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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): October 25, 2006

American Real Estate Partners, L.P.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation)

1-9516

(Commission File Number)

13-3398766

(IRS Employer
Identification No.)

767 Fifth Avenue, Suite 4700, New York, NY

(Address of principal executive offices)

10153

(Zip Code)

Registrant's telephone number, including area code: **(212) 702-4300**

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Section 1 - Registrant's Business and Operations

Item 1.01 - Entry into a Material Definitive Agreement.

On October 25, 2006, National Energy Group, Inc. (OTCBB:NEGI), or NEGI, our majority owned subsidiary, and our subsidiaries NEG Oil & Gas LLC, NEG, Inc. and American Real Estate Holdings Limited Partnership, or AREH, entered into an agreement pertaining to the possible purchase of NEGI's membership interest in NEG Holding LLC ("NEG Holding"). NEG Oil & Gas, which is our wholly-owned indirect subsidiary, is the owner of 50.01% of NEGI's common stock and the managing membership interest in NEG Holding. NEGI's sole material asset is its membership interest in NEG Holding.

The possible purchase of NEGI's membership interest in NEG Holding would be pursuant to NEG Oil & Gas' redemption right under Section 5.4 of the NEG Holding Operating Agreement, which provides that NEG Oil & Gas has the right at any time to purchase, or to cause NEG Holding to purchase, NEGI's interest in NEG Holding for an amount equal to the fair market value of NEGI's interest determined as if NEG Holding had sold all of its assets for fair market value and liquidated.

Pursuant to the agreement, if the transactions contemplated by the Exclusivity Agreement and Letter of Intent, or the Letter of Intent, dated September 7, 2006 by and among Riata Energy, Inc. (now known as SandRidge Energy, Inc.), AREH and us are completed and NEG Oil & Gas exercises the redemption right under Section 5.4 of the NEG Holding Operating Agreement, NEGI would transfer its membership interest in NEG Holding to NEG Oil & Gas or one of its affiliates and NEG Oil & Gas would cause to be delivered to NEGI a payment of approximately \$261.1 million, which the parties agree is the amount owed to NEGI for its interest in NEG Holding pursuant to Section 5.4 of the NEG Holding Operating Agreement. The payment would be adjusted to take into consideration the accrual of interest, after November 1, 2006, on NEGI's 10.75% senior notes due 2007.

In addition, under the agreement, NEGI, NEG Oil & Gas, NEG and AREH each agree that no action taken in furtherance of the transactions contemplated by the Letter of Intent will be deemed a breach of the Agreement and Plan of Merger, or the Merger Agreement, dated December 7, 2005 by and among NEGI, NEG Oil & Gas, NEG and AREH.

Pursuant to the agreement, the Merger Agreement will automatically terminate upon the transfer of NEGI's membership interest in NEG Holding. At the time the payment is delivered to NEGI with respect to its membership interest in NEG Holding, as described above, any assets or property of NEG Oil & Gas and its subsidiaries owned by them but in the possession of NEGI will be transferred and delivered to NEG Oil & Gas or its subsidiaries.

There cannot be any assurance that the redemption or the transactions contemplated by the Letter of Intent will occur.

This summary of the agreement is qualified in its entirety by reference to the full text of the agreement filed herewith as an exhibit.

Section 9 - Financial Statements and Exhibits

Item 9.01(d) Exhibits

Exhibit 10.1 - Agreement, dated as of October 25, 2006 by and among National Energy Group, Inc., NEG Oil & Gas LLC, NEG, Inc. and American Real Estate Holdings Limited Partnership.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN REAL ESTATE PARTNERS, L.P.
(Registrant)

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

By: /s/ Hillel Moerman
Hillel Moerman,
Chief Financial Officer
American Property Investors, Inc.,
the General Partner of
American Real Estate Partners, L.P.

Date: October 30, 2006

AGREEMENT

This Agreement is being entered into as of October 25, 2006 (this "Agreement"), by and among National Energy Group, Inc. (the "Company"), NEG Oil & Gas LLC ("NEG Oil & Gas"), NEG, Inc. ("IPOCO") and American Real Estate Holdings Limited Partnership ("AREH"). All capitalized terms used but not defined herein shall have the meanings given such terms in the Agreement and Plan of Merger dated as of December 7, 2005 (the "Merger Agreement"), by and among the Company, NEG Oil & Gas, IPOCO and AREH.

WHEREAS, this Agreement has been duly considered and approved by the Special Committee, following its consideration of all relevant facts, circumstances and alternatives and its consultation with its financial and legal advisors, and such committee has recommended that the Company Board adopt and approve this Agreement.

WHEREAS, the Company Board, based on the recommendation of the Special Committee, has approved and adopted this Agreement and the transactions contemplated hereby.

WHEREAS, it is anticipated that, assuming the purchase of the membership interests contemplated in Section 3 occurs, the Company will distribute to its common stockholders (through a dividend or tender offer) approximately \$37 million.

NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, covenants and agreements herein contained, and intending to be legally bound hereby, the Company, NEG Oil & Gas, IPO Co. and AREH hereby agree as follows:

1. Each of the undersigned acknowledges and agrees that no action by any party in furtherance of the transactions contemplated by that certain Exclusivity Agreement and Letter of Intent dated September 7, 2006 (the "Letter"), by and among AREH, AREP and Riata Energy, Inc. (including, without limitation, the NEG Holding Purchase and the consummation of the Transaction or the Restructuring (as such capitalized terms are defined in the Letter)), shall in any event be or be deemed to be a breach of the Merger Agreement or any representations, warranties, covenants or other provisions thereof (including, without limitation, Section 4.2 thereof).

2. Each of the undersigned (including the Company, which, as contemplated in Section 6.1(a) of the Merger Agreement, is acting hereunder at the direction of the Special Committee) agrees that the Merger Agreement shall terminate pursuant to Section 6.1(a) thereof, automatically, without any further action required, upon the transfer of all of the Company's membership interest in NEG Holding LLC ("NEG Holding") as provided in Section 3 below.

3. In recognition of the fact that, as contemplated in the Letter, NEG Oil & Gas or its Affiliate intends to purchase or to cause NEG Holding to purchase (such purchaser, the "Interest Buyer") all of the Company's membership interest in NEG Holding pursuant to Section 5.4 of the NEG Holding Operating Agreement in connection with the closing, if any, of AREP's transaction with Riata Energy, Inc. contemplated in the Letter:

(A) the Company hereby represents, warrants, acknowledges and agrees that:

(i) the Company owns its membership interest in NEG Holding and all rights under the NEG Holding Operating Agreement, all as set forth in the NEG Holding Operating Agreement, free and clear of all liens, claims and encumbrances (other than liens in favor of NEG Oil & Gas in connection with the NEG Operating LLC credit facility (the "AREP Liens"));

(ii) effective upon delivery of notice (the "Exercise Notice") by NEG Oil & Gas to the Company (which will be effective upon receipt of a facsimile copy thereof by the Company) stating that the purchase rights under Section 5.4 of the NEG Holding Operating Agreement are being exercised by the Interest Buyer and the payment of the sum specified in Section 4(B) below: (x) all right, title and interest of the Company in NEG Holding shall automatically be and be deemed to be, transferred, assigned conveyed and sold to the Interest Buyer and the Company shall cease to be a member of NEG Holding or have any rights, powers or interests therein or under the NEG Holding Operating Agreement and (y) the Company will cease to have (and releases and shall be deemed to have released): (I) any right to receive any payment or distribution from NEG Holding or its subsidiaries or (II) any other right or claim with respect to NEG Holding or its subsidiaries, in the case of each of (I) and (II) associated with, arising out of or relating to its membership interests in NEG Holding, other than the right to receive the payment contemplated in Section 4(B) below.

(B) NEG Oil & Gas agrees that upon delivery of the Exercise Notice: (i) the Interest Buyer will cause to be delivered to the Company the sum of \$261,124,876* (the "Payment"), which the parties agree is the amount owing to the Company under Section 5.4 of the NEG Holding Operating Agreement; and (ii) the AREP Liens will be released and terminated. Upon receipt of such payment the Company will pay in full the amount of principal and outstanding interest owing under the Company's 10.75% senior notes due 2006 (the "Bonds"), the principal amount of which is approximately \$148.6 million. As a result, after payment of the Bonds the Company will retain approximately \$112,487,876 from the Payment.

* The above amount assumes that the closing occurs on November 1, 2006. If it occurs on a different date then the price will be adjusted to take into account the appropriate accrual of interest on the Bonds (as defined above) and the appropriate distribution to NEG Oil & Gas under Article VI of the NEG Holding Operating Agreement.

4. At the time the Payment is delivered, automatically and without any further action necessary: (i) the management agreements between the Company and each of National Onshore LP, National Offshore LP and NEG Operating LLC will be terminated; and (ii) any assets or property of NEG Oil & Gas and its subsidiaries owned by them but in the possession of the Company (including, without limitation, information technology, software and data relevant to the oil and gas operations of NEG Oil & Gas or its subsidiaries) will be transferred and delivered to NEG Oil & Gas or its subsidiaries, as designated by NEG Oil & Gas.

5. The provisions of this Agreement constitute an agreement separate from the Merger Agreement and shall survive any termination of the Merger Agreement.

6. This Agreement may be executed through the use of separate signature pages or in any number of counterparts and all such counterparts shall be deemed one and the same instrument.

7. This Agreement shall be deemed to be made in and in all respects shall be interpreted, construed and governed by and in accordance with the law of the State of Delaware without regard to the conflict of law principles thereof.

[The balance of this page has been left blank intentionally.]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the date first written above.

NATIONAL ENERGY GROUP, INC.

By: /s/ Bob G. Alexander
Name: Bob G. Alexander
Title: President

NEG OIL & GAS LLC

By: AREP O & G Holding LLC, its sole member
By: AREP Oil & Gas Holding LLC, its sole member
By: American Real Estate Holdings Limited Partnership, its sole member
By: American Property Investors, Inc., its general partner

By: /s/ Keith Meister
Name: Keith Meister
Title: Principal Executive Officer

NEG, INC.

By: /s/ Keith Meister
Name: Keith Meister
Title: Chief Executive Officer

AMERICAN REAL ESTATE HOLDINGS LIMITED PARTNERSHIP

By: American Property Investors, Inc.

By: /s/ Keith Meister
Name: Keith Meister
Title: Principal Executive Officer

[Signature page to Agreement among National Energy Group, Inc., NEG Oil & Gas LLC,
NEG, Inc. and American Real Estate Holdings Limited Partnership]
