inconsistent with the Casino Control Act, the provisions of the Casino Control Act shall govern. All provisions of the Casino Control Act, to the extent required by law, to be included in this Agreement, or incorporated herein by references are fully restated in this Agreement.

b. If the continued holding of a Partnership Interest by any Partner will disqualify the Partnership to continue as the owner and operator of a casino license in the State of New Jersey under the provisions of the Casino Control Act, such Partner shall enter into such escrow, trust of similar arrangement as may be required by the New Jersey Commission under the circumstances. It is the intent of this Section to set forth procedures to permit the Partnership to continue, on an uninterrupted basis, as the owner and operator of a casino license under the provisions of the Casino Control Act.

c. (i) All transfer (as defined by the Casino Control Act) of securities (as defined by the Casino Control Act) or other interest in the Partnership shall be subject to the right of prior approval by the Commission; and (ii) the Partnership shall have the absolute right to repurchase at the market price or purchase price, which ever is the lesser, any security, share or other interest in the Partnership in the event that the Commission disapproves a transfer in accordance with the provisions of the Casino Control Act.'

2. Except as expressly amended hereby, all other provisions of the Partnership Agreement shall continue in full force and effect.

3. This Amendment shall become effective as of the date hereof upon its execution by all parties hereto.

IN WITNESS WHEREOF, the undersigned have evidenced their adoption and ratification of the foregoing Amendment to the Partnership Agreement and have duly executed this Amendment or have caused this Amendment to be duly executed on their behalf, as of the 14th day of June, 2002.

General Partner
AMERICAN PROPERTY INVESTORS INC.

By: /s/ JOHN P. SALDARELLI
....
Name: John P. Saldarelli
Title: Vice President

Limited Partners
AMERICAN REAL ESTATE PARTNERS, L.P.

By: AMERICAN PROPERTY INVESTORS, INC.,
General Partner

By: /s/ JOHN P. SALDARELLI
....
Name: John P. Saldarelli
Title: Vice President

[Signature Page to Amendment No. 2 of the Amended and Restated Agreement of Limited Partnership of American Real Estate Holdings, L.P.]