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): **December 5, 2007**

# ICAHN ENTERPRISES L.P.

(Exact Name of Registrant as Specified in Its Charter)

| **Delaware** | **1-9516** | **13-3398766** |
|---|---|---|
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

**767 Fifth Avenue,**
**Suite 4700,**
**New York, NY 10153**

(Address of Principal Executive Offices) (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))

---

This current report on Form 8-K is being filed to provide our supplemental restated historical financial statements relating to our recent acquisition of PSC Metals, Inc. ("PSC Metals").

On November 9, 2007, we filed our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2007 ("Form 10-Q"). In Part II, Item 5 (Other Information) of Form 10-Q, we reported the completion on November 5, 2007 of our acquisition of all of the issued and outstanding stock of PSC Metals from Philip Services Corporation ("Philip"). PSC Metals is engaged in transporting, recycling and processing metals. Mr. Icahn indirectly owns a 95.6% interest and we indirectly own the remaining 4.4% interest in Philip.

PSC Metals is considered an entity under common control. As a result, we are providing supplemental consolidated financial statements to include PSC Metals' financial results since December 31, 2003, the period of common control. Accordingly, we are providing the following to reflect the restatement: Supplemental Selected Financial Data, Supplemental Consolidated Financial Statements, Management's Discussion and Analysis of Supplemental Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risks, for the periods indicated.

**Section 9 — Financial Statements and Exhibits**

**Item 9.01 Financial Statements and Exhibits.**

**(c) Exhibits**

| Exhibit No. | Description |
|---|---|
| 23.1 | Consent of Grant Thornton LLP. |

| | |
|---|---|
| 23.2 | Consent of KPMG LLP. |
| 23.3 | Consent of KPMG LLP. |
| 99.1 | Supplemental Selected Financial Data. |
| 99.2 | Supplemental Consolidated Financial Statements. |
| 99.3 | Management's Discussion and Analysis of Supplemental Financial Condition and Results of Operations. |
| 99.4 | Quantitative and Qualitative Disclosures about Market Risks. |

---

## 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.

**ICAHN ENTERPRISES L.P.**
(Registrant)

By: Icahn Enterprises G.P. Inc.
its General Partner

By: /s/ Andrew R. Skobe
Andrew R. Skobe
Chief Financial Officer

Date: December 5, 2007

---

**EXHIBIT 23.1**

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated November 28, 2007, accompanying the supplemental consolidated financial statements included in the Current Report of Icahn Enterprises L.P. on Form 8-K dated December 5, 2007, for the year ended December 31, 2006. We hereby consent to the incorporation by reference of said report in the Registration Statement of Icahn Enterprises L.P. (formerly American Real Estate Partners, L.P.) on Form S-3 (File No. 333-126069, effective April 21, 2006).

/s/GRANT THORNTON LLP

New York, New York
December 4, 2007

**EXHIBIT 23.2**

**Consent of Independent Registered Public Accounting Firm**

We consent to the use of our report dated March 11, 2005, with respect to the consolidated statements of operations, changes in shareholders' equity, and cash flows for the year ended December 31, 2004 for GB Holdings, Inc. and subsidiaries, which report appears in the Form 8-K of Icahn Enterprises L.P. dated December 5, 2007. Our report dated March 11, 2005 contains an explanatory paragraph that states that GB Holdings Inc. has suffered recurring net losses, has a net working capital deficiency and has significant debt obligations which are due within one year that raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

KPMG LLP

Short Hills, New Jersey
December 4, 2007

**EXHIBIT 23.3**

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements (No. 333-126069, No. 333-143930 and No. 333-143929) on Forms S-3 and S-4, of Icahn Enterprises L.P., of our report dated March 1, 2007, with respect to the consolidated balance sheets of ImClone Systems Incorporated and subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income, and cash flows for the years then ended, which report appears in the Form 8-K of Icahn Enterprises L.P. dated December 5, 2007. Our report on the consolidated financial statements refers to the Company's adoption of the provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment."

/s/ KPMG LLP

Princeton, New Jersey
November 30, 2007

**Exhibit 99.1**

## SUPPLEMENTAL SELECTED FINANCIAL DATA

The following table contains our supplemental selected historical consolidated financial data, which should be read in conjunction with our supplemental consolidated financial statements and the related notes thereto, and "Management's Discussion and Analysis of Supplemental Financial Condition and Results of Operations" contained in this Current Report on Form 8-K. The supplemental selected historical consolidated financial data as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004, have been derived from our audited supplemental consolidated financial statements at those dates and for those periods, contained elsewhere in this Form 8-K. The supplemental selected historical consolidated financial data as of December 31, 2004, 2003 and 2002 and for the years ended December 31, 2003 and 2002 have each been derived from our audited consolidated financial statements at those dates and for those periods, not contained in this Form 8-K, as adjusted retrospectively for (1) our acquisitions of PSC Metals, Inc. and the general partnership interests of our Investment Management business and (2) reclassifications of our Oil and Gas and Atlantic City and Nevada gaming properties, certain real estate operations and the Home Fashion segment's results of operations pertaining to its retail stores as discontinued operations. The supplemental selected historical consolidated financial data as of September 30, 2007 and for the nine months ended September 30, 2007 and 2006 has been derived from our unaudited supplemental consolidated financial statements at that date and for those periods contained elsewhere in this Form 8-K.



| | For the Nine Months Ended September 30, | | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2006 | 2005 | 2004 | 2003 | 2002 |
| | (in 000s, except per unit amounts) | | | | | | |
| **Statement of Operations Data:** | | | | | | | |
| Total revenues | $2,150,927 | $2,079,139 | $3,003,980 | $1,524,705 | $ 852,446 | $ 44,983 | $ 106,444 |
| Income from continuing operations | $ 232,976 | $ 199,359 | $ 309,185 | $ 52,287 | $ 153,981 | $ 15,636 | $ 45,508 |
| Total income from discontinued operations | $ 76,633 | $ 219,003 | $ 798,541 | $ 29,601 | $ 110,370 | $ 52,784 | $ 3,218 |
| Earnings before cumulative effect of accounting change | $ 309,609 | $ 418,362 | $1,107,726 | $ 81,888 | $ 264,261 | $ 68,420 | $ 48,726 |
| Cumulative effect of accounting change | — | — | — | — | — | 1,912 | — |
| Net earnings | $ 309,609 | $ 418,362 | $1,107,726 | $ 81,888 | $ 264,261 | $ 70,332 | $ 48,726 |
| Net earnings (loss) attributable to: | | | | | | | |
| Limited partners | $ 104,429 | $ 228,372 | $ 506,925 | $ (20,726) | $ 130,850 | $ 51,074 | $ 63,168 |
| General partner | 205,180 | 189,990 | 600,801 | 102,614 | 133,411 | 19,258 | (14,442) |
| Net earnings | $ 309,609 | $ 418,362 | $1,107,726 | $ 81,888 | $ 264,261 | $ 70,332 | $ 48,726 |
| **Basic Earnings:** | | | | | | | |
| Income (loss) from continuing operations per LP unit | $ 0.47 | $ 0.25 | $ 0.01 | $ (0.91) | $ 0.49 | $ (0.07) | $ 1.36 |
| Income (loss) from discontinued operations per LP unit | 1.18 | 3.47 | 8.21 | 0.54 | 2.35 | 1.12 | (0.09) |
| Basic earnings (loss) per LP unit | $ 1.65 | $ 3.72 | $ 8.22 | $ (0.37) | $ 2.84 | $ 1.05 | $ 1.27 |
| Weighted average limited partnership units outstanding | 63,533 | 61,857 | 61,857 | 54,085 | 46,098 | 46,098 | 46,098 |
| **Diluted Earnings:** | | | | | | | |
| Income (loss) from continuing operations per LP unit | $ 0.47 | $ 0.25 | $ 0.01 | $ (0.91) | $ 0.49 | $ (0.07) | $ 1.19 |
| Income (loss) from discontinued operations per LP unit | 1.18 | 3.47 | 8.21 | 0.54 | 2.35 | 1.12 | (0.07) |
| Diluted earnings (loss) per LP unit | $ 1.65 | $ 3.72 | $ 8.22 | $ (0.37) | $ 2.84 | $ 1.05 | $ 1.12 |
| Weighted average limited partnership units and equivalent partnership units outstanding | 63,533 | 61,857 | 61,857 | 54,085 | 46,098 | 46,098 | 56,467 |
| **Other Financial Data:** | | | | | | | |
| Cash dividends declared (per LP unit) | $ 0.45 | $ 0.30 | $ 0.40 | $ 0.20 | $ — | $ — | $ — |

| | As of September 30, 2007 | As of December 31, | | | | |
|---|---|---|---|---|---|---|
| | | 2006 | 2005 | 2004 | 2003 | 2002 |
| | (in 000s) | | | | | |
| **Balance Sheet Data:** | | | | | | |
| Cash and cash equivalents | $ 2,843,800 | $ 1,884,477 | $ 367,065 | $ 787,274 | $ 410,240 | $ 20,197 |
| Investments | 508,459 | 700,595 | 816,868 | 350,527 | 167,727 | 395,495 |
| Property, plant and equipment, net:[1] | 523,730 | 535,273 | 497,033 | 600,262 | 298,784 | 444,461 |
| Total assets | 13,766,856 | 9,279,970 | 7,256,670 | 3,056,191 | 2,156,892 | 2,002,493 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Long-term debt (including current portion) | 2,077,106 | 953,394 | 918,235 | 759,141 | 374,421 | 435,675 |
| Liability for preferred limited partnership units[2] | 122,049 | 117,656 | 112,067 | 106,731 | 101,649 | — |
| Partners' equity | 2,625,825 | 2,832,462 | 1,738,437 | 1,786,490 | 1,499,205 | 1,387,253 |

(1) Excludes assets of discontinued operations.

(2) On July 1, 2003, we adopted Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS No. 150"). SFAS No. 150 requires that a financial instrument, which is an unconditional obligation, be classified as a liability. Previous guidance required an entity to include in equity financial instruments that the entity could redeem in either cash or stock. Pursuant to SFAS No. 150, our preferred units, which are an unconditional obligation, have been reclassified from "partners equity" to a liability account in the supplemental consolidated balance sheets.

**Exhibit 99.2**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Partners of
Icahn Enterprises L.P.

We have audited the accompanying supplemental consolidated balance sheets of Icahn Enterprises L.P. and Subsidiaries (the "Partnership") as of December 31, 2006 and 2005, and the related supplemental consolidated statements of operations, changes in partners' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006 as adjusted for the acquisition of PSC Metals, Inc. These supplemental consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of GB Holdings, Inc. and Subsidiaries for the year ended December 31, 2004, which statements reflect losses of $12,822,000 included in the discontinued operations. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for GB Holdings, Inc. and Subsidiaries, is based solely on the report of the other auditors. Those auditors expressed an unqualified opinion with emphasis on a going concern matter on those financial statements in their report dated March 11, 2005. Also, we did not audit the financial statements of ImClone Systems Incorporated and Subsidiary, the investment in which, as discussed in Notes 2 and 7 to the financial statements, is accounted for by the equity method of accounting. The investment in ImClone Systems Incorporated and Subsidiary was $164,307,000 and $97,255,000 as of December 31, 2006 and 2005, respectively, and the equity in its net income was $12,620,000 and $1,375,000, respectively, for the years then ended. The financial statements of ImClone Systems Incorporated and Subsidiary were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for ImClone Systems Incorporated and Subsidiary, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the supplemental consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Icahn Enterprises L.P. and Subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 7, in 2006, the Partnership changed the accounting for its investment in ImClone Systems Incorporated and Subsidiary from an available-for-sale security to the equity method. Also, as discussed in Note 2, the Partnership changed its method of allocating gains and losses upon disposition to third parties of entities under common control.

As further described in Note 1, these supplemental consolidated financial statements have been adjusted to reflect the acquisition of entities under common control, which have been accounted for in a manner similar to a pooling-of-interests, as well as the reclassification of assets held for sale or sold to discontinued operations through the nine months ended September 30, 2007.

/s/ GRANT THORNTON LLP

New York, New York
November 28, 2007



---

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of GB Holdings, Inc.

We have audited the consolidated statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2004 of GB Holdings, Inc. and subsidiaries. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of GB Holdings, Inc. and subsidiaries for the year ended December 31, 2004, in conformity with U.S.

generally accepted accounting principles.

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

/s/ KPMG LLP

Short Hills, New Jersey
March 11, 2005



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To Board of Directors and Stockholders
ImClone Systems Incorporated:

We have audited the consolidated balance sheets of ImClone Systems Incorporated and subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income, and cash flows for the years then ended, not presented separately herein. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ImClone Systems Incorporated and subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 2(i) and 11(d) to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment," effective January 1, 2006.

/s/ KPMG LLP

Princeton, New Jersey
March 1, 2007



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS**
**December 31, 2006 and 2005**

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| | (In 000s, Except Unit Amounts) | |
| **ASSETS** | | |
| Investment Management: | | |
| Cash and cash equivalents | $ 4,822 | $ 2,341 |
| Cash held at consolidated affiliated partnerships and restricted cash | 1,106,809 | 139,856 |
| Securities owned, at fair value | 2,757,229 | 2,581,634 |
| Unrealized gains on derivative contracts, at fair value | 80,216 | 29 |
| Due from brokers | 838,620 | 343,807 |
| Other assets | 27,460 | 23,570 |
| | 4,815,156 | 3,091,237 |
| Holding Company and other operations: | | |
| Cash and cash equivalents | 1,879,655 | 364,724 |
| Restricted cash | 87,159 | 160,706 |
| Investments | 700,595 | 816,868 |
| Unrealized gains on derivative contracts, at fair value | 20,538 | 1,121 |

| | 2006 | 2005 |
|---|---|---|
| Inventories, net | 282,921 | 278,519 |
| Trade, notes and other receivables, net | 225,052 | 259,151 |
| Assets of discontinued operations held for sale | 620,974 | 1,667,224 |
| Property, plant and equipment, net | 535,273 | 497,033 |
| Intangible assets | 23,402 | 23,402 |
| Other assets | 89,245 | 96,685 |
| | 4,464,814 | 4,165,433 |
| **Total Assets** | $ 9,279,970 | $ 7,256,670 |
| **LIABILITIES AND PARTNERS' EQUITY** | | |
| Investment Management: | | |
| Accounts payable, accrued expenses and other liabilities | $ 59,286 | $ 5,303 |
| Subscriptions received in advance | 66,030 | 40,560 |
| Payable for purchases of securities | 11,687 | 23,138 |
| Securities sold, not yet purchased, at fair value | 691,286 | 367,024 |
| Unrealized losses on derivative contracts, at fair value | 1,770 | 9,353 |
| | 830,059 | 445,378 |
| Holding Company and other operations: | | |
| Accounts payable | 85,095 | 78,226 |
| Accrued expenses and other liabilities | 177,269 | 132,196 |
| Securities sold, not yet purchased, at fair value | 25,398 | 75,883 |
| Margin liability on marketable securities | — | 131,061 |
| Accrued environmental costs | 19,861 | 19,931 |
| Liabilities of discontinued operations held for sale | 318,085 | 751,757 |
| Long-term debt | 953,394 | 918,235 |
| Preferred limited partnership units: | | |
| $10 per unit liquidation preference, 5% cumulative pay-in-kind, 11,400,000 authorized, 11,340,243 and 10,800,397 issued as of December 31, 2006 and 2005, respectively | 117,656 | 112,067 |
| | 1,696,758 | 2,219,356 |
| **Total Liabilities** | 2,526,817 | 2,664,734 |
| Commitments and contingencies (Note 19) | | |
| Non-controlling interests in consolidated entities: | | |
| Investment Management | 3,628,470 | 2,548,900 |
| Holding Company and other operations | 292,221 | 304,599 |
| Partners' equity: | | |
| Limited partners: | | |
| Depositary units; 67,850,000 authorized; 62,994,031 issued and 61,856,831 outstanding as of December 31, 2006 and 2005 | 2,248,170 | 1,725,280 |
| General partner | 596,213 | 25,078 |
| Treasury units at cost: 1,137,200 depositary units | (11,921) | (11,921) |
| Partners' equity | 2,832,462 | 1,738,437 |
| **Total Liabilities and Partners' Equity** | $ 9,279,970 | $ 7,256,670 |

*See notes to supplemental consolidated financial statements.*



## ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

## SUPPLEMENTAL CONSOLIDATED STATEMENTS OF OPERATIONS
**Years Ended December 31, 2006, 2005 and 2004**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | (In 000's Except Per Unit Data) | | |
| Revenues: | | | |
| Investment Management: | | | |
| Interest, dividends and other income | $ 73,563 | $ 47,436 | $ 2,846 |
| Net gain from investment activities | 1,030,740 | 305,440 | 59,254 |
| | 1,104,303 | 352,876 | 62,100 |
| Holding Company and other operations: | | | |
| Metals | 710,054 | 600,989 | 660,172 |
| Real Estate | 132,610 | 98,392 | 60,123 |
| Home Fashion | 890,840 | 441,771 | — |
| Interest and other income | 55,577 | 42,631 | 45,598 |
| Net gain (loss) from investment activities | 91,308 | (21,260) | 16,540 |
| Other income, net | 19,288 | 9,306 | 7,913 |
| | 1,899,677 | 1,171,829 | 790,346 |
| Total revenues | 3,003,980 | 1,524,705 | 852,446 |
| Expenses: | | | |
| Investment Management | 79,735 | 26,050 | 1,976 |
| Holding Company and other operations: | | | |

| | | | |
|---|---|---|---|
| Metals | 667,118 | 569,836 | 582,105 |
| Real Estate | 105,825 | 81,596 | 49,166 |
| Home Fashion | 1,034,216 | 462,115 | — |
| Holding Company | 25,822 | 17,142 | 4,741 |
| Interest expense | 85,458 | 72,606 | 30,786 |
| | 1,918,439 | 1,203,295 | 666,798 |
| Total expenses | 1,998,174 | 1,229,345 | 668,774 |
| Income from continuing operations before income taxes and non-controlling interests in (income) loss of consolidated entities | 1,005,806 | 295,360 | 183,672 |
| Income tax benefit (expense) | 689 | (11,178) | 18,868 |
| Non-controlling interests in (income) loss of consolidated entities: | | | |
| Investment Management | (763,137) | (241,361) | (48,649) |
| Holding Company and other operations | 65,827 | 9,466 | — |
| | (697,310) | (231,895) | (48,649) |
| Income from continuing operations | 309,185 | 52,287 | 153,891 |
| Discontinued Operations: | | | |
| Income from discontinued operations, net of income taxes | 175,262 | 3,396 | 33,099 |
| Non-controlling interests in (income) loss of consolidated entities | (53,165) | 4,356 | 2,074 |
| Gain on disposition of property | 676,444 | 21,849 | 75,197 |
| Income from discontinued operations, net of income taxes | 798,541 | 29,601 | 110,370 |
| Net Earnings | $1,107,726 | $ 81,888 | $ 264,261 |
| Net earnings (loss) attributable to: | | | |
| Limited partners | $ 506,925 | $ (20,726) | $ 130,850 |
| General partner | 600,801 | 102,614 | 133,411 |
| | $1,107,726 | $ 81,888 | $ 264,261 |

*See notes to supplemental consolidated financial statements.*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED STATEMENTS OF OPERATIONS – (continued)**
**Years Ended December 31, 2006, 2005 and 2004**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | (In 000's Except Per Unit Data) | | |
| Net earnings per limited partnership unit: | | | |
| Basic earnings: | | | |
| Income (loss) from continuing operations | $ 0.01 | $ (0.91) | $ 0.49 |
| Income from discontinued operations | 8.21 | 0.54 | 2.35 |
| Basic earnings (loss) per LP unit | $ 8.22 | $ (0.37) | $ 2.84 |
| Weighted average limited partnership units outstanding | 61,857 | 54,085 | 46,098 |
| Diluted earnings: | | | |
| Income (loss) from continuing operations | $ 0.01 | $ (0.91) | $ 0.49 |
| Income from discontinued operations | 8.21 | 0.54 | 2.35 |
| Diluted earnings (loss) per LP unit | $ 8.22 | $ (0.37) | $ 2.84 |
| Weighted average limited partnership units and equivalent partnership units outstanding: | 61,857 | 54,085 | 46,098 |

*See notes to supplemental consolidated financial statements.*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' EQUITY AND COMPREHENSIVE INCOME**

**Years Ended December 31, 2006, 2005, and 2004**
**(In 000's)**

| | General Partner's Equity | Limited Partners' Equity | Held in Treasury | | Total Partners' Equity |
|---|---|---|---|---|---|
| | | Depositary Units | Amounts | Units | |
| **Balance, December 31, 2003** | $ 330,048 | $1,181,078 | $(11,921) | 1,137 | $1,499,205 |
| Comprehensive income: | | | | | |
| Net earnings | 133,411 | 130,850 | — | — | 264,261 |
| Reclassification of unrealized gains on marketable securities sold | (190) | (9,378) | — | — | (9,568) |
| Net unrealized gains on securities available for sale | 1 | 32 | — | — | 33 |
| Other comprehensive income | 649 | — | — | — | 649 |
| Comprehensive income | 133,871 | 121,504 | — | — | 255,375 |
| Capital distribution from American Casino | (17,916) | — | — | — | (17,916) |
| Capital contribution to PSC Metals | 60,780 | — | — | — | 60,780 |
| Capital contribution to American Casino | 22,800 | — | — | — | 22,800 |
| Capital contribution to Investment Management | 990 | — | — | — | 990 |
| Arizona Charlies acquisition | (125,900) | — | — | — | (125,900) |
| Change in deferred tax asset related to acquisition of Arizona Charlies | 2,490 | — | — | — | 2,490 |
| Net adjustment for Panaco acquisition | 91,561 | — | — | — | 91,561 |
| Distribution to general partner | (1,919) | — | — | — | (1,919) |
| Other | (19) | (957) | — | — | (976) |
| **Balance, December 31, 2004** | 496,786 | 1,301,625 | (11,921) | 1,137 | 1,786,490 |
| Comprehensive income: | | | | | |
| Net earnings (loss) | 102,614 | (20,726) | — | — | 81,888 |
| Net unrealized losses on securities available for sale | (83) | (4,114) | — | — | (4,197) |
| Other comprehensive income | 168 | (75) | — | — | 93 |
| Comprehensive income | 102,699 | (24,915) | — | — | 77,784 |
| General partner contribution | 9,279 | — | — | — | 9,279 |
| AREP Oil & Gas acquisition | (616,740) | 444,998 | — | — | (171,742) |
| GBH/Atlantic Coast acquisition | 46,249 | 12,000 | — | — | 58,249 |
| Change in reporting entity and other | (803) | 3,253 | — | — | 2,450 |
| CEO LP Unit Options | 10 | 482 | — | — | 492 |
| Return of capital to GB Holdings, Inc. | (2,598) | — | — | — | (2,598) |
| Partnership distributions | (251) | (12,371) | — | — | (12,622) |
| PSC Metals dividend distribution | (9,557) | — | — | — | (9,557) |
| Equity in ImClone capital transactions | 4 | 208 | — | — | 212 |
| **Balance, December 31, 2005** | 25,078 | 1,725,280 | (11,921) | 1,137 | 1,738,437 |
| Comprehensive income: | | | | | |
| Net earnings | 600,801 | 506,925 | — | — | 1,107,726 |
| Net unrealized gains on securities available for sale | 3,423 | 29,093 | — | — | 32,516 |
| Other comprehensive income | 639 | 147 | — | — | 786 |
| Comprehensive income | 604,863 | 536,165 | — | — | 1,141,028 |
| CEO LP Unit Options | 124 | 6,124 | — | — | 6,248 |
| Atlantic Coast bond conversion | 44 | 2,167 | — | — | 2,211 |
| Partnership distributions | (502) | (24,743) | — | — | (25,245) |
| PSC Metals dividend distribution | (33,460) | — | — | — | (33,460) |
| Equity in ImClone capital transactions | 66 | 3,177 | — | — | 3,243 |
| **Balance, December 31, 2006** | $ 596,213 | $2,248,170 | $(11,921) | 1,137 | $2,832,462 |

*Accumulated Other Comprehensive Income (Loss) at December 31, 2006, 2005, and 2004 was $25.4 million, $(4.5) million, and $(0.1) million, respectively.*

*See notes to supplemental consolidated financial statements.*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2006, 2005 and 2004**

| Years Ended December 31, | | |
|---|---|---|
| 2006 | 2005 | 2004 |
| | (In $000s) | |

| | | | |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net Earnings (Loss): | | | |
| Investment Management | $ 259,668 | $ 84,575 | $ 11,394 |
| Holding Company and other operations | 49,517 | (32,288) | 142,497 |
| Income from discontinued operations | 798,541 | 29,601 | 110,370 |
| Net earnings | $ 1,107,726 | $ 81,888 | $ 264,261 |
| Income from continuing operations: | | | |
| Investment Management | $ 259,668 | $ 84,575 | $ 11,394 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | | |
| Income attributable to non-controlling interests in consolidated affiliated partnerships | 763,137 | 241,361 | 48,649 |
| Deferred taxes | 1,670 | 808 | 27 |
| Investment gains | (963,328) | (292,487) | (59,254) |
| Purchases of securities | (4,267,933) | (3,186,738) | (487,049) |
| Proceeds from sales of securities | 5,154,820 | 1,252,706 | 178,502 |
| Purchases to cover securities sold, not yet purchased | (764,723) | (127,324) | — |
| Proceeds from securities sold, not yet purchased | 989,829 | 455,319 | 51,715 |
| Changes in operating assets and liabilities: | | | |
| Cash held at consolidated affiliated partnerships and restricted cash | (966,953) | 420,643 | (560,499) |
| Due from brokers | (494,813) | 244,209 | (588,016) |
| Receivable for securities sold | (10,099) | (9,141) | (1,817) |
| Unrealized (gains) losses on derivatives contracts | (87,768) | 8,528 | 796 |
| Accounts payable, accrued expenses and other liabilities | 17,032 | 25,825 | 1,781 |
| Other | 6,210 | (10,492) | (2,121) |
| Net cash used in continuing operations | (363,251) | (892,208) | (1,405,892) |
| Holding Company and other operations | 49,517 | (32,288) | 142,497 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | | |
| Depreciation and amortization | 46,284 | 31,330 | 8,865 |
| Investment (gains) losses | (94,493) | 21,260 | (16,540) |
| Preferred LP unit interest expense | 5,589 | 5,336 | 5,082 |
| Loss attributable to non-controlling interests in income of consolidated entities | (65,827) | (9,466) | — |
| Equity in earnings of affiliate | (12,620) | (1,375) | — |
| Stock-based compensation expense | 6,248 | 492 | — |
| Deferred income tax (expense) benefit | (5,827) | 5,076 | (20,223) |
| Impairment loss on fixed assets | 33,701 | — | — |
| Net cash provided by activities on trading securities | 70,636 | 28,560 | — |
| Other, net | (6,963) | (3,581) | (11,452) |
| Changes in operating assets and liabilities: | | | |
| Trade, notes and other receivables | 63,576 | 10,651 | (37,720) |
| Other assets | 35,033 | (10,222) | (120,978) |
| Inventory, net | 5,683 | 37,515 | (11,861) |
| Accounts payable, accrued expenses and other liabilities | (18,869) | (47,478) | 85,298 |
| Other, net | 636 | 170 | — |
| Net cash provided by continuing operations | 112,304 | 35,980 | 22,968 |

*See notes to supplemental consolidated financial statements.*





**SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS – (continued)**
**Years Ended December 31, 2006, 2005 and 2004**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | | (In $000s) | |
| Net cash used in continuing operations | (250,947) | (856,228) | (1,382,924) |
| Income from discontinued operations | 798,541 | 29,601 | 110,370 |
| Depreciation, depletion and amortization | 138,922 | 131,598 | 101,066 |
| Net gain from sales of businesses and properties | (676,444) | (21,849) | (75,197) |
| Other, net | (27,348) | 76,847 | 44,689 |
| Net cash provided by discontinued operations | 233,671 | 216,197 | 180,928 |
| **Net cash used in operating activities** | (17,276) | (640,031) | (1,201,996) |
| **Cash flows from investing activities:** | | | |

| | | | |
|---|---|---|---|
| Holding Company and other operations: | | | |
| Capital expenditures | (30,387) | (35,133) | (106,108) |
| Purchases of marketable equity and debt securities | (244,342) | (764,271) | (283,615) |
| Proceeds from sales of marketable equity and debt securities | 570,201 | 190,287 | 89,356 |
| Net proceeds from the sales and disposition of real estate | — | 8,414 | 43,590 |
| Net proceeds from the sales and disposition of fixed assets | 23,116 | 946 | 1,569 |
| Purchase of debt security of affiliates | — | — | (101,500) |
| Acquisitions of businesses, net of cash acquired | (99,206) | (293,649) | — |
| Other | 130 | 9,868 | 50,576 |
| Net cash provided by (used in) investing activities from continuing operations | 219,512 | (883,538) | (306,132) |
| Discontinued operations: | | | |
| Capital expenditures | (353,547) | (354,528) | (146,229) |
| Net proceeds from the sales and disposition of assets | 1,309,181 | 54,795 | 206,964 |
| Other | (127,996) | 4,422 | (104,538) |
| Net cash provided by (used in) investing activities from discontinued operations | 827,638 | (295,311) | (43,803) |
| **Net cash provided by (used in) investing activities** | 1,047,150 | (1,178,849) | (349,935) |
| **Cash flows from financing activities:** | | | |
| Investment Management: | | | |
| Capital contributions by and receipt of subscriptions receivable from partners | — | 20 | 970 |
| Subscriptions received in advance | 66,030 | 40,560 | 300,445 |
| Capital distributions to non-controlling interests in consolidated affiliated partnerships | (113) | (5,191) | — |
| Capital contributions by non-controlling interests in consolidated affiliated partnerships | 299,815 | 857,937 | 1,105,700 |
| Net cash provided by financing activities from continuing operations | 365,732 | 893,326 | 1,407,115 |

*See notes to supplemental consolidated financial statements.*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS – (continued)**
**Years Ended December 31, 2006, 2005 and 2004**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | | (In $000s) | |
| Holding Company and other operations: | | | |
| Partners' equity: | | | |
| Partnership distributions | (25,245) | (12,622) | — |
| General partners' contribution | — | 9,279 | — |
| Proceeds from senior notes payable | — | 480,000 | 350,409 |
| Proceeds from other borrowings | 34,261 | 5,357 | 21,363 |
| Repayments of other borrowings | (8,252) | (16,568) | (90,992) |
| Net change in due from affiliates | — | 14,557 | (24,925) |
| Capital contributions | — | — | 39,200 |
| Debt issuance costs | (7,809) | (8,952) | (16,586) |
| Dividend payment from PSC Metals | (33,460) | (9,557) | — |
| Other | — | 4,490 | — |
| Net cash (used in) provided by financing activities from continuing operations | (40,505) | 465,984 | 278,469 |
| Net cash provided by financing activities from continuing operations | 325,227 | 1,359,310 | 1,685,584 |
| Net cash provided by financing activities from discontinued operations | 14,803 | 218,886 | 143,319 |
| **Net cash provided by financing activities** | 340,030 | 1,578,196 | 1,828,903 |
| Net increase (decrease) in cash and cash equivalents* | 1,369,904 | (240,684) | 276,972 |
| Net change in cash of assets held for sale | 147,508 | (105,587) | 24,222 |
| Cash and cash equivalents, beginning of period | 367,065 | 713,336 | 412,142 |
| Cash and cash equivalents, end of period | $1,884,477 | $ 367,065 | $ 713,336 |
| **Cash balances per balance sheet:** | | | |
| Investment Management | $ 4,822 | $ 2,341 | $ 1,223 |

| | | | |
|---|---|---|---|
| Holding Company and other operations | 1,879,655 | 364,724 | 712,113 |
| | $1,884,477 | $ 367,065 | $ 713,336 |
| **** Net increase (decrease) in cash and cash equivalents consists of the following:*** | | | |
| *Investment Management* | $ 2,481 | $ 1,118 | $ 1,223 |
| *Holding Company and other operations* | 291,311 | (381,574) | (4,695) |
| *Discontinued operations* | 1,076,112 | 139,772 | 280,444 |
| | $1,369,904 | $ (240,684) | $ 276,972 |
| Supplemental information | | | |
| Cash payments for interest, net of amounts capitalized | $ 111,529 | $ 78,015 | $ 60,865 |
| Cash payments for income taxes, net of refunds | $ 16,924 | $ 13,001 | $ 2,912 |
| Conversion of bonds in connection with acquisition of WPI | $ — | $ 205,850 | $ — |
| Net realized gains (losses) on securities available for sale | $ 29,684 | $ (4,197) | $ 33 |
| LP unit issuance | $ — | $ 456,998 | $ — |
| Change in tax asset related to acquisitions | $ — | $ 7,329 | $ 2,490 |
| Debt conversion relating to Atlantic Coast | $ 2,211 | $ 29,500 | $ — |
| Equity received in consideration for sale of oil and gas operations | $ 231,156 | $ — | $ — |
| Reorganization exit costs paid | $ — | $ — | $ 2,556 |
| Non-cash capital contributions from parent | $ — | $ — | $ 21,580 |
| Redemption payable to non-controlling interests in consolidated affiliated partnerships | $ 23,830 | $ — | $ — |

*See notes to supplemental consolidated financial statements.*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2006, 2005 and 2004**

**1. Description of Business and Basis of Presentation**

***General***

Icahn Enterprises L.P. (“Icahn Enterprises” or the “Company”), which was formerly known as American Real Estate Partners, L.P., is a master limited partnership formed in Delaware on February 17, 1987. We changed our name effective September 17, 2007. We are a diversified holding company owning subsidiaries currently engaged in the following continuing operating businesses: Investment Management, Metals, Real Estate and Home Fashion. Further information regarding our continuing reportable segments is contained in Note 4, “Operating Units,” and Note 17, “Segment Reporting.” We also operate discontinued operations as further discussed below and in Note 5, “Discontinued Operations and Assets Held for Sale.”

We own a 99% limited partner interest in Icahn Enterprises Holdings L.P. (“IEH”), which was formerly known as American Real Estate Holdings Limited Partnership. Substantially all of our assets and liabilities are owned through IEH and substantially all of our operations are conducted through IEH and its subsidiaries. Icahn Enterprises G.P. Inc. (“IEGP”), which was formerly known as American Property Investors, Inc., owns a 1% general partner interest in both us and IEH, representing an aggregate 1.99% general partner interest in us and IEH. IEGP is owned and controlled by Mr. Carl C. Icahn.

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

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

As noted below, as a result of the acquisition on August 8, 2007, as of September 30, 2007 affiliates of Mr. Icahn owned 10,304,013 of our preferred units and 64,288,061 of our depositary units, which represented approximately 86.5% and 91.2% of our outstanding preferred units and depositary units, respectively.

***Change in Reporting Entity***

As discussed in further detail below, on November 5, 2007, we acquired, through a subsidiary, all of the issued and

outstanding capital stock of PSC Metals, Inc. (“PSC Metals”). PSC Metals is considered a company under common control. Accordingly, the accompanying supplemental consolidated financial statements and footnotes include the assets and operations of PSC Metals.

As discussed in further detail below, on August 8, 2007, we acquired the general partnership interests in the General Partners (as defined below) and Icahn Capital Management L.P. (“New Icahn Management”). Our historical financial statements contained herein have been adjusted to reflect this acquisition.

In accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), assets transferred between entities under common control are accounted for at historical cost similar to a pooling of interests, and the financial statements of previously separate companies for periods prior to the acquisition are retrospectively adjusted on a consolidated basis.

As a result of the restatements arising from the acquisitions on November 5, 2007 and August 8, 2007, our financial statements now include additional entities as described below. The accounting policies, which include our Investment Management and Metals segments, are set out in Note 2, “Summary of Significant Accounting Policies.”





**1. Description of Business and Basis of Presentation – (continued)**

***Basis of Presentation***

The supplemental consolidated financial statements include the accounts of Icahn Enterprises and its wholly and majority owned subsidiaries in which control can be exercised, in addition to those entities in which Icahn Enterprises has a substantive controlling, general partner interest or in which it is the primary beneficiary of a variable interest entity in accordance with FIN 46R, as described below. Icahn Enterprises is considered to have control if it has a direct or indirect ability to make decisions about an entity’s activities through voting or similar rights. All material intercompany accounts and transactions have been eliminated in consolidation.

As further described in Note 2, the Investment Funds and the Offshore Fund (as each term is defined herein) are consolidated into our financial statements even though we only have a minority interest in the equity and income of these funds. The majority ownership interests in these funds, which represent the portion of the consolidated net assets and net income attributable to the limited partners and shareholders in the consolidated Private Funds (as defined below) for the periods presented, are reflected as non-controlling interests in income of consolidated entities — Investment Management in the accompanying financial statements.

***Change in Presentation***

As a result of the acquisition of the Partnership Interests (as defined below) on August 8, 2007 and the consolidation of the affiliated partnership entities, as described in Note 2, “Summary of Significant Accounting Policies,” we have changed the presentation of our consolidated balance sheets to an unclassified format in the accompanying financial statements as of December 31, 2006 and 2005. Accordingly, certain amounts reflected in our classified balance sheets in our Annual Report on Form 10-K for the year ended December 31, 2006 (“2006 Annual Report on Form 10-K”) filed with the Securities and Exchange Commission (the “SEC”) on March 6, 2007 have been reclassified to conform to the unclassified balance sheet presentation.

We have also changed the presentation of our consolidated statements of operations. The reclassifications to the consolidated statements of operations included in our 2006 Annual Report on Form 10-K filed with the SEC on March 6, 2007 are as follows:

1. The grouping of revenues and expenses to arrive at “operating income” and certain categories of “other income and expense” has been discontinued.
2. Interest and other income, net gain from investment activities and other income, net are now classified as revenues.
3. Interest expense is included in total expenses.

***Acquisition of PSC Metals***

On November 5, 2007, we acquired, through a subsidiary, all of the issued and outstanding capital stock of PSC Metals from Philip Services Corporation (“Philip”). PSC Metals is engaged in transporting, recycling and processing metals. The consideration for the transaction was $335 million in cash.

***Acquisition of Partnership Interests***

On August 8, 2007, we acquired the general partnership interests in the General Partners and New Icahn Management for an initial consideration of $810 million of our depositary units. There is a potential maximum aggregate earn-out (including any catch-up) of $1.121 billion of our depositary units, which is subject to achieving total after-tax earnings from the General Partners and New Icahn Management subsequent to the acquisition, which includes both management fees and performance-based or incentive allocations paid by the Private Funds to New Icahn Management and the General Partners during the five-year period of at least

ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**1. Description of Business and Basis of Presentation – (continued)**

$3.906 billion. These entities provide investment advisory and certain management services to the Private Funds but do not provide such services to any other entities, individuals or accounts. Interests in the Private Funds are offered only to certain sophisticated and accredited investors on the basis of exemptions from the registration requirements of the federal securities laws and are not publicly available.

We entered into a Contribution and Exchange Agreement (the "Contribution Agreement"), dated as of August 8, 2007, with CCI Offshore Corp. ("CCI Offshore"), CCI Onshore Corp. ("CCI Onshore"), Icahn Management LP, a Delaware limited partnership ("Icahn Management" and, together with CCI Offshore and CCI Onshore, collectively referred to herein as the "Contributors"), and Carl C. Icahn. Pursuant to the Contribution Agreement, we acquired general partnership interests in Icahn Onshore LP (the "Onshore GP") and Icahn Offshore LP (the "Offshore GP" and, together with the Onshore GP, the "General Partners"), acting as general partners of Icahn Partners LP (the "Onshore Fund") and the Offshore Master Funds (as defined below) managed and controlled by Mr. Icahn. As referred to herein, the "Offshore Master Funds" consist of (i) Icahn Partners Master Fund LP ("Offshore Master Fund I"); (ii) Icahn Partners Master Fund II L.P. ("Offshore Master Fund II") and (iii) Icahn Partners Master Fund III L.P. ("Offshore Master Fund III"). The Onshore Fund and the Offshore Master Funds are collectively referred to herein as the "Investment Funds."

The Offshore GP also acts as general partner of certain funds formed as Cayman Islands exempted limited partnerships that invest in the Offshore Master Funds. These funds, together with other funds that also invest in the Offshore Master Funds, constitute the "Feeder Funds" and, together with the Investment Funds, are referred to herein as the "Private Funds." We also acquired the general partnership interests in New Icahn Management, a Delaware limited partnership, which is a newly formed management company that provides certain management and administrative services to the Private Funds.

***Other Acquisitions***

On May 19, 2006, our wholly owned subsidiaries, AREP Laughlin Corporation ("AREP Laughlin") and AREP Boardwalk Properties LLC, completed the purchases, respectively, of the Flamingo Laughlin Hotel and Casino, now known as the Aquarius Casino Resort (the "Aquarius"), in Laughlin, Nevada, and 7.7 acres of land that was adjacent to the former Sands Hotel and Casino ("The Sands"), in Atlantic City, New Jersey, known as the Traymore site, from affiliates of Harrah's Operating Company, Inc. ("Harrah's"). Operating results for the Aquarius are included with Icahn Enterprises' results beginning as of May 19, 2006. On November 17, 2006, we sold the Atlantic City gaming operations, including the Traymore site. As discussed below, on April 22, 2007, we entered into an agreement to sell our Nevada gaming operations.

On August 8, 2005, WestPoint International Inc. ("WPI"), our indirect majority owned subsidiary, completed the acquisition of substantially all of the assets of WestPoint Stevens Inc. ("WPS"). Operating results for WPI are included with Icahn Enterprises' results beginning as of August 8, 2005. In December 2006, WPI acquired a manufacturing facility in Bahrain for an aggregate cash consideration of $98.6 million and a seller note of $10.6 million. The purchase price is subject to working capital adjustments. As discussed below, on October 18, 2007, WPI entered into an agreement to sell the inventory at substantially all of its 30 retail outlet stores.

***Discontinued Operations***

As discussed further below, on October 18, 2007, within our Home Fashion segment, WPI, our indirect majority owned subsidiary, entered into an agreement to sell the inventory at substantially all of its 30 retail outlet stores. These operations met the criteria for discontinued operations during the third quarter of fiscal 2007. Therefore, the portion of the business related to the stores' retail operations has been classified for all years presented as discontinued operations.



ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**1. Description of Business and Basis of Presentation – (continued)**

On April 22, 2007, within our former Gaming segment, American Entertainment Properties Corp ("AEP"), our wholly owned indirect subsidiary, entered into an agreement to sell all of the issued and outstanding membership interests of American Casino and Entertainment Properties LLC ("ACEP"), which comprises our remaining gaming operations.

On November 21, 2006, within our former Oil and Gas segment, our indirect wholly owned subsidiary, AREP O & G Holdings LLC, consummated the sale of all of the issued and outstanding membership interests of NEG Oil & Gas LLC ("NEG Oil & Gas") to SandRidge Energy, Inc. ("SandRidge").

On November 17, 2006, within our former Gaming segment, our indirect majority owned subsidiary, Atlantic Coast Entertainment Holdings, Inc. ("Atlantic Coast"), completed the sale to Pinnacle Entertainment, Inc. ("Pinnacle") of the outstanding membership interests in ACE Gaming LLC ("ACE"), the owner of The Sands, and 100% of the equity interests in certain subsidiaries of IEH which own parcels of real estate adjacent to The Sands, including the Traymore site.

Certain of our real estate properties are classified as discontinued operations. The properties classified as discontinued operations have changed during the fiscal year ended December 31, 2006, or fiscal 2006, and, accordingly, certain amounts in the accompanying financial statements for the fiscal year ended December 31, 2005, or fiscal 2005, and the fiscal year ended December 31, 2004, or fiscal 2004, have been reclassified to conform to the current classification of properties. In addition, during the nine months ended September 30, 2007, within our Real Estate segment, five properties of our Real Estate segment were reclassified to held for sale as they were subject to a contract or letter of intent. The operations of these properties were classified as discontinued operations for all years presented.

The financial position and results of these operations are presented as assets and liabilities of discontinued operations held for sale in the supplemental consolidated balance sheets and discontinued operations in the supplemental consolidated statements of operations.

***Filing Status of Subsidiaries***

National Energy Group, Inc. ("NEGI"), and Atlantic Coast are reporting companies under the Securities Exchange Act of 1934, as amended (the "34 Act"). In addition, ACEP voluntarily files annual, quarterly and current reports under the '34 Act. See Note 20, "Subsequent Events," for additional information.

**2. Summary of Significant Accounting Policies**

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

***Principles of Consolidation***

**a. General**

The supplemental consolidated financial statements include the accounts of Icahn Enterprises and its wholly and majority owned subsidiaries in which control can be exercised, in addition to those entities in which Icahn Enterprises has a substantive controlling, general partner interest or in which it is the primary beneficiary of a variable interest entity. We are considered to have control if we have a direct or indirect ability to make decisions about an entity's activities through voting or similar rights. We use the guidance set forth in AICPA Statement of Position No.78-9, *Accounting for Investments in Real Estate Ventures* ("SOP 78-9"), Emerging Issues Task Force ("EITF") Issue No. 04-05, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (*"EITF No. 04-05"), FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* ("FIN 46R"), and in SFAS No. 94, *Consolidation of All*





**2. Summary of Significant Accounting Policies – (continued)**

*Majority-Owned Subsidiaries — An Amendment of ARB No. 51, with Related Amendments of APB Opinion No. 18, and ARB No. 43 Chapter 12* ("SFAS No. 94"), with respect to our investments in partnerships and limited liability companies. All intercompany balances and transactions are eliminated.

In accordance with U.S. GAAP, assets and liabilities transferred between entities under common control are accounted for at historical cost in a manner similar to a pooling of interests, and the financial statements of previously separate companies for periods prior to their acquisition are retrospectively adjusted on a combined basis.

**b. Investment Management**

The accompanying financial statements include the consolidated financial statements of the Investment Management and GP Entities and certain consolidated Private Funds during the periods presented. As referred to herein, the term "Investment Management and GP Entities" includes either Icahn Management (for the period prior to the acquisition on August 8, 2007) or New Icahn Management (for the period subsequent to the acquisition on August 8, 2007) and, in either case, the General Partners. The Investment Management and GP Entities consolidate those entities in which (i) they have an investment of more than 50% and have control over significant operating, financial and investing decisions of the entity pursuant to SFAS No. 94, (ii) they have a substantive controlling, general partner interest pursuant to EITF No. 04-05 or (iii) they are the primary beneficiary of a variable interest entity (a "VIE") pursuant to FIN 46R. With respect to the consolidated Private Funds, the limited partners and shareholders

have no substantive rights to impact ongoing governance and operating activities.

Icahn Management (and, subsequent to the acquisition of the Partnership Interests on August 8, 2007, New Icahn Management), the Onshore GP and the Offshore GP are consolidated into Icahn Enterprises pursuant to SFAS No. 94 as Icahn Enterprises owns greater than 50% of the partnership interests in these entities. Icahn Enterprises has a substantive controlling, general partnership interest in these entities.

The Onshore Fund is consolidated into the Onshore GP pursuant to EITF 04-05, which defines the criteria for determining whether a general partner controls a limited partnership when the limited partners have certain rights, such as "kick-out" rights. According to EITF 04-05, consolidation of a limited partnership by the general partner is required when these rights do not exist.

Icahn Fund Ltd. (the "Offshore Fund") and, from May 1, 2006 through October 1, 2006, Icahn Sterling Fund Ltd. (the "Sterling Fund") are consolidated into the Offshore GP, pursuant to FIN 46R. On October 1, 2006, the Sterling Fund's assets were contributed to the Offshore Fund. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE must be consolidated only by its primary beneficiary, which is defined as the party who, along with its affiliates and agents, will absorb a majority of the VIE's expected losses or receive a majority of the expected residual returns as a result of holding variable interests.

Although the Private Funds are not investment companies within the meaning of the 1940 Act, each of the consolidated Private Funds is, for U.S. GAAP purposes, an investment company under the AICPA Audit and Accounting Guide — Investment Companies (the "AICPA Guide"). The Investment Management and GP Entities have retained the specialized accounting of these funds in accordance with EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation.* Offshore Master Fund I, managed by the Offshore GP, is structured as a master-feeder arrangement, whereby the Offshore Fund makes its investment in Offshore Master Fund I. In instances where the Investment Management and GP Entities, through their direct equity interest and consolidated Feeder Funds, own all of the outstanding equity shares of an affiliated master fund, the Investment Management and GP Entities consolidate such master fund. Pursuant to the AICPA Guide, the consolidated Private Funds' investments are reflected in the supplemental consolidated





**2. Summary of Significant Accounting Policies – (continued)**

financial statements at their estimated fair values with changes in unrealized gains and losses included as a component of net earnings. Furthermore, pursuant to their specialized accounting, the Private Funds are not subject to the consolidation provisions of FIN 46R with respect to their investments.

The management fees earned by Icahn Management (and by New Icahn Management subsequent to the acquisition on August 8, 2007) from consolidated entities and the incentive allocations earned by the Onshore GP and the Offshore GP from the Onshore Fund and Offshore Master Fund, respectively, are eliminated in consolidation; however, the Investment Management and GP Entities' allocated share of the net income from the Private Funds includes the amount of these eliminated fees. Accordingly, the consolidation of the Private Funds has no material net effect on the Investment Management and GP Entities' earnings from the Private Funds.

***Retrospective Application of Change in Accounting for Investment in ImClone Systems Incorporated***

In the fourth quarter of fiscal 2006 we changed our method of accounting for our investment in ImClone Systems Incorporated, ("ImClone") to the equity method of accounting. Previously, we accounted for our investment in ImClone as an available-for-sale security. In accordance with SFAS No. 115 (as defined below) available for sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity as "Other Comprehensive Income." We record our proportionate equity in ImClone's earnings and capital transactions on a one calendar quarter time lag.

From the first quarter of fiscal 2005 through the third quarter of fiscal 2006, Icahn Enterprises and certain other affiliates of Mr. Icahn purchased shares of common stock of ImClone. As of September 30, 2006, the total shares of ImClone held by Icahn Enterprises as a percentage of ImClone's total outstanding shares were 5.4%. Also, in October 2006, Mr. Icahn was appointed Chairman of the board of directors of ImClone and certain other changes to ImClone's board of directors took place, which resulted in Mr. Icahn having the ability to exercise significant influence over the operating and financial policies of ImClone.

In assessing the applicability of Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* ("APB 18"), we have determined that, because of the ability of Mr. Icahn to exercise significant influence over ImClone's operating and financial policies, we were required to adopt the equity method of accounting for our investment in ImClone, and accordingly, the fiscal 2005 financial statements have been adjusted to apply the new method retrospectively. See Note 7, "Investment and Related Matters," for information regarding the effect of this change on net earnings and total partners' equity.

As further described below, we adopted SFAS No. 159 as of January 1, 2007 and elected to apply the fair value option to our

investment in ImClone.

***Use of Estimates in Preparation of Financial Statements***

The preparation of the supplemental consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. The more significant estimates include (1) the valuation allowances of accounts receivable and inventory, (2) the valuation of long-lived assets, mortgages and notes receivable, (3) costs to complete for land, house and condominium developments, (4) gaming-related liability and promotional programs, (5) deferred tax assets, (6) oil and gas reserve estimates, (7) asset retirement obligations, (8) environmental liabilities and (9) fair value of derivatives. Actual results may differ from the estimates and assumptions used in preparing the supplemental consolidated financial statements.

***Cash and Cash Equivalents***

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





**2. Summary of Significant Accounting Policies – (continued)**

***Cash Held at Consolidated Affiliated Partnerships and Restricted Cash***

Cash held at consolidated affiliated partnerships and restricted cash consists of (i) cash and cash equivalents held by the Onshore Fund and Offshore Master Fund I that, although not legally restricted, is not available to fund the general liquidity needs of the Investment Management and GP Entities or Icahn Enterprises and (ii) restricted cash relating to derivatives held on deposit.

***Investments and Related Transactions — Investment Management***

**Investment Transactions and Related Investment Income.** Investment transactions of the Private Funds are recorded on a trade date basis. Realized gains or losses on sales of investments are based on the first-in, first-out or the specific identification methods. Realized and unrealized gains or losses on investments are recorded in the supplemental consolidated statements of operations. Interest income and expenses are recorded on an accrual basis and dividends are recorded on the ex-dividend date. Premiums and discounts on fixed income securities are amortized using the effective yield method.

**Valuation of Investments.** Securities of the Private Funds that are listed on a securities exchange are valued at their last sales price on the primary securities exchange on which such securities are traded on such date. Securities that are not listed on any exchange but are traded over-the-counter are valued at the mean between the last "bid" and "ask" price for such security on such date. Securities and other instruments for which market quotes are not readily available are valued at fair value as determined in good faith by the applicable general partner.

**Foreign Currency Transactions.** The books and records of the Private Funds are maintained in U.S. dollars. Assets and liabilities denominated in currencies other than U.S. dollars are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Transactions during the period denominated in currencies other than U.S. dollars are translated at the rate of exchange applicable on the date of the transaction. Foreign currency translation gains and losses are recorded in the supplemental consolidated statements of operations. The Private Funds do not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in the market prices of securities. Such fluctuations are included in the net realized gains (losses) from securities transactions and the net unrealized gains (losses) on securities positions.

**Fair Values of Financial Instruments.** The fair values of the Private Funds' assets and liabilities that qualify as financial instruments under SFAS No. 107, *Disclosures About Fair Value of Financial Instruments,* approximate the carrying amounts presented in the supplemental consolidated balance sheets.

**Securities Sold, Not Yet Purchased.** The Private Funds may sell an investment they do not own in anticipation of a decline in the fair value of that investment. When the Private Funds sell an investment short, they must borrow the investment sold short and deliver it to the broker-dealer through which they made the short sale. A gain, limited to the price at which the Private Funds sold the investment short, or a loss, unlimited in amount, will be recognized upon the cover of the short sale.

**Due From Brokers.** Due from brokers represents cash balances with the Private Funds' clearing brokers. A portion of the cash at brokers is related to securities sold, not yet purchased; its use is therefore restricted until the securities are purchased. Securities sold, not yet purchased are collateralized by certain of the Private Funds' investments in securities. Margin debit balances, which may exist from time to time, are collateralized by certain of the Private Funds' investments in securities.

***Investments — Holding Company and Other Operations***

Investments in equity and debt securities are classified as either trading or available-for-sale based upon whether we intend to hold the investment for the foreseeable future. Trading securities are valued at quoted market value at each balance sheet date with

the unrealized gains or losses reflected in the supplemental





**2. Summary of Significant Accounting Policies – (continued)**

consolidated statements of operations. Available-for-sale securities are carried at fair value on our balance sheet. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported as a separate component of partners' equity and when sold are reclassified out of partners' equity to the supplemental consolidated statements of operations. For purposes of determining gains and losses, the cost of securities is based on specific identification.

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

***Derivatives***

From time to time, our subsidiaries enter into derivative contracts, including (a) commodity price collar agreements entered into by our former Oil and Gas segment to reduce our exposure to price risk in the spot market for natural gas and oil (prior to the sale of our Oil and Gas segment to SandRidge in November 2006), (b) commodity futures contracts, forward purchase commodity contracts and option contracts entered into by our Home Fashion segment primarily to manage our exposure to cotton commodity price risk and (c) purchased and written option contracts, swap contracts, futures contracts and forward contracts entered into by the Private Funds. We follow SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which was amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These pronouncements established accounting and reporting standards for derivative instruments and for hedging activities, which generally require recognition of all derivatives as either assets or liabilities in the balance sheet at their fair value. The accounting for changes in fair value depends on the intended use of the derivative and its resulting designation. Through December 31, 2006, we did not use hedge accounting and accordingly, all unrealized gains and losses are reflected in our supplemental consolidated statements of operations.

***Trade, Notes and Other Receivables***

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

***Inventories, Net***

**Metals Inventories.** Inventories at our Metals segment are stated at the lower of cost or market. Cost is determined using the average cost method. The production and accounting process utilized by the Metals segment to record recycled metals inventory quantities relies on significant estimates. The Metals segment relies upon perpetual inventory records that utilize estimated recoveries and yields that are based upon historical trends and periodic tests for certain unprocessed metal commodities. Over time, these estimates are reasonably good indicators of what is ultimately produced; however, actual recoveries and yields can vary depending on product quality, moisture content and source of the unprocessed metal. To assist in validating the reasonableness of the estimates, the Metals segment performs periodic physical inventories. Physical inventories may detect significant variations in volume, but because of variations in product density and production processes utilized to manufacture the product, physical inventories will not generally detect smaller variations. To help mitigate this risk, the Metals segment adjusts its physical inventories when the volume of a commodity is low and a physical inventory can more accurately predict the remaining volume.





**2. Summary of Significant Accounting Policies – (continued)**

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

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Ferrous | $ 30,360 | $ 33,963 |
| Non-ferrous | 7,871 | 3,005 |
| Secondary | 20,207 | 17,926 |
| | $ 58,438 | $ 54,894 |

**Home Fashion Inventories.** Inventories at our Home Fashion segment are stated at the lower of cost (first-in, first-out method) or market. The cost of manufactured goods includes material, labor and factory overhead. We maintain reserves for estimated excess, slow moving and obsolete inventory as well as inventory whose carrying value is in excess of net realizable value.

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

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Raw materials and supplies | $ 32,059 | $ 33,083 |
| Goods in process | 83,592 | 100,337 |
| Finished goods | 108,832 | 90,205 |
| | $ 224,483 | $ 223,625 |

**Total Inventories (in $000s)**

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Metals segment | $ 58,438 | $ 54,894 |
| Home Fashion segment | 224,483 | 223,625 |
| | $ 282,921 | $ 278,519 |

***Property, Plant and Equipment***

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

Buildings, furniture and equipment are stated at cost less accumulated depreciation unless declines in the values of the fixed assets are considered other than temporary, at which time the property is written down to net realizable value. Depreciation is principally computed using the straight-line method over the estimated useful lives of the particular property or equipment, as follows: buildings and improvements, four to 40 years; furniture, fixtures and equipment, one to 25 years. Leasehold improvements are amortized over the life of the lease or the life of the improvement, whichever is shorter.

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

Real estate properties held for use or investment, other than those accounted for under the financing method, are carried at cost less accumulated depreciation. Where declines in the values of the properties are





determined to be other than temporary, the cost basis of the property is written down to net realizable value. A property is classified as held for sale at the time management determines that the criteria in SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* have been met. Properties held for sale are carried at the lower of cost or net realizable value. Such properties are no longer depreciated and their results of operations are included in discontinued operations. As a result of the reclassification of certain real estate to properties held for sale during fiscal 2006, income and expenses of such properties are reclassified to discontinued operations for all prior periods. If management determines that a property classified as held for sale no longer meets the criteria in SFAS No. 144, the property is reclassified as held for use.

***Intangible Assets***

Intangible assets consist of trademarks of WPI (Note 4, “Operating Units — Home Fashion”). In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (“SFAS No. 142”), goodwill and intangible assets with indefinite lives are no longer amortized, but instead tested for impairment.

***Accounting for the Impairment of Long-Lived Assets***

We evaluate our long-lived assets in accordance with the application of SFAS No. 144. Accordingly, we evaluate the realizability of our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Inherent in the reviews of the carrying amounts of the above assets are various estimates, including the

expected usage of the asset. Assets must be tested at the lowest level for which identifiable cash flows exist. Future cash flow estimates are, by their nature, subjective and actual results may differ materially from our estimates. If our ongoing estimates of future cash flows are not met, we may have to record impairment charges in future accounting periods. Our estimates of cash flows are based on the current regulatory, social and economic climates, recent operating information and budgets of the operating properties.

***Accounting for Asset Retirement Obligations***

Effective January 1, 2003, we adopted the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations* ("SFAS No. 143"). SFAS No. 143 provides accounting requirements for costs associated with legal obligations to retire tangible, long-lived assets. Under SFAS No. 143, an asset retirement obligation is recorded at fair value in the period in which it is incurred by increasing the carrying amount for the related long-lived asset which is depreciated over its useful life. In each subsequent period, the liability is adjusted to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Our asset retirement obligations related to our oil and gas operating unit, which was sold to SandRidge in November 2006.

***Allocation of Net Profits and Losses in Consolidated Affiliated Partnerships***

Net investment income and net realized and unrealized gains and losses on investments of the Private Funds are allocated to both the respective general partner and the limited partners or shareholders of the Private Funds based on the ratio of their respective capital balances at the beginning of each allocation period to the total capital of all partners or shareholders of the Private Funds. Such allocations made to the limited partners or shareholders of the Private Funds are represented as non-controlling interests in our consolidated statements of operations. The beginning of an allocation period is defined as the beginning of each fiscal year, the date of admission of any new partner or shareholder of the Private Funds or the date of any additional subscription or redemption by a partner or shareholder of the Private Funds. Upon the allocation to partners based on their respective capital balances, generally 25% of the capital appreciation (both realized and unrealized) allocated to the Investment Funds' limited partners or lesser amounts for certain limited partners are then reallocated to the Investment Funds' General Partners. Such reallocation is referred to as the General Partners' incentive allocation. The total profits and losses allocated to the respective General Partners of the Investment





**2. Summary of Significant Accounting Policies – (continued)**

Funds are included in the net income of the consolidated Investment Management and GP Entities (as either the Onshore GP or Offshore GP act as general partner to the Investment Funds) and are allocated in a manner consistent with the manner in which capital is allocated to the partners of the Investment Management and GP Entities as further discussed below.

***Partners' Capital of the Investment Management and GP Entities***

The Investment Management and GP Entities are each organized as a limited partnership formed pursuant to the provisions of the Delaware Revised Uniform Limited Partnership Act. Limited partnership interests have been granted in the Investment Management and GP Entities to allow certain employees and individuals to participate in a share of the management fees and incentive allocations earned by the Investment Management and GP Entities. Prior to the completion of our acquisition of the Partnership Interests on August 8, 2007, all limited partnership admissions to the Investment Management and GP Entities were determined by the respective general partner entity of the Investment Management and GP Entities, each of which was principally owned by Mr. Icahn.

The Investment Management and GP Entities, individually, intend to be treated as partnerships for federal income tax purposes, and as such shall maintain a capital account for each of their partners. Each partner will be allocated an amount of the management fees and incentive allocations subject to, and as determined by, the provisions of each limited partner's respective agreements with each of the Investment Management and GP Entities. All other partnership profits and losses of each of the Investment Management and GP Entities will be allocated among the respective partners in each of the Investment Management and GP Entities pro rata in accordance with their respective capital accounts.

Income allocations to all partners in each of the Investment Management and GP Entities, except the general partner entity and any limited partnership interests held directly by Mr. Icahn are accounted for as compensation expense as more fully described in Note 13, "Compensation Arrangements." All amounts allocated to these partners' capital accounts and their respective capital contributions are included in accounts payable and accrued expenses and other liabilities on the supplemental consolidated balance sheets until those amounts are paid out in accordance with the terms of each respective partner's agreement. Payments made to the respective general partner and any limited partnership interests held by Mr. Icahn are treated as equity distributions.

***Income Taxes***

Except as described below, no provision has been made for federal, state or local income taxes on the results of operations generated by partnership activities, as such taxes are the responsibility of the partners. Provision has been made for federal, state or local income taxes on the results of operations generated by our corporate subsidiaries and these are reflected within continuing and discontinued operations. 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 carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

Icahn Management (and New Icahn Management subsequent to the acquisition on August 8, 2007) is subject to a New York City Unincorporated Business tax ("UBT"), at a statutory rate of 4% on a portion of its income. UBT is accounted for under SFAS No. 109, *Accounting for Income Taxes (*"SFAS No. 109").





**2. Summary of Significant Accounting Policies – (continued)**

Icahn Management accounts for these taxes using the asset and liability method under which 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.

***Compensation Arrangements***

In December 2004, SFAS No. 123 (Revised 2004), *Share-Based Payment* ("SFAS No. 123R") was issued. This accounting standard eliminated the ability to account for share-based compensation transactions using the intrinsic value method in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and requires instead that such transactions be accounted for using a fair-value-based method. SFAS No. 123R requires public entities to record non-cash compensation expense related to payment for employee services by an equity award, such as stock options, in their financial statements over the requisite service period. We have adopted SFAS No. 123R as of June 30, 2005.

The Investment Management and GP Entities have entered into agreements with certain of their employees whereby these employees have been granted rights to participate in a portion of the management fees and incentive allocations earned by the Investment Management and GP Entities, net of certain expenses, and subject to various vesting provisions. These rights are accounted for as liabilities in accordance with SFAS No. 123R and remeasured at fair value each reporting period until settlement. See Note 13, "Compensation Arrangements," for a further description of these arrangements.

***Oil and Natural Gas Properties***

In November 2006, we sold our oil and gas operating units to SandRidge. Therefore, as of December 31, 2006, we have no capitalized costs relating to these operations. Prior to such sale, we utilized the full cost method of accounting for our crude oil and natural gas properties. Under the full cost method, all productive and nonproductive costs incurred in connection with the acquisition, exploration and development of crude oil and natural gas reserves were capitalized and amortized on the units-of-production method based upon total proved reserves. The costs of unproven properties were excluded from the amortization calculation until the individual properties were evaluated and a determination made as to whether reserves existed. Conveyances of properties, including gains or losses on abandonment of properties, were treated as adjustments to the cost of crude oil and natural gas properties, with no gain or loss recognized. Under the full cost method, the net book value of oil and natural gas properties, less related deferred income taxes, may not exceed the estimated after-tax future net revenues from proved oil and natural gas properties, discounted at 10% per year (the ceiling limitation). In arriving at estimated future net revenues, estimated lease operating expenses, development costs, abandonment costs and certain production related and ad-valorem taxes were deducted. In calculating future net revenues, prices and costs in effect at the time of the calculation were held constant indefinitely, except for changes that were fixed and determinable by existing contracts. The net book value of oil and gas properties was compared to the ceiling limitation on a quarterly basis. We did not incur a ceiling write-down in fiscal 2006, fiscal 2005 or fiscal 2004.

We had capitalized internal general and administrative costs of $1.5 million, $1.1 million and $1.0 million for the period from January 1, 2006 to November 21, 2006, fiscal 2005 and fiscal 2004, respectively, with respect to our oil and gas activities. We have not capitalized interest expense.

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

ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**2. Summary of Significant Accounting Policies – (continued)**

***Revenue and Expense Recognition***

*Investment Management* — The Investment Management and GP Entities generate income from amounts earned pursuant to contractual arrangements with the Private Funds. Such amounts typically include an annual management fee of 2.5% of the net asset value of certain Private Funds before a performance-based, or incentive allocation of 25% of capital appreciation (both realized and unrealized) earned by the Investment Funds subject to a "high water mark" (whereby the General Partners do not earn incentive allocations during a particular year even though the fund had a positive return in such year until losses in prior periods are recovered). Such amounts have been (and may in the future be) modified or waived in certain circumstances. The Investment Management and GP Entities and their affiliates may also earn income through their principal investments in the Private Funds.

At the end of each fiscal year of the Onshore Fund (or sooner upon the occurrence of withdrawals), 25% of the capital appreciation (based on realized and unrealized gains and losses), if any, that is allocated to each capital account of a fee-paying limited partner of the Onshore Fund (20% of the capital appreciation, if any, for certain limited partners) for such fiscal year is reallocated to the capital account of the Onshore GP subject to a loss carryforward provision as described in the Third Amended and Restated Limited Partnership Agreement of the Onshore Fund, dated as of January 1, 2006, as amended from time to time, and, since February 1, 2007, the Fourth Amended and Restated Limited Partnership Agreement.

At the end of each fiscal year of Offshore Master Fund I and, at certain other times, 25% of the capital appreciation (based on realized and unrealized gains and losses), if any, that is allocated to each capital account of a fee-paying limited partner of Offshore Master Fund I (20% in some cases) for such fiscal year is reallocated to the capital account of the Offshore GP subject to a loss carryforward provision as described in the limited partnership agreement of Offshore Master Fund I in effect at such time.

Prior to the acquisition on August 8, 2007, Icahn Management recognized management fee income in the period in which the related services were performed and in accordance with certain management agreements with each of (i) the Onshore Fund; (ii) the Offshore Fund and (iii) from May 1, 2006 through October 1, 2006, the Sterling Fund (collectively, the "Management Agreements").

The general partner incentive allocations earned from the Onshore Fund and Offshore Master Fund I are accrued on a quarterly basis in accordance with Method 2 of EITF Topic D-96, *Accounting for Management Fees Based on a Formula* ("EITF Topic D-96") and are allocated to the Onshore GP and the Offshore GP, respectively, at the end of the Onshore Fund's and Offshore Master Fund I's fiscal year (or sooner on redemptions). Such accruals may be reversed as a result of subsequent investment performance prior to the conclusion of the Onshore Fund's and Offshore Master Fund I's fiscal year at December 31.

The incentive allocations earned by the Onshore GP and the Offshore GP from the Onshore Fund and Offshore Master Fund I, respectively, and the management fees earned by Icahn Management from consolidated Private Funds, are eliminated in consolidation; however, the Investment Management and GP Entities' allocated share of the net income from the Private Funds includes the amount of these eliminated fees.

*Metals* — PSC Metals' primary source of revenue is from the sale of processed ferrous and non-ferrous scrap metals. PSC Metals also generates revenues from the brokering of scrap metals or from services performed. Revenues from processed ferrous and non-ferrous scrap metal sales are recognized when title passes to the customer. Revenues relating to brokered sales are recognized upon receipt of the materials by the customer. Revenues from services are recognized as the service is performed. Sales adjustments related to price and weight differences and allowances for uncollectible receivables are accrued against revenues as incurred.



ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**2. Summary of Significant Accounting Policies – (continued)**

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

recorded.

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

*Gaming* — As previously discussed, in November 2006, we divested our Atlantic City gaming properties. In addition, on April 22, 2007, we entered into an agreement to sell all of the issued and outstanding membership interests of ACEP, which comprise all of our remaining gaming properties. As discussed above, the financial position and results of operations of our gaming operations are presented as discontinued operations in our supplemental consolidated financial statements.

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

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

*Oil and Gas* — As previously discussed, in November 2006, we divested our Oil and Gas business. Prior to that time, revenues from the natural gas and oil produced were recognized upon the passage of title, net of royalties. We accounted for natural gas production imbalances using the sales method, whereby we recognized revenue on all natural gas sold to our customers notwithstanding the fact its ownership may have been less than 100% of the natural gas sold. Liabilities were recorded by us for imbalances greater than our proportionate share of remaining natural gas reserves. We had $1.1 million in gas balancing liabilities as of December 31, 2005 and no gas balancing liabilities as of December 31, 2006.

Revenues from the sale of oil and natural gas are shown net of the impact of realized and unrealized derivative losses. The financial position and results of operations of our Oil and Gas business are presented as discontinued operations in our supplemental consolidated financial statements.

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

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





**2. Summary of Significant Accounting Policies – (continued)**

***Net Earnings Per Limited Partnership Unit***

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

Diluted earnings per LP unit uses net earnings attributable to limited partner interests, as adjusted after July 1, 2003, for the preferred pay-in-kind distributions, as a result of our adoption of SFAS No. 150. The preferred units are considered to be equivalent units. For the years ended December 31, 2006, 2005 and 2004, 2,403,583, 3,538,196 and 5,444,028 equivalent units respectively, were excluded from the calculation of diluted income per LP unit, as the effect of including them would have been anti-dilutive.

For accounting purposes, NEGI's earnings prior to its acquisition in October 2003, earnings from Arizona Charlie's Decatur and Arizona Charlie's Boulder prior to their acquisition in May 2004, TransTexas Gas Corporation's ("Tran Texas") earnings prior to its acquisition in April 2005, earnings from NEG Holding LLC ("NEG Holdings") (excluding earnings from NEG Holdings allocable to NEGI), Panaco, Inc. ("Panaco"), GB Holdings, Inc. ("GBH") and Atlantic Coast earnings prior to their acquisitions in June 2005, earnings from the Investment Management and GP Entities prior to the acquisition of the Partnership Interests in August 2007, and earnings from PSC Metals prior to the acquisition on November 5, 2007 have been allocated to IEGP, our general partner, for accounting purposes and therefore are excluded from the computation of basic and diluted earnings per limited partnership unit.

As discussed below, in the third quarter of fiscal 2007 we elected to change our method of allocating gains and losses related to dispositions of common control entities accounted for on an as-if pooling basis when acquired. This change in accounting principle affects fiscal 2006 earnings per limited partnership unit. See Note 16, "Earnings Per Limited Partnership Unit," for more information.

***General Partnership Interest of Icahn Enterprises***

The general partner's capital account generally consists of its cumulative share of our net income less cash distributions plus capital contributions. Additionally, in acquisitions of common control companies accounted for at historical cost similar to a pooling of interests, the general partner's capital account would be charged or credited in a manner similar to a distribution for the excess (or deficit) of the fair value of consideration paid over historical basis in the business acquired.

Capital Accounts, as defined under our Amended and Restated Agreement of Limited Partnership dated as of May 12, 1987, as amended from time to time (together with the partnership agreement of IEH, the "Partnership Agreement"), are maintained for our general partner and our limited partners. The capital account provisions of our Partnership Agreement incorporate principles established for U.S. federal income tax purposes and are not comparable to the equity accounts reflected under U.S. GAAP, in our supplemental consolidated financial statements. Under our Partnership Agreement, the general partner is required to make additional capital contributions to us upon the issuance of any additional depositary units in order to maintain a capital account balance equal to 1.99% of the total capital accounts of all partners.

Generally, net earnings for U.S. federal income tax purposes are allocated 1.99% and 98.01% between the general partner and the limited partners, respectively, in the same proportion as aggregate cash distributions made to the general partner and the limited partners during the period. This is generally consistent with the manner of allocating net income under our Partnership Agreement; however, it is not comparable to the allocation of net income reflected in our supplemental consolidated financial statements. Additionally, as discussed below, we elected to change the allocation of gains or losses on disposition of common control acquisitions accounted for as a pooling of interests.





**2. Summary of Significant Accounting Policies – (continued)**

Pursuant to the Partnership Agreement, in the event of our dissolution, after satisfying our liabilities, our remaining assets would be divided among our limited partners and the general partner in accordance with their respective percentage interests under the Partnership Agreement (i.e., 98.01% to the limited partners and 1.99% to the general partner). If a deficit balance still remains in the general partner's capital account after all allocations are made between the partners, the general partner would not be required to make whole any such deficit.

***Change in Accounting Principle — Method of Allocating Gains and Losses Related to Dispositions of Common Control Acquisitions***

In the third quarter of fiscal 2007, we elected to change our method of allocating gains and losses for financial reporting purposes related to dispositions of common control entities accounted for on an as-if pooling basis when acquired. Both the historical method and the new method are acceptable alternative principles under U.S. GAAP. The new method of allocating gains and losses from dispositions to third parties of common control acquisitions for financial reporting purposes would not affect the amounts distributable to the partners in accordance with their respective percentage interests under the Partnership Agreement (i.e., 98.01% to the limited partners and 1.99% to the general partner). This change in accounting principle was applied retrospectively in accordance with the provisions of SFAS No. 154, *Accounting Changes and Error Corrections — A Replacement of APB Opinion No. 20 and FASB Statement No. 3* ("SFAS No. 154").

When we acquire an entity under common control, we will continue to reflect the acquired entity in a manner similar to a pooling of interests, as we have in the past. We will also continue to charge or credit the general partner's capital account with the difference between the consideration we pay for the entity and the predecessor basis prior to our acquisition.

Historically, upon later sale of the entity to a third party, the entire gain or loss was allocated between the general partner and the limited partners in accordance with their respective percentage interests under the Partnership Agreement (i.e., 98.01% to the limited partners and 1.99% to the general partner).

The newly adopted accounting principle only affects transactions involving the sale of a previously acquired common control entity. The newly adopted accounting principle allocates gain or loss for financial reporting purposes by first restoring the general partner's capital account for the cumulative charges or credits relating to prior periods recorded at the time of our acquisition and then allocating the remaining gain or loss among the general and limited partners in accordance with their respective percentage interests under the Partnership Agreement (i.e., 98.01% to the limited partners and 1.99% to the general partner).

The impact of this change in accounting principle only affects the financial statements for fiscal 2006, related to the gains on sale of our former Oil and Gas segment as well as the Atlantic City operations from our former Gaming segment which occurred in the quarter ended December 31, 2006, or the fourth quarter of fiscal 2006. The following information details the financial statement line items for fiscal 2006 that were affected by the change in accounting principle, which includes amounts from the

common control acquisition of the Partnership Interests made on August 8, 2007 as more fully described in Note 1, "Description of Business and Basis of Presentation," and Note 3, "Acquisitions." Net earnings attributable to limited partners decreased from $781.4 million to $506.9 million while net earnings attributable to the general partner increased from $326.3 million to $600.8 million. Total net earnings did not change. Basic and diluted net earnings per LP unit from discontinued operations decreased from $12.65 to $8.21, resulting in a decrease in basic and diluted earnings per LP unit from $12.66 to $8.22. Basic and diluted net earnings per LP unit from continuing operations of $0.01 did not change. In addition, partners' equity attributed to the limited partners decreased from $2.5 billion to $2.2 billion and partners' equity attributed to the general partner increased from $321.7 million to $596.2 million. Total partners' equity, which is 98.01% attributable to the limited partners pursuant to the Partnership Agreement, did not change.





**2. Summary of Significant Accounting Policies – (continued)**

***Environmental Liability***

PSC Metals accrues environmental remediation costs associated with identified sites where an assessment has indicated that cleanup costs are probable and can be reasonably estimated. Such accruals are based on currently available information, existing technology and enacted laws and regulations. The liability for environmental and closure costs is included in the supplemental consolidated balance sheet under accrued environmental costs. PSC Metals accounts for its environmental remediation costs in accordance with AICPA Statement of Position 96-1, *Environmental Remediation Liabilities.*

***Recently Issued Accounting Pronouncements***

*SFAS No. 155.* On February 16, 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Instruments — an Amendment of FASB Statements No. 133 and 140* ("SFAS No. 155"). The statement amends Statement No. 133 to permit fair value measurement for certain hybrid financial instruments that contain an embedded derivative, provides additional guidance on the applicability of SFAS No.133 and 140 to certain financial instruments and subordinated concentrations of credit risk. The new standard is effective for the first fiscal year beginning after September 15, 2006. The adoption of SFAS No. 155 as of January 1, 2007 did not have any impact on our supplemental consolidated financial statements.

*EITF 06-3.* In June 2006, the EITF issued EITF Issue 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)* ("EITF 06-3") to clarify diversity in practice on the presentation of different types of taxes in the financial statements. EITF 06-3 concluded that, for taxes within the scope of the issue, a company may adopt a policy of presenting taxes either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. If taxes are reported on a gross basis, and are significant, an entity should disclose the amounts of those taxes subject to EITF 06-3. The guidance is effective for periods beginning after December 15, 2006. We present sales tax on a net basis in our supplemental consolidated financial statements, and the adoption of EITF 06-3 did not have any impact on our supplemental consolidated financial position, results of operations or cash flows.

*FIN 48.* In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement 109* ("FIN 48"), which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the "more-likely-than-not" threshold, the largest amount of tax benefit that is greater than 50 percent likely to be recognized upon ultimate settlement with the taxing authority is recorded. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening partners' equity. We adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have a material impact on our supplemental consolidated financial statements. See Note 18, "Income Taxes," for additional information.

*SAB 108*. In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*, ("SAB 108"). SAB 108 provides guidance on how to evaluate prior period financial statement misstatements for purposes of assessing their materiality in the current period. If the prior period effect is material to the current period, then the prior period is required to be corrected. Correcting prior year financial statements would not require an amendment of prior year financial statements, but such corrections would be made the

**2. Summary of Significant Accounting Policies – (continued)**

next time the company files the prior year financial statements. Upon adoption, SAB 108 allows a one-time transitional cumulative effect adjustment to retained earnings for corrections of prior period misstatements required under this statement. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material affect on our supplemental consolidated financial statements.

*SFAS No. 157.* In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS No. 157 does not require any new fair value measurements. We adopted SFAS No. 157 as of January 1, 2007, in conjunction with the adoption of SFAS No. 159, as required. The adoption of SFAS No. 157 did not have any material impact on our supplemental consolidated financial statements.

*SFAS No. 158.* In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132).* SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. We are required to adopt SFAS No. 158 as of December 31, 2007. We are currently evaluating the effect, if any, of the adoption of SFAS No. 158 on our supplemental consolidated financial statements.

*SFAS No. 159.* In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115* ("SFAS No. 159") which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning partners' equity.

We adopted SFAS No. 159 as of January 1, 2007 and elected to apply the fair value option to our investment in ImClone. It is our policy to apply the fair value option to all of our investments that would be subject to the equity method of accounting pursuant to APB 18. In the fourth quarter of fiscal 2006, we first applied the equity method of accounting to our investment in ImClone due to changes in ImClone's board, resulting in our having the ability to exercise significant influence over ImClone. We believe that the quality of the earnings and the value of the investment that we report over time relating to our investment in ImClone are more accurately reflected by the market value methodology of SFAS No. 159 rather than the equity method of accounting. The equity method of accounting would require an appraisal of the fair values of ImClone's assets and liabilities at the dates that we acquired shares of common stock of ImClone as well as future appraisals should there be any material indications of impairment. We believe that such an appraisal would be subjective given the nature of ImClone's pharmaceutical operations.

As of the date of adoption, the carrying value of our investment in ImClone was approximately $164.3 million and the fair value of our investment was approximately $122.2 million. In accordance with the transition requirements of SFAS No. 159, we recorded a cumulative effect adjustment to beginning partners' equity for the difference between the fair value and carrying value on the date of adoption, which reduced partners' equity by approximately $42.2 million.

As a result of the adoption of SFAS No. 159, we are required to record unrealized gains or losses for the change in fair value of our investment in ImClone. During the three and nine months ended September 30, 2007, we recorded approximately $27.2 million and $66.5 million of unrealized gains, respectively, resulting





**2. Summary of Significant Accounting Policies – (continued)**

from the change in the market value of ImClone's stock which is recorded as a component of other income, net in the consolidated statements of operations.

As described below in our discussion of the impact of our early adoption of SOP 07-1, we also elected the fair value option for the investments in debt and equity securities held by our consolidated Private Funds.

*SOP 07-1.* In June 2007, Statement of Position No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide — Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ("SOP 07-1"), was issued. SOP 07-1 addresses whether the accounting principles of the Audit and Accounting Guide

for Investment Companies (the "AICPA Guide") may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 applies to reporting periods beginning on or after December 15, 2007, although early application is permitted. The Investment Management and GP Entities adopted SOP 07-1 as of January 1, 2007.

Upon the adoption of SOP 07-1, the Offshore GP lost its ability to retain specialized accounting pursuant to the AICPA Guide for either its equity method investment in the Offshore Master Funds or for its consolidation of the Offshore Fund, and the Onshore GP lost its ability to retain specialized accounting for its consolidation of the Onshore Fund. Both the Offshore GP and the Onshore GP do not meet the requirements for retention of specialized accounting under SOP 07-1, since the General Partners and their affiliates acquire interests for strategic operating purposes in the same companies in which their subsidiary investment companies invest.

However, upon losing their ability to retain specialized accounting, the Investment Management and GP Entities applied SFAS No. 115, *Accounting for Investments in Debt and Equity Securities* ("SFAS No. 115"), to their investments held by the consolidated Private Funds in debt securities and in those equity securities with readily determinable fair values, as defined by that Statement, and classified such investments as available-for-sale securities and elected the fair value option pursuant to SFAS No. 159. For those equity securities that fall outside the scope of SFAS No. 115 because they do not have readily determinable fair values as defined by that Statement, the Investment Management and GP Entities elected the fair value option pursuant to SFAS No. 159 and measured the fair value of such securities in accordance with the requirements of SFAS No. 157. For those investments in which the Investment Management and GP Entities would otherwise account for such investments under the equity method, the Investment Management and GP Entities, in accordance with their acccounting policy, elected the fair value option pursuant to SFAS No. 159 for all such investments. The election of the fair value option pursuant to SFAS No. 159 was deemed to most accurately reflect the nature of our business relating to investments.

Derivative contracts entered into by the consolidated Private Funds continue to be accounted for pursuant to SFAS No. 133. These pronouncements require recognition of all derivatives as either assets or liabilities in the balance sheet at their fair value. All changes in the fair values of derivatives held by the consolidated Private Funds are reported in earnings.

*FSP FIN 39-1.* On April 30, 2007, the FASB issued FASB Staff Position No. FIN 39-1 ("FSP FIN 39-1"), which amends FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts (FIN 39)*. FSP FIN 39-1 impacts entities that enter into master netting arrangements as part of their derivative transactions by allowing net derivative positions to be offset in the financial statements against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral or the obligation to return cash collateral under those arrangements. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, although early application is permitted. We are currently evaluating the effect, if any, of the adoption of FSP FIN 39-1 on our supplemental consolidated financial statements.





**2. Summary of Significant Accounting Policies – (continued)**

*FSP FIN 46(R)-7.* In May 2007, the staff of the FASB issued FASB Staff Position on FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* ("FSP FIN 46(R)-7"). The staff position amends FIN 46R to indicate that investments accounted for at fair value in accordance with SOP 07-1 are not subject to consolidation under FIN 46R. The adoption of FSP FIN 46(R)-7 will require the Investment Management and GP Entities to apply consolidation provisions of FIN 46R to their consolidated entities that previously fell within the scope of the AICPA Guide. The adoption of FSP FIN 46(R)-7 will not have any material impact on our supplemental consolidated financial statements.

**3. Acquisitions**

***a. Acquisition of PSC Metals***

On November 5, 2007, we acquired, through a subsidiary, all of the issued and outstanding capital stock of PSC Metals from Philip. PSC Metals is engaged in transporting, recycling and processing metals. The consideration for the transaction was $335 million in cash.

Mr. Icahn indirectly owns a 95.6% interest and we indirectly own the remaining 4.4% interest in Philip. The transaction was approved by a special committee of independent members of our board of directors. The special committee was advised by its own legal counsel and independent financial adviser with respect to the transaction. The special committee received an opinion from its financial adviser as to the fairness to us, from a financial point of view, of the consideration paid by us.

***b. Acquisition of Partnership Interests***

On August 8, 2007, we acquired the general partnership interests in the General Partners and New Icahn Management. These entities provide investment advisory and certain management services to the Private Funds but do not provide such services to any other entities, individuals or accounts. Interests in the Private Funds are offered only to certain sophisticated and accredited investors on the basis of exemptions from the registration requirements of the federal securities laws and are not publicly available.

We entered into the Contribution Agreement with the Contributors and Carl C. Icahn. Pursuant to the Contribution Agreement, we acquired general partnership interests in the General Partners, acting as general partners of the Onshore Fund and the Offshore Master Funds managed and controlled by Mr. Icahn.

The Offshore GP also acts as general partner of certain funds formed as Cayman Islands exempted limited partnerships that invest in the Offshore Master Funds. These funds, together with other funds that also invest in the Offshore Master Funds, constitute the Feeder Funds and, together with the Investment Funds, are referred to herein as the Private Funds. We also acquired the general partnership interests in New Icahn Management, a Delaware limited partnership, which is a newly formed management company that provides certain management and administrative services to the Private Funds.

The total initial consideration paid for the acquisition was $810 million of our depositary units based on the volume-weighted average price of our depositary units on the NYSE for the 20-trading-day period ending on August 7, 2007 (the day before the closing). In addition, we have agreed to make certain earn-out payments to the Contributors over a five-year period payable in additional depositary units based on our after-tax earnings from the General Partners and New Icahn Management subsequent to the acquisition, which includes both management fees and performance-based or incentive allocations paid by the Private Funds to New Icahn Management and the General Partners. There is a potential maximum aggregate earn-out (including any catch-up) of $1.121 billion of our depositary units, which is subject to achieving total after-tax earnings during the five-year period of at least $3.906 billion.

Prior to the acquisition of the Partnership Interests on August 8, 2007, CCI Offshore was the general partner of the Offshore GP, which, in turn, is the general partner of the Offshore Master Funds, each of which is a Cayman Islands exempted limited partnership. Offshore Master Fund I commenced investment operations





**3. Acquisitions – (continued)**

on November 1, 2004 and each of Offshore Master Fund II and Offshore Master Fund III commenced operations in fiscal 2007. In addition, CCI Onshore was the general partner of the Onshore GP, which, in turn, is the general partner of the Onshore Fund, which is a Delaware limited partnership that commenced investment operations on November 1, 2004.

CCI Offshore contributed to us 100% of CCI Offshore's general partnership interests in the Offshore GP (the "Offshore Partnership Interests") and CCI Onshore contributed to us 100% of CCI Onshore's general partnership interests in the Onshore GP (the "Onshore Partnership Interests"). The General Partners' capital account with respect to the Offshore Partnership Interests and the Onshore Partnership Interests at the time of our acquisition aggregated $10 million.

Immediately prior to the execution and delivery of the Contribution Agreement, Icahn Management and New Icahn Management entered into an agreement pursuant to which Icahn Management contributed substantially all of its assets and liabilities, other than certain rights in respect of deferred management fees, to New Icahn Management in exchange for 100% of the general partnership interests in New Icahn Management. Such contribution included the assignment of certain management agreements with the Private Funds. Pursuant to the Contribution Agreement, Icahn Management contributed to us 100% of Icahn Management's general partnership interests in New Icahn Management (the "New Icahn Management Partnership Interests" and, together with the Onshore Partnership Interests and the Offshore Partnership Interests, referred to herein as the "Partnership Interests").

Prior to the formation of New Icahn Management, Icahn Management provided management and administrative services to the Private Funds. New Icahn Management currently provides management and administrative services to the Private Funds.

The consolidated Private Funds and the Investment Management and GP Entities are considered entities under common control with us. Accordingly, the accompanying supplemental consolidated financial statements and footnotes include the net assets and results of operations of the consolidated Private Funds and the Investment Management and GP Entities during the period of common control, commencing November 1, 2004. See Note 2, "Summary of Significant Accounting Policies," for a discussion on principles of consolidation.

***c. Acquisition of WPI***

On August 8, 2005, we acquired 13.2 million, or 67.7%, of the 19.5 million outstanding common shares of WPI. In consideration for the shares, we paid $219.9 million in cash and received the balance in respect of a portion of the debt of WPS owned by us. Pursuant to the asset purchase agreement between WPI and WPS, rights to subscribe for an additional 10.5 million shares of common stock at a price of $8.772 per share, or the rights offering, were allocated among former creditors of WPS. Under the asset purchase agreement and the bankruptcy court order approving the sale, we would have received rights to subscribe for 2.5 million of such shares and we agreed to purchase up to an additional 8.0 million shares of common stock to the extent that any rights were not exercised by the holders of such rights. Accordingly, upon completion of the rights offering and depending upon the extent to which the other holders exercise certain subscription rights, we would beneficially own between 15.7 million and 23.7 million shares of WPI common stock representing between 52.3% and 79.0% of the 30.0 million shares that would then be outstanding.

The foregoing description assumes that the subscription rights are allocated and exercised in the manner set forth in the asset purchase agreement and the sale order. However, certain of the first lien creditors of WPS appealed portions of the bankruptcy court's ruling. In connection with that appeal, the subscription rights distributed to the second lien lenders at closing were placed in escrow. Additionally, the first lien creditors and Beal Bank, S.S.B have filed a complaint in Delaware seeking among other relief, an order to "unwind" the issuance of the preferred stock or, alternatively, directing that such stock be held in escrow. We are vigorously contesting the Delaware action and any changes to the sale order. As a result of the bankruptcy proceedings





**3. Acquisitions – (continued)**

and the Delaware proceedings, we may own less than a majority of WPI's shares of common stock and our ownership of the preferred stock may also be affected. If we were to lose control of WPI, it could adversely affect WPI's business and the value of our investment.

On December 20, 2006, we acquired (1) 1,000,000 shares of Series A-1 Preferred Stock for a purchase price of $100 per share, for an aggregate purchase price of $100.0 million, and (2) 1,000,000 shares of Series A-2 Preferred Stock for a purchase price of $100.0 per share, for an aggregate purchase price of $100.0 million. Each of the Series A-1 Preferred Stock and Series A-2 Preferred Stock have a 4.50% annual dividend rate which is paid quarterly. For the first two years after issuance, the dividends are paid in the form of additional preferred stock. Thereafter, the dividends are to be paid in either cash or in additional preferred stock at the option of WPI. Each of Series A-1 Preferred Stock and Series A-2 Preferred Stock is convertible into common shares of WPI at a rate of $10.50 per share, subject to certain anti-dilution provisions. Assuming full conversion of both series of preferred stock into common shares, prior to completion of the rights offering, we would have owned, as of December 31, 2006, 32.2 million shares, representing 83.7% of the 38.5 million shares that would then have been outstanding. Assuming the rights offering were to have been completed as of December 31, 2006, we would have owned between 32.7 million shares, or 69.5% and 34.0 million shares, or 84.4% of the 47.0 million shares or 40.3 million shares of WPI common stock, respectively, that would be outstanding depending upon the extent to which the other shareholders exercised their subscription rights.

We consolidated the operating results and balance sheets of WPI as of December 31, 2006 and 2005 and for the period commencing August 8, 2005 (acquisition) through December 31, 2006. If we were to own less than 50% of the outstanding common stock and lose control of WPI, we no longer would consolidate it and our financial statements could be materially different than those presented as of December 31, 2006 and 2005 and for the periods then ended.

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

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

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on August 8, 2005. The purchase price allocations are based on estimated fair values as determined by independent appraisers (in $000s):

| | August 8, 2005 Fair Value | Excess Fair Value over Cost | Basis August 8, 2005 |
|---|---|---|---|
| Property and equipment | $ 294,360 | $ (98,399) | $ 195,961 |
| Intangible assets | 35,700 | (12,298) | 23,402 |
| Other assets | 588,000 | — | 588,000 |
| Assets acquired | 918,060 | (110,697) | 807,363 |
| Liabilities assumed | 122,407 | — | 122,407 |
| Net assets acquired | $ 795,653 | $(110,697) | 684,956 |
| Minority interest at acquisition | | | (257,155) |
| | | | $ 427,801 |

The amount allocated to intangible assets was attributed to trademarks, which have been determined to have an indefinite life.

**3. Acquisitions – (continued)**

Our basis in WPI is less than our share of the equity in WPI by $110.7 million as of August 8, 2005. The excess of fair value over cost of net assets acquired has been reflected as a reduction of long-lived assets in our supplemental consolidated balance sheet. Fixed assets were reduced by $98.4 million and intangible assets were reduced by $12.3 million. As a result, the financial statements of WPI presented herein could be materially different from the results reflected in the books and records of WPI.

The following table summarizes unaudited pro forma financial information assuming the acquisition of WPI had occurred on January 1, 2004. This unaudited pro forma financial information does not necessarily represent what would have occurred if the transaction had taken place on the dates presented and should not be taken as representative of our future consolidated results of operations or financial position.

| | Twelve Months Ended December 31, 2005 | | | |
|---|---|---|---|---|
| | Icahn Enterprises | WPI | Pro Forma Adjustments | Total |
| | | (January 1, 2005 to August 7, 2005) | | |
| | | (In $000s) | | |
| Revenues | $1,524,705 | $ 683,545 | $ — | $2,208,250 |
| Income (loss) from continuing operations | $ 52,287 | $(153,999) | $ 98,487 | $ (3,225) |
| Loss per LP unit from continuing operations: | | | | |
| Basic | $ (0.91) | | | $ (1.91) |
| Diluted | $ (0.91) | | | $ (1.91) |

| | Twelve Months Ended December 31, 2004 | | | |
|---|---|---|---|---|
| | Icahn Enterprises | WPI | Pro Forma Adjustments | Total |
| | | (In $000s) | | |
| Revenues | $852,446 | $1,530,719 | $ — | $2,383,165 |
| Income (loss) from continuing operations | $153,891 | $ (180,896) | $ 178,954 | $ 151,949 |
| Earnings per LP unit from continuing operations: | | | | |
| Basic | $ 0.49 | | | $ 0.45 |
| Diluted | $ 0.49 | | | $ 0.40 |

The pro forma adjustments relate, principally, to the elimination of interest expense, bankruptcy expense and other expenses at WPI, a reduction in interest income of Icahn Enterprises and adjustments to reflect Icahn Enterprises' depreciation expense based on values assigned in applying purchase accounting. WPI balances included in the pro forma table for the twelve months ended December 31, 2004 are derived from the audited financial statements of WPI for that period. Unaudited WPI balances included in the pro forma table for the twelve months ended December 31, 2005 are for the period from January 1, 2005 to August 7, 2005. Data for the period from August 8, 2005, the acquisition date, to December 31, 2005 are included in Icahn Enterprises' results.

As discussed in Note 19, "Commitments and Contingencies," legal proceedings with respect to the acquisition are ongoing.

**4. Operating Units**

Through the second quarter of 2006, we conducted our continuing operating businesses in four principal areas: Oil and Gas, Gaming, Real Estate and Home Fashion. As described herein, in November 2006, we sold our Oil and Gas operations. In addition, on April 22, 2007, we entered into an agreement to sell our remaining Gaming operations. As a result, our Oil and Gas and Gaming businesses are now classified as discontinued





**4. Operating Units – (continued)**

operations and thus are not considered part of our continuing operations. As discussed herein, on August 8, 2007, we acquired the Partnership Interests, and on November 5, 2007 we acquired PSC Metals. We now conduct our operating businesses in four principal areas: Investment Management, Metals, Real Estate and Home Fashion.

***a. Investment Management***

The Investment Management and GP Entities provide investment advisory and certain management services to the Private Funds, but do not provide such services to any other entities, individuals or accounts. Interests in the Private Funds are offered only to certain sophisticated and accredited investors on the basis of exemptions from the registration requirements of the federal securities laws and are not publicly available. The Investment Management and GP Entities receive management fees and incentive allocations from the Private Funds. Management fees are generally 2.5% of the net asset value of certain Private Funds. Incentive allocations, which are primarily earned on an annual basis, are generally 25% of the net profits generated by the Private Funds that we manage. Therefore, investment management revenues will be affected by the combination of fee-paying assets under management ("AUM") and the investment performance of the Private Funds.

Summary financial information for our Investment Management operations as of December 31, 2006 and 2005 included in our supplemental consolidated balance sheets, are as follows (in $000s):

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Cash and cash equivalents | $ 4,822 | $ 2,341 |
| Cash held at consolidated affiliated partnerships and restricted cash | 1,106,809 | 139,856 |
| Securities owned, at fair value | 2,757,229 | 2,581,634 |
| Unrealized gains on derivative contracts, at fair value | 80,216 | 29 |
| Due from brokers | 838,620 | 343,807 |
| Other assets | 27,460 | 23,570 |
| Total assets | $4,815,156 | $ 3,091,237 |
| Accounts payable, accrued expenses and other liabilities | $ 59,286 | $ 5,303 |
| Subscriptions received in advance | 66,030 | 40,560 |
| Payable for purchases of securities | 11,687 | 23,138 |
| Securities sold not yet purchased, at fair value | 691,286 | 367,024 |
| Unrealized losses on derivative contracts, at fair value | 1,770 | 9,353 |
| Total liabilities | $ 830,059 | $ 445,378 |
| Non-controlling interests in consolidated entities | $3,628,470 | $ 2,548,900 |





**4. Operating Units – (continued)**

Summarized consolidated income statement information for our Investment Management operations for the years ended December 31, 2006, 2005 and the period from November 1, 2004 (commencement of operations) to December 31, 2004 included in the supplemental consolidated statements of operations is as follows (in $000s):

| | Years Ended December 31, | | November 1 – December 31, |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Revenues: | | | |
| Consolidated affiliated partnerships: | | | |
| Realized gains — securities | $ 805,122 | $ 110,481 | $ 23,934 |
| Unrealized gains — securities | 158,206 | 182,006 | 35,320 |
| Realized gains (losses) — derivative contracts | (20,357) | 21,481 | — |
| Unrealized gains (losses) — derivative contracts | 87,769 | (8,528) | — |
| Interest, dividends and other income | 73,218 | 47,268 | 2,846 |
| Other income | 345 | 168 | — |
| | 1,104,303 | 352,876 | 62,100 |
| Expenses: | | | |
| Compensation | 29,732 | 12,929 | 1,086 |
| Shareholder actions | 4,952 | 3,185 | — |
| General and administrative | 2,945 | 1,979 | 355 |
| Consolidated affiliated partnerships' expenses: | | | |
| Interest expense | 9,901 | 43 | 72 |
| Dividend expense | 6,256 | 2,149 | 116 |
| Financing expense | 13,853 | — | — |
| Other investment expenses | 8,260 | 1,701 | — |
| Other expenses | 3,836 | 4,064 | 347 |
| | 79,735 | 26,050 | 1,976 |
| Income before taxes and non-controlling interests in income of consolidated affiliated partnerships | 1,024,568 | 326,826 | 60,124 |
| Non-controlling interests in income of consolidated affiliated partnerships | (763,137) | (241,361) | (48,649) |
| Income tax expense | (1,763) | (890) | (81) |
| Net earnings | $ 259,668 | $ 84,575 | $ 11,394 |

The General Partners' incentive allocations earned from the Onshore Fund and Offshore Master Fund I are accrued on a quarterly basis in accordance with Method 2 of EITF Topic D-96 and are allocated to the Onshore GP and Offshore GP, respectively, at the end of the Onshore Fund's and Offshore Master Fund I's fiscal year (or sooner on redemptions). Such accruals may be reversed as a result of subsequent investment performance prior to the conclusion of the Onshore Fund's and Offshore Master Fund I's fiscal year. The management fees earned by Icahn Management (and by New Icahn Management subsequent to the acquisition on August 8, 2007) are calculated based on the net asset values of certain Private Funds and are earned and paid quarterly.

ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**4. Operating Units – (continued)**

For fiscal 2006, fiscal 2005 and the period from November 1, 2004 (commencement of operations) to December 31, 2004 the amount of gross management fees and incentive allocations earned before related eliminations for the periods stated is as follows (in $000s):

| | Year Ended December 31, | | November 1 – December 31, |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Management Fees: | | | |
| Onshore Fund | $ 21,018 | $ 15,029 | $ 1,394 |
| Offshore Fund | 61,397 | 29,172 | 1,804 |
| Total | $ 82,415 | $ 44,201 | $ 3,198 |
| Incentive Allocations: | | | |
| Onshore Fund | $ 68,867 | $ 21,836 | $ 4,361 |
| Offshore Master Fund I | 121,611 | 35,466 | 5,300 |
| Total | $ 190,478 | $ 57,302 | $ 9,661 |

***b. Metals***

We conduct our Metals operations through our 100% ownership in PSC Metals. PSC Metals collects industrial and obsolete scrap metal, processes it into reusable forms, and supplies the recycled metals to its customers including electric-arc furnace mills, integrated steel mills, foundries, secondary smelters and metals brokers. PSC Metals' ferrous products include shredded, sheared and bundled scrap metal and other purchased scrap metal such as turnings (steel machining fragments), cast furnace iron and broken furnace iron. PSC Metals also processes non-ferrous metals including aluminum, copper, brass, stainless steel and nickel-bearing metals. Non-ferrous products are a significant raw material in the production of aluminum and copper alloys used in manufacturing. PSC Metals also operates a secondary products business that includes the supply of secondary plate and structural grade pipe that is sold into niche markets for counterweights, piling and foundations, construction materials and infrastructure end-markets.

PSC Metals is headquartered in Mayfield Heights, Ohio, and operates 23 yards, three mill service operations and one pipe storage center. The PSC Metals' facilities are strategically located in high volume scrap markets throughout the upper Midwestern and Southeastern United States, placing PSC Metals in proximity to both suppliers and consumers of scrap metals.



ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**4. Operating Units – (continued)**

Summary financial information for Metals operations as of December 31, 2006 and 2005, included in the supplemental consolidated balance sheets are as follows (in $000s):

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Cash and cash equivalents | $ 22,332 | $ 12,949 |
| Investments | 5,543 | — |
| Accounts receivable, net of allowance for doubtful accounts | 55,308 | 67,997 |
| Inventories, net | 58,438 | 54,894 |
| Other assets | 27,529 | 23,295 |
| Property plant and equipment, net | 50,917 | 42,753 |
| Total assets | $ 220,067 | $ 201,888 |
| Accounts payable and accrued liabilities | $ 32,768 | $ 32,545 |
| Long-term debt and capital lease obligations | 2,259 | 3,466 |
| Accrued environmental costs | 19,861 | 19,931 |
| Total liabilities | $ 54,888 | $ 55,942 |

Summarized consolidated income statement information for our Metals operations for the years ended December 31, 2006, 2005 and 2004 included in the supplemental consolidated statements of operations is as follows (in $000s):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Net sales | $ 710,054 | $ 600,989 | $ 660,172 |
| Expenses: | | | |
| Cost of sales | 652,090 | 555,311 | 563,909 |
| Selling, general and administrative expenses | 15,028 | 14,525 | 18,196 |
| Total expenses | 667,118 | 569,836 | 582,105 |
| Income from continuing operations before interest, income taxes and non-controlling interests in income of consolidated entities | $ 42,936 | $ 31,153 | $ 78,067 |

The following is a breakdown of depreciation expense for the periods indicated in ($000s):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Depreciation expense included in cost of sales | $ 6,553 | $ 3,847 | $ 2,606 |
| Depreciation expense included in selling, general and administrative expenses | 263 | 250 | 221 |
| Total depreciation expense | $ 6,816 | $ 4,097 | $ 2,827 |

***c. Real Estate***

For fiscal 2006, fiscal 2005 and fiscal 2004, our Real Estate operations consisted of rental real estate, property development and associated resort activities. As of December 31, 2006, our three related operating units of our Real Estate segment are all individually immaterial and have been aggregated. The accounting policies of each segment are the same as those described in Note 2, "Summary of Significant Accounting Policies." See Note 17, "Segment Reporting."





**4. Operating Units – (continued)**

Summarized income statement information attributable to our continuing Real Estate operations for the periods indicated included in the supplemental consolidated statements of operations is as follows (in $000s):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Revenues: | | | |
| Rental real estate | $ 13,528 | $ 13,000 | $ 15,597 |
| Property development | 90,955 | 58,270 | 27,073 |
| Resort operations | 28,127 | 27,122 | 17,453 |
| Total revenues | 132,610 | 98,392 | 60,123 |
| Expenses: | | | |
| Rental real estate | 4,622 | 4,065 | 8,023 |
| Property development | 73,041 | 48,679 | 22,949 |
| Resort operations | 28,162 | 28,852 | 18,194 |
| Total expenses | 105,825 | 81,596 | 49,166 |
| Income from continuing operations before interest, income taxes and non-controlling interests in income of consolidated entities | $ 26,785 | $ 16,796 | $ 10,957 |

***Rental Real Estate***

As of December 31, 2006, we owned 37 rental real estate properties. These primarily consist of fee and leasehold interests in real estate in 19 states. Most of these properties are net-leased to single corporate tenants. Approximately 89% of these properties are currently net-leased, 3% are operating properties and 8% are vacant.

***Property Development and Associated Resort Activities***

Our property development operations are run primarily through Bayswater, a real estate investment, management and development subsidiary that focuses primarily on the construction and sale of single-family houses, multi-family homes, lots in subdivisions and planned communities and raw land for residential development. Our New Seabury development property in Cape Cod, Massachusetts and our Grand Harbor and Oak Harbor development property in Vero Beach, Florida each include land for future residential development of more than 400 and 1,000 units of residential housing, respectively. Both developments operate golf and resort activities as well. We are also developing residential communities in Naples, Florida and Westchester County, New York.

The following is a consolidated summary of our Real Estate operating unit property and equipment as of December 31, 2006 and 2005, included in the supplemental consolidated balance sheets (in $000s):

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Rental properties | $ 112,505 | $ 125,864 |
| Property development | 126,537 | 116,007 |
| Resort properties | 44,932 | 46,383 |
| Total real estate | $ 283,974 | $ 288,254 |





**4. Operating Units – (continued)**

The following is a summary of the anticipated future receipts of the minimum lease payments receivable under the financing and operating method at December 31, 2006 (in $000s):

| Year | Amount |
|---|---|
| 2007 | $ 21,533 |
| 2008 | 19,851 |
| 2009 | 18,599 |
| 2010 | 14,599 |
| 2011 | 13,441 |
| Thereafter | 58,184 |
| | $ 146,207 |

At December 31, 2006 and 2005, $83.3 million and $86.4 million, respectively, of the net investment in financing leases and net real estate leased to others was pledged to collateralize the payment of nonrecourse mortgages payable.

***d. Home Fashion***

*Operations*

We conduct our Home Fashion operations through our majority ownership in WPI, a manufacturer and distributor of home fashion consumer products. WPI is engaged in the business of manufacturing, sourcing, marketing and distributing bed and bath home fashion products including, among others, sheets, pillowcases, comforters, blankets, bedspreads, pillows, mattress pads, towels and related products. WPI recognizes revenue primarily through the sale of home fashion products to a variety of retail and institutional customers. In addition, WPI receives a small portion of its revenues through the licensing of its trademarks. On October 18, 2007, WPI entered into an agreement to sell the inventory at substantially all of its 30 retail outlet stores. Therefore, the portion of the business related to the stores' retail operations has been classified for all years presented as discontinued operations.

The following are summary balance sheets for our Home Fashion operating segment as of December 31, 2006 and 2005 as included in the supplemental consolidated balance sheets (in $000s):

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| Cash and cash equivalents | $ 178,464 | $ 90,604 |
| Restricted cash | 3,312 | 32,191 |
| Trade receivables, net of allowance for doubtful accounts of $8,303 and $8,313 | 128,033 | 164,737 |
| Inventories, net | 224,483 | 223,625 |
| Assets held for sale | 44,857 | 43,257 |
| Property, plants and equipment, net | 200,383 | 166,026 |
| Other assets | 50,306 | 52,484 |
| Total assets | $ 829,838 | $ 772,924 |
| Accounts payable, accrued expenses and other liabilities | $ 99,989 | $ 109,145 |
| Long-term debt | 10,600 | — |
| Total liabilities | $ 110,589 | $ 109,145 |
| Non-controlling interests in consolidated entities | $ 178,843 | $ 247,015 |

**4. Operating Units – (continued)**

Summarized statements of operations for the year ended December 31, 2006 and the period from August 8, 2005 (acquisition date) to December 31, 2005 is as follows (in $000s):

| | Year Ended December 31, 2006 | August 8, 2005 to December 31, 2005 |
|---|---|---|
| Net Sales | $ 890,840 | $ 441,771 |
| Expenses: | | |
| Cost of sales | 857,947 | 401,576 |
| Selling, general and administrative | 130,622 | 58,881 |
| Restructuring and impairment charges | 45,647 | 1,658 |
| Loss from continuing operations before interest, income taxes and non-controlling interests in income of consolidated entities | $ (143,376) | $ (20,344) |

A relatively small number of customers have historically accounted for a significant portion of WPI's net revenue. For fiscal 2006 and for the period commencing August 8, 2005 (acquisition) to December 31, 2005, sales to six customers amounted to approximately 49.9% of net revenues. One customer accounted for 15% or more of WPI's net revenue in both periods.

The following is a breakdown of depreciation expense for the periods indicated in ($000s):

| | Year Ended December 31, 2006 | August 8, 2005 to December 31, 2005 |
|---|---|---|
| Depreciation expense included in cost of sales | $ 25,484 | $ 16,041 |
| Depreciation expense included in selling, general and administrative expenses | 5,240 | 2,940 |
| Total depreciation expense | $ 30,724 | $ 18,981 |

Total expenses for fiscal 2006 included $33.3 million of impairment charges related to the fixed assets of plants that have been or will be closed and $12.3 million of restructuring charges (of which approximately $3.4 million relates to severance and $8.9 million relates to continuing costs of closed plants).

Impairment and restructuring charges for fiscal 2006 are included in Home Fashion operating expenses in the accompanying supplemental consolidated statements of operations.

To improve WPI's competitive position, we intend to continue to restructure its operations to significantly reduce its cost of goods sold by closing certain plants located in the United States, sourcing goods from lower cost overseas facilities, and acquiring overseas manufacturing facilities. We have incurred impairment charges to write-down the value of WPI plants taken out of service to their estimated liquidation value. As of December 31, 2006, approximately $139.5 million of WPI's assets are located outside of the United States, primarily in Bahrain.

Included in restructuring expenses are cash charges associated with the ongoing costs of closed plants, employee severance, benefits and related costs. The amount of accrued restructuring costs at December 31, 2005 was $0.1 million. During fiscal 2006, we incurred additional restructuring costs of $12.3 million, of which $11.2 million was paid during the period. As of December 31, 2006, the accrued liability balance was $1.2 million which is included in accounts payable and accrued expenses in our supplemental consolidated balance sheet.

Total cumulative impairment and restructuring charges for the period from August 8, 2005 (acquisition date), through December 31, 2006 were $47.3 million.





**4. Operating Units – (continued)**

We expect that restructuring charges will continue to be incurred throughout fiscal 2007. As of December 31, 2006, WPI expects to incur additional restructuring costs and impairment charges for fiscal 2007 relating to the current restructuring plan of between $25.0 million and $30.0 million. Restructuring costs could be affected by, among other things, our decision to accelerate or delay restructuring efforts. As a result, actual costs incurred could vary materially from these amounts.

**5. Discontinued Operations and Assets Held for Sale**

***Results of Discontinued Operations and Assets and Liabilities Held for Sale***

The financial position and results of our operations described below are presented as assets and liabilities of discontinued operations held for sale in the supplemental consolidated balance sheets and discontinued operations in the supplemental

consolidated statements of operations, respectively, for all periods presented in accordance with SFAS No. 144.

A summary of the results of operations for our discontinued operations for years ended December 31, 2006, 2005 and 2004 is as follows (in $000s):

| | December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Revenues: | | | |
| Oil and Gas | $ 353,539 | $ 198,854 | $ 137,988 |
| Gaming | 524,077 | 490,321 | 470,836 |
| Real Estate | 7,108 | 8,847 | 22,191 |
| Home Fashion — retail stores | 66,816 | 30,910 | — |
| Total revenues | $ 951,540 | $ 728,932 | $ 631,015 |
| Income (loss) from discontinued operations: | | | |
| Oil and Gas | $ 183,281 | $ 37,521 | $ 33,053 |
| Gaming | 45,624 | 60,179 | 51,331 |
| Real Estate | 5,300 | 5,170 | 12,213 |
| Home Fashion — retail stores | (7,261) | (2,085) | — |
| Total income from discontinued operations before income taxes, interest and other income | 226,944 | 100,785 | 96,597 |
| Interest expense | (47,567) | (32,851) | (37,242) |
| Interest and other income | 13,004 | 7,539 | 7,656 |
| Impairment loss on GBH bankruptcy | — | (52,366) | (15,600) |
| Income from discontinued operations before income taxes and non-controlling interests in income of consolidated entities | 192,381 | 23,107 | 51,411 |
| Income tax expense | (17,119) | (19,711) | (18,312) |
| Income from discontinued operations | 175,262 | 3,396 | 33,099 |
| Non-controlling interests in (income) loss of consolidated entities | (53,165) | 4,356 | 2,074 |
| Gain on sales of discontinued operations, net of income tax expense of $22,637 in 2006 | 676,444 | 21,849 | 75,197 |
| | $ 798,541 | $ 29,601 | $ 110,370 |





**5. Discontinued Operations and Assets Held for Sale – (continued)**

***Assets and Liabilities of Discontinued Operations***

A summary of assets of discontinued operations held for sale and liabilities of discontinued operations held for sale as of December 31, 2006 and 2005 is as follows (in $000s):

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Cash and cash equivalents | $ 54,912 | $ 224,348 |
| Trade, notes and other receivables | 6,752 | 61,300 |
| Property, plant and equipment | 422,715 | 1,183,518 |
| Other assets | 136,595 | 198,058 |
| Assets of discontinued operations held for sale | $ 620,974 | $ 1,667,224 |
| Accounts payable and accrued expenses | $ 54,267 | $ 156,444 |
| Long-term debt | 257,825 | 521,052 |
| Other liabilities | 5,993 | 74,261 |
| Liabilities of discontinued operations held for sale | $ 318,085 | $ 751,757 |

***Gaming Operations***

On May 19, 2006, our wholly owned subsidiaries, AREP Laughlin and AREP Boardwalk Properties, completed the purchases of the Aquarius and the Traymore site, respectively, from affiliates of Harrah's. The transactions were completed pursuant to an asset purchase agreement, dated as of November 28, 2005, between AREP Laughlin, AREP Boardwalk LLC, Harrah's and certain affiliates of Harrah's. Under the agreement, AREP Laughlin acquired the Aquarius, and AREP Boardwalk Properties, an assignee of AREP Boardwalk LLC, acquired the Traymore site for an aggregate purchase price of approximately $170 million (excluding transaction costs and working capital of approximately $5.7 million).

The following table summarizes the estimated fair values of the net assets acquired on May 19, 2006 (in $000s):

| May 19, 2006 Fair Value | | |
|---|---|---|
| Aquarius | Traymore Site | Total |

| | | | |
|---|---|---|---|
| Land | $ 13,000 | $ 61,651 | $ 74,651 |
| Building and equipment | 95,336 | — | 95,336 |
| Intangible assets | 2,939 | — | 2,939 |
| Other assets | 7,172 | — | 7,172 |
| Assets acquired | 118,447 | 61,651 | 180,098 |
| Liabilities assumed | (4,874) | — | (4,874) |
| Net assets acquired | $ 113,573 | $ 61,651 | $ 175,224 |

The purchase price allocations for the Aquarius are based on estimated fair values as determined by independent appraisers. If the acquisitions of the Aquarius and the Traymore site had occurred at the beginning of fiscal 2006, our consolidated unaudited pro forma net revenue, net income and diluted earnings per share for fiscal 2006 would not have been materially different than the amounts we reported and, therefore, pro forma results are not presented.

The results of operations of the Aquarius from May 19, 2006 to December 31, 2006 are included in our consolidated results of discontinued operations for fiscal 2006.





**5. Discontinued Operations and Assets Held for Sale – (continued)**

On November 17, 2006, Atlantic Coast, ACE, IEH and certain other entities owned by or affiliated with IEH completed the sale to Pinnacle of the outstanding membership interests in ACE and 100% of the equity interests in certain subsidiaries of IEH which own parcels of real estate adjacent to The Sands, including 7.7 acres of land known as the Traymore site. We own, through subsidiaries, approximately 67.6% of Atlantic Coast, which owned 100% of ACE. The aggregate purchase price was approximately $274.8 million, of which approximately $200.6 million was paid to Atlantic Coast and approximately $74.2 million was paid to affiliates of IEH for subsidiaries which owned the Traymore site and the adjacent properties. $51.8 million of the purchase price paid to Atlantic Coast was deposited into escrow to fund indemnification obligations, of which $50.0 million related to claims of creditors and stockholders of GBH, a holder of stock in Atlantic Coast. On February 22, 2007, we resolved all outstanding litigation involving GBH, resulting in a release of all claims against us. As a result of the settlement, our ownership of Atlantic Coast increased from 67.6% to 96.9% and $50.0 million of the amount placed into escrow was released to us. See Note 20, “Subsequent Events” for further information.

On April 22, 2007, AEP, a wholly owned indirect subsidiary of Icahn Enterprises, entered into a Membership Interest Purchase Agreement with W2007/ACEP Holdings, LLC, an affiliate of Whitehall Street Real Estate Funds, a series of real estate investment funds affiliated with Goldman, Sachs & Co., to sell all of the issued and outstanding membership interests of ACEP, which comprise our gaming operations, for $1.3 billion, plus or minus certain adjustments such as working capital, more fully described in the agreement. Pursuant to the terms of the agreement, AEP is required to cause ACEP to repay from funds provided by AEP, the principal, interest, prepayment penalty or premium due on ACEP’s 7.85% senior secured notes due 2012 and ACEP’s senior secured credit facility. With this transaction, we anticipate realizing a gain of approximately $554 million on our investments in ACEP, after income taxes. ACEP’s casino assets are comprised of the Stratosphere Casino Hotel & Tower, the Arizona Charlie’s Decatur, the Arizona Charlie’s Boulder and the Aquarius Casino Resort. The transaction is subject to the approval of the Nevada Gaming Commission and the Nevada State Gaming Control Board, as well as customary conditions. The parties expect to close the transaction by the end of the first quarter of fiscal 2008; however, we cannot assure you that we will be able to consummate the transaction.

***GBH Impairment***

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

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

We recorded $34.5 million of income tax benefits in the third quarter of fiscal 2006 as a result of the reversal of deferred tax valuation allowances for our oil and gas and Atlantic City gaming operations. See Note 18, “Income Taxes,” for further information.

***Oil and Gas Operations***

On November 21, 2006, our indirect wholly owned subsidiary, AREP O & G Holdings, consummated the sale of all of the issued and outstanding membership interests of NEG Oil & Gas to SandRidge, for consideration consisting of $1.025 billion in

cash, 12,842,000 shares of SandRidge's common stock, valued, at the





**5. Discontinued Operations and Assets Held for Sale – (continued)**

date of closing, at $18 per share, and the repayment by SandRidge of $300.0 million of debt of NEG Oil & Gas. On April 4, 2007, we sold our entire position in SandRidge for cash consideration of approximately $243.2 million.

SandRidge is a working interest owner and the operator of a majority of the Longfellow Ranch area oil and gas properties. The interest in Longfellow Ranch was the single largest oil and gas property owned by NEG Oil & Gas.

On November 21, 2006, pursuant to an agreement dated October 25, 2006 among IEH, NEG Oil & Gas and NEGI, NEGI sold its membership interest in NEG Holding to NEG Oil & Gas for consideration of approximately $261.1 million. Of that amount, $149.6 million was used to repay the principal of and accrued interest with respect to the NEGI 10.75% senior notes due 2007, all of which was held by us.

***Real Estate***

Certain of our real estate properties are classified as discontinued operations. The properties classified as discontinued operations have changed during fiscal 2006 and, accordingly, certain amounts in the accompanying fiscal 2006, fiscal 2005 and fiscal 2004 financial statements have been reclassified to conform to the current classification of properties. In addition, during the nine months ended September 30, 2007, five properties of our real estate segment were reclassified to discontinued operations.

***Home Fashion***

We intend to close substantially all of WPI's retail stores based on a comprehensive evaluation of the stores' long-term growth prospects and their on-going value to the business. On October 18, 2007, we entered into an agreement to sell the inventory at substantially all of WPI's retail stores. In accordance with SFAS No. 144, we have reported the retail outlet stores business as discontinued operations for all periods presented.

***Oil and Gas Disclosures***

*Capitalized Costs*

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

| | December 31, 2005 |
|---|---|
| Proved properties | $1,229,923 |
| Other property and equipment | 6,029 |
| Total | 1,235,952 |
| Less: Accumulated depreciation, depletion and amortization | 493,493 |
| | $ 742,459 |





**5. Discontinued Operations and Assets Held for Sale – (continued)**

Costs incurred in connection with property acquisition, exploration and development activities for the period from January 1, 2006 to November 21, 2006 and the years ended December 31, 2005 and 2004 were as follows (in $000s, except depletion rate):

| | January 1 – November 21, 2006 | Years Ended December 31, 2005 | Years Ended December 31, 2004 |
|---|---|---|---|
| Acquisitions | $ 14,113 | $114,244 | $ 128,673 |
| Exploration costs | 83,463 | 75,357 | 62,209 |
| Development costs | 133,459 | 124,305 | 52,765 |
| Total | $ 231,035 | $313,906 | $ 243,647 |
| Depletion rate per Mcfe | $ 2.10 | $ 2.33 | $ 2.11 |

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

*Reserve Information (Unaudited)*

The accompanying tables present information concerning our oil and natural gas-producing activities during the period from January 1, 2006 to November 21, 2006 and the years ended December 31, 2005 and 2004 and are prepared in accordance with SFAS No. 69, *Disclosures about Oil and Gas Producing Activities*.

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

Proved reserves are estimated quantities of oil, natural gas, condensate and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Natural gas liquids and condensate are included in oil reserves. Proved developed reserves are those proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves include those reserves expected to be recovered from new wells on undrilled acreage or existing wells on which a relatively major expenditure is required for recompletion. Natural gas quantities represent gas volumes which include amounts that will be extracted as natural gas liquids. Our estimated net proved reserves and proved developed reserves of oil and condensate and natural gas for the period from January 1, 2006 to November 21, 2006 and the years ended December 31, 2005 and 2004 were as follows:





**5. Discontinued Operations and Assets Held for Sale – (continued)**

| | Crude Oil | Natural Gas |
|---|---|---|
| | (Barrels) | (Thousand Cubic Feet) |
| December 31, 2003 | 8,165,562 | 206,259,821 |
| Reserves of National Offshore purchased from affiliate of general partner | 5,203,599 | 25,981,749 |
| Sales of reserves in place | (15,643) | (344,271) |
| Extensions and discoveries | 524,089 | 50,226,279 |
| Revisions of previous estimates | 204,272 | 9,810,665 |
| Production | (1,484,005) | (18,895,077) |
| December 31, 2004 | 12,597,874 | 273,039,166 |
| Purchase of reserves in place | 483,108 | 94,937,034 |
| Sales of reserves in place | (624,507) | (7,426,216) |
| Extensions and discoveries | 743,019 | 79,591,588 |
| Revisions of previous estimates | 494,606 | 17,015,533 |
| Production | (1,789,961) | (28,106,819) |
| December 31, 2005 | 11,904,139 | 429,050,286 |
| Purchase of reserves in place | 282,267 | 9,597,085 |
| Extensions and discoveries | 2,169,222 | 73,753,558 |
| Revisions of previous estimates | (201,907) | (58,470,950) |
| Production | (1,655,516) | (31,094,079) |
| Sale of properties to SandRidge | (12,498,205) | (422,835,900) |
| November 21, 2006 | — | — |
| Proved developed reserves: | | |
| December 31, 2004 | 8,955,300 | 151,765,372 |
| December 31, 2005 | 8,340,077 | 200,519,972 |

*Asset Retirement Obligations — Oil and Gas*

Our asset retirement obligations represent expected future costs to plug and abandon our wells, dismantle facilities and reclamate sites at the end of the related assets' useful lives.

As of December 31, 2005, we had $24.3 million held in various escrow accounts relating to the asset retirement obligations for certain offshore properties. The escrow accounts and the asset retirement obligations were transferred to the purchaser in connection with the sale of our Oil and Gas business. The following table summarizes changes in our asset retirement obligations during the period from January 1, 2006 to November 21, 2006 and the year ended December 31, 2005 (in $000s):

| | January 1 – November 21, 2006 | Fiscal Year Ended December 31, 2005 |
|---|---|---|
| Beginning of year | $ 41,228 | $ 56,524 |
| Add: Accretion | 2,537 | 3,019 |

| | | |
|---|---|---|
| Drilling additions/purchases | 4,269 | 2,067 |
| Less: revisions | — | (2,813) |
| Settlements | — | (431) |
| Dispositions | (48,034) | (17,138) |
| End of period | $ — | $ 41,228 |





**5. Discontinued Operations and Assets Held for Sale – (continued)**

*Derivative Contracts*

We recorded derivative contracts within our former Oil and Gas segment as assets or liabilities in the balance sheet at fair value. As of December 31, 2005, these derivatives were recorded as a liability of discontinued operations held for sale of $85.0 million. We have elected not to designate any of these instruments as hedges for accounting purposes and, accordingly, both realized and unrealized gains and losses are included in the oil and gas revenues for discontinued operations. Our realized and unrealized gains and losses on our derivative contracts for the periods indicated were as follows (in $000s):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Realized loss (net cash payments) | $ (25,948) | $ (51,263) | $ (16,625) |
| Unrealized gain (loss) | 99,707 | (69,254) | (9,179) |
| | $ 73,759 | $(120,517) | $ (25,804) |

**6. Related Party Transactions**

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

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

In accordance with U.S. GAAP, assets transferred between entities under common control are accounted for at historical cost similar to a pooling of interests, and the financial statements of previously separate companies for periods prior to the acquisition are restated on a consolidated basis. Additionally, prior to the acquisition, the earnings, losses, capital contributions and distributions of the acquired entities are allocated to the general partner as an adjustment to equity, and the consideration is shown as a reduction to the general partner's capital account.

***a. Investment Management***

On August 8, 2007, in a related party transaction, we acquired the general partnership interests in the General Partners, acting as general partners of the Onshore Fund and the Offshore Master Funds managed and controlled by Carl C. Icahn, and the general partnership interests in New Icahn Management, the newly formed management company that provides certain management and administrative services to the Private Funds. The Offshore GP also acts as general partner of certain funds formed as Cayman Islands exempted limited partnerships that invest in the Offshore Master Funds and that, together with other funds that also invest in the Offshore Master Funds, constitute the Feeder Funds. See Note 3, "Acquisitions — Acquisition of Partnership Interests" for further discussion of the acquisition.

In accordance with U.S. GAAP, assets transferred between entities under common control are accounted for at historical cost similar to a pooling of interests, and the financial statements of previously separate companies for periods prior to the acquisition are restated on a consolidated basis. Additionally, prior to acquisition, the earnings, losses, capital contributions and distributions of the acquired entities are allocated to the general partner as an adjustment to equity, and the consideration paid is shown as a reduction to the general partner's capital account.

We, along with the Private Funds, entered into an agreement (the "Covered Affiliate Agreement"), simultaneously with the closing of the transactions contemplated by the Contribution Agreement, pursuant to which we (and certain of our subsidiaries) agreed, in general, to be bound by certain restrictions on our investments in any assets that the General Partners deem suitable for the Private Funds, other than government and agency

**6. Related Party Transactions – (continued)**

bonds, cash equivalents and investments in non-public companies. We and our subsidiaries will not be restricted from making investments in the securities of certain companies in which Mr. Icahn or companies he controlled had an interest in as of the date of the initial launch of the Private Funds, and companies in which we had an interest as of the date of acquisition on August 8, 2007. We and our subsidiaries, either alone or acting together with a group, will not be restricted from (i) acquiring all or any portion of the assets of any public company in connection with a negotiated transaction or series of related negotiated transactions or (ii) engaging in a negotiated merger transaction with a public company and, pursuant thereto, conducting and completing a tender offer for securities of the company. The terms of the Covered Affiliate Agreement may be amended, modified or waived with the consent of us and each of the Private Funds, provided, however, that a majority of the members of an investor committee maintained for certain of the Private Funds may (with our consent) amend, modify or waive any provision of the Covered Affiliate Agreement with respect to any particular transaction or series of related transactions.

We have also entered into an employment agreement (the “Icahn Employment Agreement”) with Mr. Icahn pursuant to which, over a five-year term, Mr. Icahn will serve as Chairman and Chief Executive Officer of New Icahn Management, in addition to his current role as Chairman of Icahn Enterprises. Mr. Icahn also serves as the Chief Executive Officer of the General Partners. During the employment term, we will pay Mr. Icahn an annual base salary of $900,000 and an annual incentive bonus based on a bonus formula with two components. The first component is based on the annual return on AUM by the Investment Management and GP Entities. The second component of the annual bonus payable by us is tied to the growth in our annual net income (other than income or losses resulting from the operations of the Investment Management and GP Entities).

Fifty percent of all bonus amounts payable by us and New Icahn Management shall be subject to mandatory deferral and treated as though invested in the Private Funds and as though subject to a 2% annual management fee (but no incentive allocation). Such deferred amounts shall be subject to vesting in equal annual installments over a three-year period commencing from the last day of the year giving rise to the bonus. Amounts deferred generally are not subject to acceleration and unvested deferred amounts shall be forfeited if Mr. Icahn ceases to be employed under his employment agreement, provided that all deferred amounts shall vest in full and be payable in a lump sum payment thereafter if the employment of Mr. Icahn is terminated by us without Cause or Mr. Icahn terminates his employment for Good Reason, as such terms are defined in the Icahn Employment Agreement, or upon Mr. Icahn’s death or disability during the employment term. In addition, upon Mr. Icahn’s completion of service through the end of the employment term, Mr. Icahn will also vest in full in any mandatory deferrals. Vested deferred amounts (and all deferred returns, earnings and profits thereon) shall be paid to Mr. Icahn within 60 days following the vesting date. Returns on amounts subject to deferral shall also be subject to management fees charged by New Icahn Management.

The Investment Management and GP Entities provide investment advisory and certain management services to the Private Funds. The Investment Management and GP Entities do not provide investment advisory or other management services to any other entities, individuals or accounts. Interests in the Private Funds are offered only to certain sophisticated and accredited investors on the basis of exemptions from the registration requirements of the federal securities laws and are not publicly available. See Note 2, “Summary of Significant Accounting Policies — Revenue Recognition,” for a further description of the management fees and incentive allocations earned by the Investment Management and GP Entities with respect to these services.

Each of the General Partners may, in its sole discretion, elect to reduce or waive the incentive allocations with respect to the capital account of any limited partner of the Onshore Fund or Offshore Master Fund I, respectively. For fiscal 2006, fiscal 2005 and fiscal 2004, the Onshore GP received an incentive allocation of





**6. Related Party Transactions – (continued)**

$68.9 million, $21.8 million and $4.4 million, respectively, and the Offshore GP received an incentive allocation of $121.6 million, $35.5 million and $5.3 million, respectively. Such amounts are eliminated in the supplemental consolidated financial statements.

As described in further detail in Note 2, “Summary of Significant Accounting Policies — Revenue Recognition,” pursuant to the Management Agreements, Icahn Management (and subsequent to the acquisition of the Partnership Interests on August 8, 2007, New Icahn Management) typically is entitled to receive certain quarterly management fees. From August 8, 2007 through September 30, 2007, New Icahn Management earned $21.4 million in such management fees. Such amounts received from the Onshore Fund and the consolidated Offshore Fund are eliminated in our supplemental consolidated financial statements. The management fees earned for fiscal 2006, fiscal 2005 and fiscal 2004 were $82.4 million, $44.2 million and $3.2 million, respectively. Such amounts are eliminated in our consolidated financial statements.

In addition, pursuant to the provisions of a deferred fee arrangement, Icahn Management was eligible to defer receipt of all or a portion of the management fee earned from the Offshore Fund during a particular fiscal quarter in a fiscal year, and to have a

portion or all of the deferred fee invested in the same manner as the Offshore Fund's other assets, or in another manner approved by both the Offshore Fund and Icahn Management. The value of such deferred amounts constitutes a liability of the Offshore Fund to Icahn Management. Any amounts invested under the provisions of the deferred fee arrangement continue for all purposes to be part of the general assets of the Offshore Fund and generally earn the same return as other investors (except where fees are waived), and Icahn Management has no proprietary interest in any such assets.

Icahn Management elected to defer an aggregate of 95% of the management fees from the Offshore Fund and such amounts remain invested in the Offshore Fund for fiscal 2006 (97% and 100% for fiscal 2005 and fiscal 2004, respectively). For fiscal 2006, 2005 and 2004 the amounts of management fees elected to be deferred were $39.1 million, $26.0 million and $1.8 milllion, respectively, and the appreciation earned upon them, was $19.7 million in fiscal 2006 and $2.4 million in fiscal 2005.

Under separate deferred compensation employment agreements, certain employees are entitled to receive a percentage of the management fees. As of December 31, 2005, deferred compensation related to management fees of Icahn Management amounted to $2.3 million, which included appreciation since inception on such deferred amounts of $0.2 million. As of December 31, 2006, deferred compensation related to management fees of Icahn Management amounted to $6.7 million, which included appreciation since inception on such deferred amounts of $1.7 million. Appreciation in fiscal 2006 on such deferred amounts was $1.5 million. Refer to Note 13, "Compensation Arrangements," for additional information regarding these agreements.

Icahn & Co. LLC and certain other entities beneficially owned by Carl C. Icahn affiliates of Icahn Management (collectively "Icahn Affiliates") have paid for the salaries and benefits of employees who perform various functions including accounting, administrative, investment, legal and tax services. Under a separate expense-sharing agreement, Icahn Affiliates have charged Icahn Management for a portion of these expenses. For fiscal 2006, fiscal 2005 and fiscal 2004, the amounts charged to Icahn Management were $12.4 million, $9.6 million and $0.8 million, respectively. Management believes that all allocated amounts are reasonable based upon the nature of the services provided (e.g. occupancy, salaries and benefits, etc.).

Icahn Affiliates have paid rent for the occupancy of space shared by Icahn Management. Under a separate expense-sharing agreement, Icahn Affiliates have charged Icahn Management for a portion of these expenses. For fiscal 2006, fiscal 2005 and fiscal 2004, the amounts charged to Icahn Management were $1.4 million, $1.5 million and $0.2 million, respectively.

In addition, certain expenses borne by Icahn Management have been reimbursed by Icahn Affiliates, as appropriate and when such expenses were incurred. The expenses included investment-specific expenses for





**6. Related Party Transactions – (continued)**

investments acquired by both the Private Funds (prior to our acquisition of the Partnership Interests on August 8, 2007) and Icahn Affiliates which were allocated based on the amounts invested by each party, as well as investment management-related expenses which were allocated based on estimated usage agreed upon by both Icahn Management and the Icahn Affiliates.

***b. Holding Company and Other Operations***

***Metals***

During the first two months of fiscal 2005, Philip's largest stockholder, Carl C. Icahn, participated in Philip's payment-in-kind debt facilities through entities he controlled. During fiscal 2004, Mr. Icahn also participated in the term debt facilities. Philip repaid in full the $150.0 million term loan provided by Mr. Icahn during 2004. Mr. Icahn controlled $0 and approximately $14.3 million of Philip's debt as of December 31, 2005 and 2004, respectively, and was associated with approximately $56,000 and $8.6 million in interest expense and fees for fiscal 2005 and 2004, respectively.

Philip has entered into a Tax Allocation Agreement (the "Agreement") with Starfire Holding Corporation ("Starfire"). The Agreement provides that Starfire will pay all consolidated federal income taxes on behalf of the consolidated group which includes Philip. Philip will make payments to Starfire in an amount equal to the tax liability, if any, that it would have if it was to file as a consolidated group separate and apart from Starfire. See Note 3, "Acquisitions — Acquisition of PSC Metals," for a discussion of our acquisition of PSC Metals from Philip on November 5, 2007. Mr. Icahn indirectly owns a 95.6% interest and we indirectly own the remaining 4.4% interest in Philip.

PSC Metals uses XO Holdings, Inc., formerly known as XO Communications, Inc., to provide the majority of its telecommunications services and incurred charges of $352,000, $353,000 and $148,000 for fiscal 2006, 2005 and 2004, respectively. Mr. Icahn owns a majority interest in XO Communications, Inc.

PSC Metals sold material to Alliance Castings of approximately $11.0 million, $9.1 million and $6.8 million for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. Material sold to Chicago Castings was approximately $0.5 million, $2.3 million and $3,000 for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. Mr. Icahn is a major shareholder of these companies.

Included in selling, general and administrative costs is approximately $106,000, $100,000 and $1.5 million paid to Philip for certain services provided to PSC Metals for fiscal 2006, fiscal 2005 and fiscal 2004, respectively.

***Oil and Gas***

In October 2003, pursuant to a purchase agreement dated as of May 16, 2003, we acquired certain debt and equity securities of NEGI from entities affiliated with Mr. Icahn for an aggregate cash consideration of $148.1 million plus $6.7 million in cash for accrued interest on the debt securities. The securities acquired were $148.6 million in principal amount of outstanding 10.75% senior notes due 2006 of NEGI and 5,584,044 shares of common stock of NEGI. As a result of the foregoing transaction and the acquisition by us of additional securities of NEGI prior to the closing, we beneficially owned in excess of 50% of the outstanding common stock of NEGI. In connection with the acquisition of stock in NEGI, the excess of cash disbursed over the historical cost, which amounted to $2.8 million, was charged to the general partner's equity. NEGI owned a 50% interest in NEG Holdings; the other 50% interest in NEG Holdings was held by an affiliate of Mr. Icahn prior to our acquisition of the interest during the second quarter of fiscal 2005. NEG Holdings owned NEG Operating LLC which owned operating oil and gas properties managed by NEGI.





**6. Related Party Transactions – (continued)**

On December 6, 2004, we purchased from affiliates of Mr. Icahn $27.5 million aggregate principal amount, or 100% of the outstanding term notes issued by TransTexas (the "TransTexas Notes"). The purchase price was $28.2 million in cash, which equaled the principal amount of the TransTexas Notes plus accrued but unpaid interest.

In December 2004, we purchased all of the membership interests of MidRiver LLC ("MidRiver"), from affiliates of Mr. Icahn for an aggregate purchase price of $38.0 million. The assets of MidRiver consist of $38.0 million principal amount of term loans of Panaco.

In January 2005, we entered into an agreement to acquire TransTexas (subsequently known as National Onshore), Panaco (subsequently known as National Offshore) and the membership interest in NEG Holdings other than that already owned by NEGI for cash consideration of $180.0 million and depositary units valued, in the aggregate, at $445.0 million, from affiliates of Mr. Icahn. The acquisition of TransTexas was completed on April 6, 2005 for $180.0 million in cash. The acquisition of Panaco and the membership interest in NEG Holdings was completed on June 30, 2005 for 15,344,753 depositary units, valued at $445.0 million.

As discussed above, on November 21, 2006, our indirect wholly owned subsidiary, AREP O & G Holdings, consummated the sale of all of the issued and outstanding membership interests of NEG Oil & Gas to SandRidge. See Note 5, "Discontinued Operations and Assets Held for Sale," for additional information regarding the sale.

***Gaming***

*Las Vegas Properties*

In January 2004, ACEP entered into an agreement to acquire Arizona Charlie's Decatur and Arizona Charlie's Boulder, from Mr. Icahn and an entity affiliated with Mr. Icahn, for aggregate consideration of $125.9 million. The acquisition was completed on May 26, 2004.

*Atlantic City Property*

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

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

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

Until July 22, 2004, Greate Bay was the owner and operator of The Sands. Atlantic Coast was a wholly owned subsidiary of Greate Bay which was a wholly owned subsidiary of GBH. ACE is a wholly owned subsidiary of Atlantic Coast. Atlantic Coast and ACE were formed in connection with a transaction (referred to herein as the "Transaction"), which included a Consent Solicitation and Offer to Exchange in which holders of the GB Notes were given the opportunity to exchange such notes, on a dollar-for-dollar basis, for

ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**6. Related Party Transactions – (continued)**

$110.0 million of 3% Notes due 2008 (the "3% Notes"), issued by Atlantic Coast. The Transaction and the Consent Solicitation and Offer to Exchange were consummated on July 22, 2004, and holders of $66.3 million of GB Notes exchanged such notes for $66.3 million Atlantic Coast 3% Notes. Also, on July 22, 2004, in connection with the Consent Solicitation and Offer to Exchange, the indenture governing the GB Notes was amended to eliminate certain covenants and to release the liens on the collateral securing such notes. The Transaction included, among other things, the transfer of substantially all of the assets of GBH to Atlantic Coast.

The Atlantic Coast 3% Notes are guaranteed by ACE. Also on July 22, 2004, in connection with the consummation of the Transaction and the Consent Solicitation and Offer to Exchange, GB Property and Greate Bay merged into GBH, with GBH as the surviving entity. In connection with the transfer of the assets and certain liabilities of GBH, including the assets and certain liabilities of Greate Bay, Atlantic Coast issued 2,882,937 shares of common stock, par value $0.01 per share, to Greate Bay which, following the merger of Greate Bay became the sole asset of GBH. Substantially all of the assets and liabilities of GBH and Greate Bay (with the exception of the remaining GB Notes and accrued interest thereon, the Atlantic Coast shares of common stock, and the related pro rata share of deferred financing costs) were transferred to Atlantic Coast or ACE. As part of the Transaction, an aggregate of 10,000,000 warrants were distributed on a pro rata basis to the stockholders of GBH upon the consummation of the Transaction. Such warrants allow the holders to purchase from Atlantic Coast at an exercise price of $0.01 per share, an aggregate of 2,750,000 shares of Atlantic Coast common stock and are only exercisable following the earlier of either (a) the 3% Notes being paid in cash or upon conversion, in whole or in part, into Atlantic Coast common stock, (b) payment in full of the outstanding principal of the GB Notes exchanged or (c) a determination by a majority of the board of directors of Atlantic Coast (including at least one independent director of Atlantic Coast) that the warrants may be exercised. A gaming license to operate The Sands was granted to ACE by the New Jersey Casino Control Commission.

On December 27, 2004, we purchased $37.0 million principal amount of Atlantic Coast 3% Notes from two Icahn affiliates for cash consideration of $36.0 million. We already owned $26.9 million principal amount of 3% Notes.

On May 17, 2005, we (1) converted $28.8 million in principal amount of 3% Notes into 1,891,181 shares of Atlantic Coast common stock and (2) exercised warrants to acquire 997,620 shares of Atlantic Coast common stock. Also on May 17, 2005, affiliates of Mr. Icahn exercised warrants to acquire 1,133,284 shares of Atlantic Coast common stock. Prior to May 17, 2005, GBH owned 100% of the outstanding common stock of Atlantic Coast.

On June 30, 2005, we completed the purchase of 4,121,033 shares of common stock of GBH and 1,133,284 shares of Atlantic Coast from affiliates of Mr. Icahn in consideration of 413,793 of our depositary units. The agreement provided that up to an additional 206,897 depositary units could be issued if Atlantic Coast met certain earnings targets during fiscal 2005 and fiscal 2006. The depositary units issued in consideration for the acquisitions were valued at $12.0 million. Based on the fiscal 2005 and fiscal 2006 operating performance of The Sands, no additional depositary units have been issued.

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

On November 17, 2006, we completed the sale to Pinnacle of the outstanding membership interests in ACE which owns The Sands and 100% of the equity interests in certain subsidiaries of IEH which own



ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**6. Related Party Transactions – (continued)**

parcels of real estate adjacent to The Sands, including the Traymore site. See Note 5, "Discontinued Operations and Assets Held for Sale," and Note 20, "Subsequent Events," for additional information regarding the sale.

***Administrative Services***

In July 2005, we entered into a license agreement with an affiliate for the non-exclusive use of approximately 1,514 square feet for which we paid monthly base rent of $13,000 plus 16.4% of certain "additional rent." The license agreement was amended effective August 8, 2007 to reflect an increase in our portion of the office space to approximately 4,246 square feet or approximately 64.76% of the total space leased to an affiliate, of which 3,125 square feet is allocated to the Investment Management and GP Entities. Under the amended license agreement, effective August 8, 2007, the monthly base rent is approximately $147,500, of which approximately $39,000 is allocated to the Holding Company and approximately $108,500 is allocated to the Investment Management and GP Entities. We also pay 64.76% of the additional rent payable under the license agreement which is allocated 17.10% to the Holding Company and 47.66% to the Investment Management and GP Entities. The license agreement expires in May 2012. Under the amended agreement, base rent is subject to increases in July 2008 and December 2011. Additionally, we are entitled to certain annual rent credits each December beginning December 2005 and continuing through December 2011. For fiscal 2006, fiscal 2005 and fiscal 2004, we paid such affiliate $162,000, $138,000 and $162,000, respectively, in connection with this licensing agreement.

An affiliate occupies a portion of certain office space leased by us. Monthly payments from the affiliate for the use of the space began on October 12, 2006. For the period beginning October 12, 2006 and ending December 31, 2006, we received $17,000 for the use of such space.

For fiscal 2006, fiscal 2005 and fiscal 2004, we paid $783,000, $1.0 million and $506,000, respectively, to XO Holdings, Inc., formerly known as XO Communications, Inc., an affiliate of the general partner, for telecommunication services.

An affiliate of the general partner provided certain professional services to WPI for which WPI incurred charges from the affiliate of $344,986 and $81,600 for fiscal 2005 and fiscal 2004, respectively. No charges were incurred in fiscal 2006.

We provide certain professional services to an affiliate of the general partner for which we charged $695,000, $324,548 and $80,000 for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. In October 2006, an affiliate remitted $355,691 to us as an advance payment for future services. As of December 31, 2006, current liabilities in the supplemental consolidated balance sheet included $287,380 to be applied to our charges to the affiliate for services to be provided to it.

An affiliate provided certain professional services to WPI for which it incurred charges of approximately $218,000 for the year ended December 31, 2006.

Icahn Sourcing, LLC ("Icahn Sourcing") is an entity formed and controlled by Carl C. Icahn in order to leverage the potential buying power of a group of entities with which Mr. Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property. We are a member of the buying group and, as such, are afforded the opportunity to purchase goods, services and property from vendors with whom Icahn Sourcing has negotiated rates and terms. Icahn Sourcing does not guarantee that we will purchase any goods, services or property from any such vendors, and we are under no obligation to do so. We do not pay Icahn Sourcing any fees or other amounts with respect to the buying group arrangement. We have purchased a variety of goods and services as members of the buying group at prices and on terms that we believe are more favorable than those which would be achieved on a stand-alone basis.





**6. Related Party Transactions – (continued)**

***Related Party Debt Transactions***

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

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

**7. Investments and Related Matters**

***a. Investment Management***

For the years ended December 31, 2006 and 2005, the Investment Management and GP Entities retained the specialized accounting applied by the Private Funds as prescribed under the AICPA Guide. A condensed schedule of investments provided in accordance with the requirements of such accounting follows. Positions in any one issuer aggregating 5% or more of the Private Funds' net assets in any particular year are separately disclosed. Dollars are in ($000s):

| Instrument | Shares or Option Contracts | Cost | Fair Value | % of Net Assets | Shares or Option Contracts | Cost | Fair Value | % of Net Assets |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2006 | | | | December 31, 2005 | | | |
| **Securities Owned, at Fair Value** | | | | | | | | |
| **Common Stock** | | | | | | | | |
| **North America** | | | | | | | | |
| Basic Materials | | $ 169,719 | $ 195,167 | 4.9% | | $ 95,725 | $ 119,205 | 4.5% |
| Communications | | | | | | | | |
| Time Warner Incorporated | 20,030,922 | 339,535 | 436,273 | 10.9% | 19,453,000 | 348,017 | 339,260 | 12.8% |
| Consumer, Cyclical | | | | | | | | |
| Federated Department Stores, Inc. | 6,818,345 | 252,769 | 259,983 | 6.5% | | — | — | — |
| Hilton Hotels Corporation | 4,057,440 | 111,089 | 141,605 | 3.5% | | — | — | — |
| Lear Corporation | 9,595,953 | 206,174 | 283,367 | 7.1% | | — | — | — |
| Fairmont Hotels and Resorts, Inc. | | — | — | — | 7,122,600 | 234,341 | 302,069 | 11.4% |
| Other Consumer, Cyclical | | 177,512 | 142,630 | 3.6% | | 117,950 | 49,280 | 1.9% |
| Total Consumer, Cyclical | | 747,544 | 827,585 | 20.7% | | 352,291 | 351,349 | 13.3% |
| Consumer, Non-Cyclical | | 187,960 | 186,873 | 4.7% | | 95,067 | 103,862 | 3.9% |
| Diversified | | — | — | 0.0% | | 9,422 | 11,734 | 0.4% |
| Energy | | | | | | | | |
| Kerr McGee Corp. | | — | — | — | 4,878,990 | 344,566 | 443,305 | 16.7% |
| The Williams Companies Incorporated | 4,840,724 | 106,307 | 126,440 | 3.2% | | — | — | — |
| Other Energy* | | 9,810 | 8,767 | 0.2% | | 185,093 | 187,730 | 7.1% |
| Total Energy | | 116,117 | 135,207 | 3.4% | | 529,659 | 631,035 | 23.8% |
| Financial | | | | | | | | |
| Cigna Corporation | 679,733 | 63,618 | 89,432 | 2.2% | | — | — | — |
| Other Financial* | | 244,107 | 270,854 | 6.8% | | 38,312 | 56,343 | 2.1% |
| Total Financial | | 307,725 | 360,286 | 9.0% | | 38,312 | 56,343 | 2.1% |
| Industrial | | — | — | — | | 52,522 | 57,720 | 2.2% |
| Technology | | 20,917 | 35,350 | 0.9% | | 14,329 | 20,043 | 0.8% |
| **Total North America** | | 1,889,517 | 2,176,741 | 54.5% | | 1,535,344 | 1,690,551 | 63.9% |
| **Europe** | | | | | | | | |
| Financial | | 40,117 | 53,828 | 1.3% | | 75,044 | 97,624 | 3.7% |
| Industrial | | — | — | — | | 44,230 | 63,076 | 2.4% |
| **Total Europe** | | 40,117 | 53,828 | 1.3% | | 119,274 | 160,700 | 6.1% |





**7. Investments and Related Matters – (continued)**

| Instrument | Shares or Option Contracts | Cost | Fair Value | % of Net Assets | Shares or Option Contracts | Cost | Fair Value | % of Net Assets |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2006 | | | | December 31, 2005 | | | |
| **Asia / Pacific** | | | | | | | | |
| Consumer, Non-Cyclical | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Korea Tobacco & Ginseng Corp | | — | — | — | 5,832,972 | 241,905 | 259,788 | 9.8% |
| Other Consumer, Non-Cyclical | | — | — | — | | 55,491 | 62,002 | 2.3% |
| **Total Asia / Pacific** | | — | — | — | | 297,396 | 321,790 | 12.2% |
| **Total Common Stock** | | 1,929,634 | 2,230,569 | 55.8% | | 1,952,014 | 2,173,041 | 82.1% |
| **Convertible Stock** | | | | | | | | |
| **North America** | | | | | | | | |
| Consumer, Cyclical | | 30,400 | 39,064 | 1.0% | | 30,400 | 27,968 | 1.1% |
| **Call Options** | | | | | | | | |
| **North America** | | | | | | | | |
| Communications | | | | | | | | |
| Time Warner Incorporated | | — | — | — | 253,719 | 176,351 | 190,036 | 7.2% |
| Consumer, Cyclical | | | | | | | | |
| Hilton Hotels Corporation | 4,536,080 | 38,715 | 69,856 | 1.7% | | — | — | — |
| Energy | | | | | | | | |
| The Williams Companies Incorporated | 11,216,800 | 81,931 | 102,297 | 2.6% | | — | — | — |
| Other Energy | | 33,861 | 54,541 | 1.4% | | 14,286 | 13,978 | 0.5% |
| Total Energy | | 115,792 | 156,838 | 3.9% | | 14,286 | 13,978 | 0.5% |
| Financial | | | | | | | | |
| Cigna Corporation | 2,104,320 | 67,233 | 121,146 | 3.0% | | — | — | — |
| **Total Call Options** | | 221,740 | 347,840 | 8.7% | | 190,637 | 204,014 | 7.7% |
| **REITs** | | | | | | | | |
| **North America** | | | | | | | | |
| Financial | | 123,971 | 127,063 | 3.2% | | — | — | — |
| **Corporate Debt** | | | | | | | | |
| **North America** | | | | | | | | |
| Communications | | — | — | — | | 31,743 | 31,485 | 1.2% |
| Consumer, Cyclical | | 6,434 | 6,960 | 0.2% | | 89,364 | 86,388 | 3.3% |
| Financial | | — | — | — | | 51,914 | 51,750 | 2.0% |
| **Total Corporate Debt** | | 6,434 | 6,960 | 0.2% | | 173,021 | 169,623 | 6.4% |
| **Warrants** | | | | | | | | |
| **North America** | | | | | | | | |
| Consumer, Non-Cyclical | | 2,214 | 5,733 | 0.1% | | 2,214 | 6,988 | 0.3% |
| **Total Securities Owned, at Fair Value** | | $2,314,393 | $2,757,229 | 69.0% | | $ 2,348,286 | $ 2,581,634 | 97.5% |

* No items greater than 5%.





**7. Investments and Related Matters – (continued)**

| (Dollars in Thousands) | Shares or Option Contracts | Proceeds | Fair Value | % of Net Assets | Shares or Option Contracts | Proceeds | Fair Value | % of Net Assets |
|---|---|---|---|---|---|---|---|---|
| Instrument | December 31, 2006 | | | | December 31, 2005 | | | |
| **Securities Sold, Not Yet Purchased, at Fair Value** | | | | | | | | |
| **Common Stock** | | | | | | | | |
| **North America** | | | | | | | | |
| Basic Materials | | $ 28,552 | $ 39,696 | 1.0% | | $ 12,454 | $ 8,794 | 0.3% |
| Consumer, Cyclical* | | 269,563 | 295,959 | 7.4% | | 11,755 | 11,901 | 0.4% |
| Communications | | 83,304 | 101,592 | 2.5% | | — | — | — |
| Financial | | 3,828 | 8,446 | 0.2% | | 19,299 | 24,764 | 0.9% |
| Funds | | 37,009 | 37,429 | 0.9% | | — | — | — |
| Energy Select Sector SPDR | | — | — | — | 4,800,000 | 235,911 | 241,488 | 9.1% |
| Industrial | | — | — | — | | 485 | 271 | 0.0% |
| **Total Common Stock** | | 422,256 | 483,122 | 12.1% | | 279,904 | 287,218 | 10.9% |
| **Put Options** | | | | | | | | |
| **North America** | | | | | | | | |
| Communications | | — | — | — | | 500 | — | 0.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Consumer, Cyclical | 45 | — | — | — | — | — |
| Energy | 128 | — | — | — | — | — |
| Financial | 22 | — | — | — | — | — |
| **Total Put Options** | 195 | — | 0.0% | 500 | — | 0.0% |
| **REITs** | | | | | | |
| **North America** | | | | | | |
| Financial | 75,836 | 81,784 | 2.0% | 65,467 | 73,878 | 2.8% |
| **Corporate Debt** | | | | | | |
| **North America** | | | | | | |
| Consumer, Cyclical | 126,491 | 126,380 | 3.2% | 5,926 | 5,928 | 0.2% |
| **Total Securities Sold, Not Yet Purchased, at Fair Value** | $624,778 | $ 691,286 | 17.3% | $351,797 | $367,024 | 13.9% |

* No items greater than 5%.





**7. Investments and Related Matters – (continued)**

| (Dollars in Thousands) | Shares or Option Contracts | Cost | Fair Value | % of Net Assets | Shares or Option Contracts | Cost | Fair Value | % of Net Assets |
|---|---|---|---|---|---|---|---|---|
| Instrument | December 31, 2006 | | | | December 31, 2005 | | | |
| **Unrealized Gain on Open Derivative Contracts, at Fair Value** | | | | | | | | |
| **Equity Swaps** | | | | | | | | |
| **North America** | | | | | | | | |
| Basic Materials | | $ — | $ 3,027 | 0.1% | | $ — | $ — | — |
| Consumer, Cyclical | | | | | | | | |
| Lear Corporation | 4,669,120 | — | 47,366 | 1.2% | | — | — | — |
| Other Consumer, Cyclical | | — | 11,564 | 0.3% | | — | — | — |
| Total Consumer, Cyclical | | — | 58,930 | 1.5% | | — | — | — |
| Consumer, Non-Cyclical | | — | 7,207 | 0.2% | | — | — | — |
| Energy | | — | 9,630 | 0.2% | | — | — | — |
| **Total North America** | | — | 78,794 | 2.0% | | — | — | — |
| **Asia / Pacific** | | | | | | | | |
| Consumer, Non-Cyclical | | — | 1,422 | 0.0% | | — | — | — |
| **Total Asia / Pacific** | | — | 1,422 | 0.0% | | — | — | — |
| **Total Equity Swaps** | | — | 80,216 | 2.0% | | — | — | — |
| **Credit Default Swaps-Buy Protection** | | | | | | | | |
| **North America** | | | | | | | | |
| Basic Materials | | — | — | — | | — | 29 | 0.0% |
| **Total Unrealized Gain on Open Derivative Contracts, at Fair Value** | | $ — | $ 80,216 | 2.0% | | $ — | $ 29 | 0.0% |
| **Unrealized Loss on Open Derivative Contracts, at Fair Value** | | | | | | | | |
| **Equity Swaps** | | | | | | | | |
| **North America** | | | | | | | | |
| Energy | | $ — | $ 1,432 | 0.0% | | $ — | $ — | — |
| **Credit Default Swaps-Sell Protection** | | | | | | | | |
| **North America** | | | | | | | | |
| Consumer, Cyclical | | — | — | — | | — | 1,352 | 0.1% |
| **Futures Contracts** | | | | | | | | |
| **North America** | | | | | | | | |
| Financial | | — | 266 | 0.0% | | — | 1,725 | 0.1% |
| **Total Forward Currency Contracts** | | — | 72 | 0.0% | | — | 6,276 | 0.2% |
| **Total Unrealized Loss on Open Derivative Contracts, at Fair Value** | | $ — | $ 1,770 | 0.0% | | $ — | $ 9,353 | 0.4% |

* No items greater than 5%.

ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**7. Investments and Related Matters – (continued)**

***Investments in Variable Interest Entities***

The Investment Management and GP Entities consolidate certain VIEs when they are determined to be the primary beneficiary, either directly or indirectly through other consolidated subsidiaries. The assets of the consolidated VIEs are primarily classified within cash held at consolidated affiliated partnerships and restricted cash and securities owned, at fair value in the consolidated balance sheets. The liabilities of the consolidated VIEs are primarily classified within securities sold, not yet purchased, at fair value, in the consolidated balance sheets and are non-recourse to the Investment Management and GP Entities' general credit.

The consolidated VIEs consist solely of the Offshore Fund whose purpose and activities are further described in Note 1, "Description of Business and Basis of Presentation." The Investment Management and GP Entities sponsored the formation of and manage each of these VIEs and, in some cases, have a principal investment therein.

The following table presents information regarding interests in VIEs for which the Investment Management and GP Entities hold a variable interest as of December 31, 2006 (in $000s):

| | Investment Management and GP Entities Are Primary Beneficiary | |
|---|---|---|
| | Net Assets | Investment Management and GP Entities' Interests |
| Offshore Fund | $ 2,016,375 | $ 87,171 |

***b. Holding Company and Other Operations***

Investments consist of the following (in $000s):

| | December 31, 2006 | | December 31, 2005 | |
|---|---|---|---|---|
| | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value |
| Trading securities | $ — | $ — | $ 31,777 | $ 38,112 |
| Available-for-sale: | | | | |
| Marketable equity and debt securities | 242,080 | 270,954 | 654,332 | 650,012 |
| Other investments | 247,674 | 249,708 | 28,454 | 28,454 |
| Total available-for-sale investments | 489,754 | 520,662 | 682,786 | 678,466 |
| Investments in ImClone Systems | 146,794 | 164,306 | 95,745 | 97,255 |
| Other securities | 15,627 | 15,627 | 3,035 | 3,035 |
| Total investments | $ 652,175 | $ 700,595 | $ 813,343 | $ 816,868 |



ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**7. Investments and Related Matters – (continued)**

Net realized and unrealized gains (losses) on our Holding Company and other investments were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Net realized gains on sales of marketable securities | $ 69,099 | $ 10,120 | $ 40,159 |
| Unrealized gains (losses) on marketable securities | 21,288 | 9,856 | (4,812) |
| Net realized losses on securities sold short | (17,146) | (37,058) | — |
| Unrealized gains (losses) on securities sold short | 18,067 | (4,178) | (18,807) |
| Net gain (loss) from investment activities | $ 91,308 | $ (21,260) | $ 16,540 |

Proceeds from the sales of available-for-sale securities were $726.8 million, $96.9 million and $82.3 million for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. The gross realized gains on available-for-sale securities sold for fiscal 2006, fiscal 2005 and fiscal 2004 were $47.5 million, $8.6 million and $37.2 million, respectively. The net unrealized gains for trading securities for fiscal 2006 and fiscal 2005 were approximately $0.0 million and $6.3 million, respectively. For purposes of determining gains and losses, the cost of securities is based on specific identification. Net unrealized holding gains on available-for-sale securities in the

amount of $29.7 million for fiscal 2006, and net unrealized holding losses on available for sale securities in the amount of $4.2 million and $9.5 million for fiscal 2005 and fiscal 2004, respectively, have been included in accumulated other comprehensive income.

In the third quarter of fiscal 2005, we began using the services of an unaffiliated third-party investment manager to manage certain fixed income investments. At December 31, 2006 and 2005, $163.7 million and $448.8 million, respectively, had been invested at the discretion of such manager in a diversified portfolio consisting predominantly of short-term investment grade debt securities. Investments managed by the third-party investment manager are classified as available-for-sale securities in the accompanying consolidated balance sheets. As of December 31, 2006, accrued expenses and other current liabilities included $46.4 million relating to unsettled trades of securities.

Included in other securities are 12,842,000 shares of SandRidge's common stock, received as consideration for the sale of our oil and gas operations, and which are valued at $231.2 million as of December 31, 2006. As of December 31, 2006 there was no readily available market for such securities.

***Investment in ImClone***

As described in Note 2 above, in the fourth quarter of 2006, we changed our method of accounting for our investment in ImClone, to the equity method of accounting. As a result, the financial statements of prior years have been adjusted to apply the new method retrospectively.

The effect of the change increased our fiscal 2006 net income by $12.6 million, or $0.23 per unit. The financial statements for fiscal 2005 have been retrospectively adjusted for the change, which resulted in an increase of net income for fiscal 2005 of $1.4 million, or $0.04 per unit. The cumulative effect of the change resulted in an increase and decrease in our total partners' equity by $42.2 million and $2.9 million at December 31, 2006 and 2005, respectively, as a result of recording our proportionate share of ImClone's net income, other comprehensive income and other changes in ImClone's stockholders' equity.

At December 31, 2006 and 2005, our carrying value of our equity investment in ImClone was $164.3 million and $97.3 million, respectively. As of December 31, 2006, the market value of our ImClone shares held was $122.2 million. As of September 30, 2006, our underlying equity in the net assets of ImClone was approximately $36.3 million. While we recognize that the carrying value of our investment in ImClone as of December 31, 2006 is greater than the market value of our shares held, we believe that this is a temporary decline and accordingly no impairment has been recognized.





**7. Investments and Related Matters – (continued)**

As discussed in Note 2 "Summary of Significant Accounting Policies," we adopted the fair value option pursuant to SFAS No. 159 to our investment in ImClone as of January 1, 2007.

The combined results of operations and financial position of ImClone for the periods indicated are as follows (in $000s):

| | Nine Months Ended September 30, 2006 | Year Ended December 31, 2005 |
|---|---|---|
| Condensed Income Statement Information: | | |
| Net sales | $ 545,684 | $ 383,673 |
| Operating income | $ 240,196 | $ 66,779 |
| Net income | $ 324,116 | $ 86,496 |
| Condensed Balance Sheet Information: | | |
| Current assets | $ 1,187,060 | $ 909,118 |
| Non-current assets | 597,728 | 434,297 |
| Total assets | $ 1,784,788 | $ 1,343,415 |
| Current liabilities | $ 237,304 | $ 242,119 |
| Non-current liabilities | 874,900 | 848,892 |
| Equity | 672,584 | 252,404 |
| Total liabilities and equity | $ 1,784,788 | $ 1,343,415 |

***Margin Liability on Marketable Securities***

At December 31, 2005, a liability of $131.1 million was recorded related to purchases of securities from a broker that had been made on margin. There was no margin liability outstanding at December 31, 2006. The margin liability is secured by the securities we purchased and cannot exceed certain pre-established percentages of the fair market value of the securities collateralizing the liability. If the balance of the margin exceeds certain pre-established percentages of the fair market value of the securities collateralizing the liability, we will be subject to a margin call and required to fund the account to return the margin balance to certain pre-established percentages of the fair market value of the securities collateralizing the liability.

ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**8. Fair Value of Financial Instruments**

The estimated fair values of our financial instruments as of December 31, 2006 and 2005 are as follows (in $000s):

| | Carrying Value | | Fair Value | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Investment Management** | | | | |
| **Assets** | | | | |
| Securities owned, at fair value | $2,757,229 | $2,581,634 | $2,757,229 | $ 2,581,634 |
| Unrealized gains on derivative contracts, at fair value | 80,216 | 29 | 80,216 | 29 |
| | $2,837,445 | $2,581,663 | $2,837,445 | $ 2,581,663 |
| **Liabilities** | | | | |
| Securities sold, not yet purchased, at fair value | $ 691,286 | $ 367,024 | $ 691,286 | $ 367,024 |
| Unrealized losses on derivative contracts, at fair value | 1,770 | 9,353 | 1,770 | 9,353 |
| | $ 693,056 | $ 376,377 | $ 693,056 | $ 376,377 |
| **Holding Company and Other Operations** | | | | |
| **Assets** | | | | |
| Investment securities | $ 700,595 | $ 816,868 | $ 658,411 | $ 832,714 |
| Unrealized gains on derivative contracts, at fair value | 20,538 | 1,121 | 20,538 | 1,121 |
| | $ 721,133 | $ 817,989 | $ 678,949 | $ 833,835 |
| **Liabilities** | | | | |
| Long-term debt | $ 953,394 | $ 918,235 | $ 953,283 | $ 937,252 |
| Securities sold, not yet purchased, at fair value | 25,398 | 75,883 | 25,398 | 75,883 |
| | $ 978,792 | $ 994,118 | $ 978,681 | $ 1,013,135 |

***a. Investment Management***

The Private Funds' financial instruments are stated at fair value in accordance with the AICPA Guide. See Note 7, "Investments and Related Matters," for a condensed schedule of the Private Funds' investments presented pursuant to the AICPA Guide.

***b. Holding Company and Other Operations***

In determining fair value of financial instruments, we used quoted market prices when available. For instruments where quoted market prices were not available, we estimated the present values utilizing current risk-adjusted market rates of similar instruments. The carrying values of cash and cash equivalents, accounts receivable and payable, other accruals, securities sold under agreements to repurchase and other liabilities are deemed to be reasonable estimates of their fair values because of their short-term nature.

Considerable judgment is necessarily required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.



ICAHN ENTERPRISES L.P. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

**9. Financial Instruments, Off-Balance-Sheet Risk and Concentrations of Credit Risk**

***a. Investment Management***

The Private Funds maintain their cash deposits with a major financial institution. Certain account balances may not be covered by the Federal Deposit Insurance Corporation, while other accounts, at times, may exceed federally insured limits. We believe that the risk is not significant. Substantially all of the Onshore Fund's and Offshore Master Fund I's investments are held by, and its depository and clearing operations are transacted by, two prime brokers. The prime brokers are highly capitalized and members of major securities exchanges.

In the normal course of business, the Private Funds trade various financial instruments and enter into certain investment

activities, which may give rise to off-balance-sheet risk. Currently, the Private Funds invest in futures, options and securities sold, not yet purchased. These financial instruments represent future commitments to purchase or sell other financial instruments or to exchange an amount of cash based on the change in an underlying instrument at specific terms at specified future dates. Risks arise with these financial instruments from potential counter-party non-performance and from changes in the market values of underlying instruments.

Securities sold, not yet purchased represent obligations of the Private Funds to deliver the specified security, thereby creating a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk, as the Private Funds' satisfaction of the obligations may exceed the amount recognized in the supplemental consolidated balance sheets. The Private Funds' investments in securities and amounts due from broker are partially restricted until the Private Funds satisfy the obligation to deliver the securities sold, not yet purchased.

The Private Funds also may purchase and write option contracts. As a writer of option contracts, the Private Funds receive a premium at the outset and then bear the market risk of unfavorable changes in the price of the underlying financial instrument. As a result of writing option contracts, the Private Funds are obligated to purchase or sell, at the holder's option, the underlying financial instrument. Accordingly, these transactions result in off-balance-sheet risk, as the Private Funds' satisfaction of the obligations may exceed the amount recognized in the supplemental consolidated balance sheets. The Private Funds write put options that may require them to purchase assets from the option holder and generally are net settled in cash at a specified date in the future. At December 31, 2006 and 2005, the maximum payout amounts relating to written put options were $510.5 million and $100.0 million, respectively. As of December 31, 2006 and 2005, the carrying amounts of the liability under written put options recorded within securities sold, not yet purchased, at fair value were $0.

The Private Funds have entered into total return swap contracts that involve an exchange of cash flows based on a commitment to pay a variable rate of interest in exchange for a market-linked return based on a notional amount. The market-linked return may include, among other things, the total return of a security or index.

The Private Funds trade futures contracts. A futures contract is a firm commitment to buy or sell a specified quantity of a standardized amount of a deliverable grade commodity, security, currency or cash at a specified price and specified future date unless the contract is closed before the delivery date. Payments (or variation margin) are made or received by the Private Funds each day, depending on the daily fluctuations in the value of the contract, and the whole value change is recorded an as an unrealized gain or loss by the Private Funds. When the contract is closed, the Private Funds record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The Private Funds utilize forward contracts to protect their assets denominated in foreign currencies from losses due to fluctuations in foreign exchange rates. The Private Funds' exposure to credit risk associated with non-performance of forward foreign currency contracts is limited to the unrealized gains inherent in such





**9. Financial Instruments, Off-Balance-Sheet Risk and Concentrations of Credit Risk – (continued)**

contracts, which are recognized in unrealized losses on derivative, futures and foreign currency contracts, at fair value in the consolidated balance sheets.

***b. Holding Company and Other Operations***

We have entered into total return swap contracts that involve an exchange of cash flows based on a commitment to pay a variable rate of interest in exchange for a market-linked return based on a notional amount. The market-linked return may include, among other things, the total return of a security or index.

## 10. Property, Plant and Equipment, Net

Property, plant and equipment consist of the following (in $000s):

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Land | $ 63,006 | $ 65,697 |
| Buildings and improvements | 127,180 | 106,018 |
| Machinery, equipment and furniture | 219,673 | 160,871 |
| Assets leased to others | 123,398 | 141,997 |
| Construction in progress | 96,902 | 82,475 |
| | 630,159 | 557,058 |
| Less accumulated depreciation and amortization | (94,886) | (60,025) |
| | $ 535,273 | $ 497,033 |

Depreciation and amortization expense from continuing operations related to property, plant and equipment for fiscal 2006, fiscal 2005 and fiscal 2004 was $44.9 million, $28.6 million and $8.1 million, respectively.

## 11. Non-Controlling Interests

Non-controlling interests consist of the following (in $000s):

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Investment Management | $3,628,470 | $ 2,548,900 |
| Holding Company and other operations: | | |
| WPI | 178,843 | 247,015 |
| Atlantic Coast | 70,563 | 57,584 |
| NEGI | 42,815 | — |
| Total Holding Company and other operations | 292,221 | 304,599 |
| Total non-controlling interests in consolidated entities | $3,920,691 | $ 2,853,499 |

***a. Investment Management***

The Investment Funds and the Offshore Fund are consolidated into our financial statements even though we only have a minority interest in the equity and income of these funds. As a result, our consolidated financial statements reflect the assets, liabilities, revenues, expenses and cash flows of these funds on a gross basis, rather than reflecting only the value of our investments in such funds. As of December 31, 2006, the net asset value of the consolidated Private Funds on our consolidated balance sheet was $4.0 billion, while the net asset value of our investments in these consolidated funds was approximately $280.7 million. The majority ownership interests in these funds, which represent the portion of the consolidated Private Funds' net assets and net income attributable to the limited partners and shareholders in the consolidated Private Funds for the periods





**11. Non-Controlling Interests – (continued)**

presented, are reflected as non-controlling interests in consolidated entities — Investment Management in the supplemental consolidated balance sheets and non-controlling interests in income of consolidated entities — Investment Management in the supplemental consolidated statements of operations.

***b. Holding Company and Other Operations***

The non-controlling interests in WPI declined due to losses incurred during fiscal 2006, while the non-controlling interests in Atlantic Coast increased due to income earned as well as the gain recognized upon the disposition of Atlantic City properties in November 2006. There was no non-controlling interest in NEGI in fiscal 2005 because NEGI had a deficit equity balance.

**12. Long-Term Debt**

Long-term debt consists of the following (in $000s):

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Senior unsecured 7.125% notes due 2013 — Icahn Enterprises | $ 480,000 | $ 480,000 |
| Senior unsecured 8.125% notes due 2012 — Icahn Enterprises | 351,246 | 350,922 |
| Senior secured 7.85% notes due 2012 — ACEP | 215,000 | 215,000 |
| Borrowings under credit facilities — ACEP | 40,000 | — |
| Borrowings under credit facilities — NEG Oil & Gas | — | 300,000 |
| Credit agreement and capital lease obligations — Metals | 2,259 | 3,466 |
| Mortgages payable | 109,289 | 81,512 |
| Other | 13,425 | 8,387 |
| Total long-term debt | 1,211,219 | 1,439,287 |
| Less: debt related to assets held for sale | (257,825) | (521,052) |
| | $ 953,394 | $ 918,235 |

***Senior Unsecured Notes — Icahn Enterprises***

*Senior Unsecured 7.125% Notes Due 2013*

On February 7, 2005, we issued $480.0 million aggregate principal amount of 7.125% senior unsecured notes due 2013 (the "7.125% notes"), priced at 100% of principal amount. The 7.125% notes were issued pursuant to an indenture dated February 7, 2005 among us, as issuer, Icahn Enterprises Finance Corp. ("IEF"), which was formerly known as American Real Estate Finance Corp., as co-issuer, IEH, as guarantor, and Wilmington Trust Company, as trustee (referred to herein as the "2005 Indenture"). Other than IEH, no other subsidiaries guarantee payment on the notes. The notes have a fixed annual interest rate of 7.125%, which will be paid every six months on February 15 and August 15 and will mature on February 15, 2013. See Note 20, Subsequent Events, for a description of additional $500.0 million aggregate principal amount of 7.125% notes offered in January 2007.

As described below, the 2005 Indenture restricts the ability of Icahn Enterprises and IEH, subject to certain exceptions, to, among other things: incur additional debt; pay dividends or make distributions; repurchase units; create liens; and enter into

transactions with affiliates.

*Senior Unsecured 8.125% Notes Due 2012*

On May 12, 2004, Icahn Enterprises and IEF co-issued senior unsecured 8.125% notes due 2012 ("8.125% notes") in the aggregate principal amount of $353.0 million. The 8.125% notes were issued pursuant to an indenture, dated as of May 12, 2004, among Icahn Enterprises, IEF, IEH, as guarantor, and





**12. Long-Term Debt – (continued)**

Wilmington Trust Company, as trustee. The 8.125% notes were priced at 99.266% of principal amount and have a fixed annual interest rate of 8.125%, which is paid every six months on June 1 and December 1, since December 1, 2004. The 8.125% notes will mature on June 1, 2012. Other than IEH, no other subsidiaries guarantee payment on the notes.

As described below, the indenture governing the 8.125% notes restricts the ability of Icahn Enterprises and IEH, subject to certain exceptions, to, among other things: incur additional debt; pay dividends or make distributions; repurchase units; create liens and enter into transactions with affiliates.

*Senior Unsecured Notes Restrictions and Covenants*

The indentures governing our senior unsecured 7.125% and 8.125% notes restrict the payment of cash distributions, the purchase of equity interests or the purchase, redemption, defeasance or acquisition of debt subordinated to the senior unsecured notes. The indentures also restrict the incurrence of debt or the issuance of disqualified stock, as defined, with certain exceptions, provided that we may incur debt or issue disqualified stock if, immediately after such incurrence or issuance, the ratio of the aggregate principal amount of all outstanding indebtedness of Icahn Enterprises and its subsidiaries on a consolidated basis to the tangible net worth of Icahn Enterprises and its subsidiaries on a consolidated basis would be less than 1.75 to 1.0. As of December 31, 2006, such ratio was less than 1.75 to 1.0. Based on this ratio, we and IEH could have incurred up to approximately $1.6 billion of additional indebtedness.

In addition, the indentures governing our senior unsecured notes require that on each quarterly determination date we and the guarantor of the notes (currently only IEH) maintain a minimum ratio of cash flow to fixed charges each as defined, of 1.5 to 1.0, for the four consecutive fiscal quarters most recently completed prior to such quarterly determination date. For the four quarters ended December 31, 2006, the ratio of cash flow to fixed charges was greater than 1.5 to 1.0.

The indentures also require, on each quarterly determination date, that the ratio of total unencumbered assets, as defined, to the principal amount of unsecured indebtedness, as defined, be greater than 1.5 to 1.0 as of the last day of the most recently completed fiscal quarter. As of December 31, 2006, such ratio was in excess of 1.5 to 1.0.

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

As of December 31, 2006, we were in compliance with each of the covenants contained in our senior unsecured notes. Each of the aforementioned ratios were calculated as of December 31, 2006 without the contemplation of the acquisition of either our Investment Management or Metals segments. We expect to be in compliance with each of the debt covenants for the period of at least 12 months from December 31, 2006 after taking into account our Investment Management and Metals segments.

***Senior Secured Revolving Credit Facility — Icahn Enterprises***

On August 21, 2006, we and IEF as the borrowers, and certain of our subsidiaries, as guarantors, entered into a credit agreement with Bear Stearns Corporate Lending Inc., as administrative agent, and certain other lender parties. Under the credit agreement, we are permitted to borrow up to $150.0 million, including a $50.0 million sub-limit that may be used for letters of credit. Borrowings under the agreement, which are based on our credit rating, bear interest at LIBOR plus 1.0% to 2.0%. We pay an unused line fee of 0.25% to 0.5%. As of December 31, 2006, there were no borrowings under the facility.

Obligations under the credit agreement are guaranteed and secured by liens on substantially all of the assets of certain of our indirect wholly owned holding company subsidiaries. The credit agreement has a term of four years and all amounts are due and payable on August 21, 2010. The credit agreement includes covenants that, among other things, restrict the creation of liens and certain dispositions of property by holding

**12. Long-Term Debt – (continued)**

company subsidiaries that are guarantors. Obligations under the credit agreement are immediately due and payable upon the occurrence of certain events of default.

***Senior Secured 7.85% Notes Due 2012 — ACEP***

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

The indenture governing the ACEP's 7.85% senior secured notes due 2012 restricts the payment of cash dividends or distributions by ACEP, the purchase of its equity interests, the purchase, redemption, defeasance or acquisition of debt subordinated to ACEP's notes and investments as "restricted payments." The indenture also prohibits the incurrence of debt or the issuance of disqualified or preferred stock, as defined, by ACEP, with certain exceptions, provided that ACEP may incur debt or issue disqualified stock if, immediately after such incurrence or issuance, the ratio of consolidated cash flow to fixed charges (each as defined) for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional indebtedness is incurred or disqualified stock or preferred stock is issued would have been at least 2.0 to 1.0, determined on a pro forma basis giving effect to the debt incurrence or issuance. As of December 31, 2006, such ratio was in excess of 2.0 to 1.0. The indenture also restricts the creation of liens, the sale of assets, mergers, consolidations or sales of substantially all of ACEP's assets, the lease or grant of a license, concession, other agreements to occupy, manage or use ACEP's assets, the issuance of capital stock of restricted subsidiaries and certain related party transactions. The indenture governing the ACEP notes allows ACEP and its restricted subsidiaries to incur indebtedness, among other things, of up to $50.0 million under credit facilities, non-recourse financing of up to $15.0 million to finance the construction, purchase or lease of personal or real property used in its business, permitted affiliate subordinated indebtedness (as defined), the issuance of additional 7.85% senior secured notes due 2012 in an aggregate principal amount not to exceed 2.0 times net cash proceeds received from equity offerings and permitted affiliate subordinated debt, and additional indebtedness of up to $10.0 million.

***Senior Secured Revolving Credit Facility — ACEP***

Effective May 11, 2006, ACEP, and certain of ACEP's subsidiaries, as guarantors, entered into an amended and restated credit agreement with Wells Fargo Bank N.A., as syndication agent, Bear Stearns Corporate Lending Inc., as administrative agent, and certain other lender parties. As of December 31, 2006, the interest rate on the outstanding borrowings under the credit facility was 6.85% per annum. The credit agreement amends and restates, and is on substantially the same terms as, a credit agreement entered into as of January 29, 2004. Under the credit agreement, ACEP will be permitted to borrow up to $60.0 million. Obligations under the credit agreement are secured by liens on substantially all of the assets of ACEP and its subsidiaries. The credit agreement has a term of four years and all amounts will be due and payable on May 10, 2010. As of December 31, 2006, there were $40.0 million of borrowings under the credit agreement. The borrowings were incurred to finance a portion of the purchase price of the Aquarius.

The credit agreement includes covenants that, among other things, restrict the incurrence of additional indebtedness by ACEP and its subsidiaries, the issuance of disqualified or preferred stock, as defined, the creation of liens by ACEP or its subsidiaries, the sale of assets, mergers, consolidations or sales of substantially all of ACEP's assets, the lease or grant of a license or concession, other agreements to occupy, manage or use ACEP's assets, the issuance of capital stock of restricted subsidiaries and certain related party transactions. The credit agreement also requires that, as of the last date of each fiscal quarter, ACEP's ratio of consolidated first lien debt to consolidated cash flow not be more than 1.0 to 1.0. As of December 31, 2006, such ratio was less than 1.0 to 1.0. As of December 31, 2006, ACEP was in compliance with each of the covenants.





**12. Long-Term Debt – (continued)**

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

As described in Note 1, on April 22, 2007, AEP entered into an agreement to sell all of the issued and outstanding membership interests of ACEP. Pursuant to the terms of the agreement, AEP is required to cause ACEP to repay from funds provided by AEP the principal, interest, prepayment penalty or premiums due on ACEP's 7.85% senior secured notes due 2012 and ACEP's senior secured credit facility.

***Senior Secured Revolving Credit Facility — NEG Oil & Gas LLC***

On December 22, 2005, NEG Oil & Gas entered into a credit facility, dated as of December 20, 2005, with Citicorp USA, Inc. as administrative agent, Bear Stearns Corporate Lending Inc., as syndication agent, and certain other lender parties.

Under the credit facility, NEG Oil & Gas was permitted to borrow up to $500.0 million. Borrowings under the revolving credit

facility was subject to a borrowing base determination based on the oil and gas properties of NEG Oil & Gas and its subsidiaries and the reserves and production related to those properties. Obligations under the credit facility were secured by liens on all of the assets of NEG Oil & Gas and its wholly owned subsidiaries. The credit facility had a term of five years and all amounts were due and payable on December 20, 2010. Advances under the credit facility would be in the form of either base rate loans or Eurodollar loans, each as defined. At December 31, 2005, the interest rate on the outstanding amount under the credit facility was 6.44%. Commitment fees for the unused credit facility ranged from 0.375% to 0.50% and were payable quarterly.

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

As discussed above, on November 21, 2006, our indirect wholly owned subsidiary, AREP O & G Holdings LLC, consummated the sale of all of the issued and outstanding membership interests of NEG Oil & Gas LLC to SandRidge, for aggregate consideration consisting of $1.025 billion in cash, 12,842,000 shares of SandRidge's common stock, valued at $18 per share on the date closing, and the repayment by SandRidge of the outstanding borrowings under the NEG Oil & Gas $300.0 million credit facility.

***Credit Agreement — Metals***

On December 30, 2004, Philip and its subsidiaries, including PSC Metals, entered into a credit agreement with UBS Securities LLC, as lead arranger, and three other financial institutions, of up to $120.0 million, which matures on December 30, 2009. Prior to our acquisition of PSC Metals on November 5, 2007, PSC Metals was a co-borrower under the credit agreement and had granted a security interest in substantially all of its assets to secure its obligation thereunder. The credit agreement provides for a revolving line of credit, subject to a borrowing base formula calculated on eligible accounts receivable and eligible scrap metal inventory. Borrowings under the credit agreement bear interest at a rate equal to the base rate (which is based on the UBS AG Bank "prime rate") plus 1.00%, 1.25% or 1.50% depending on Philip's total liquidity (greater than $50.0 million, $25.0 million to $50.0 million and less than $25.0 million, respectively). Total liquidity is generally defined under the credit agreement as the sum of the borrowing base availability (determined monthly) and the available cash. The credit agreement will generally be used to issue letters of credit to support financial assurance needs related to insurance, environmental, bonding and vendor programs. The letters of credit bear an annual fee of 2.0%. PSC Metals had undrawn capacity of $64.1 million and $43.9 million at December 31, 2006 and 2005, respectively, no borrowings outstanding and outstanding letters of credit of $55.7 million and $74.4 million at December 31, 2006 and 2005, respectively.





**12. Long-Term Debt – (continued)**

As of December 31, 2006 and 2005, Philip was required to maintain the following financial covenants under the credit agreement: (i) maximum leverage, which is consolidated indebtedness to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA"), ratio of 5 to 1, (ii) maximum senior leverage, which is consolidated indebtedness less all subordinated indebtedness to consolidated EBITDA, ratio of 3 to 1 and (iii) minimum fixed charge coverage, which is consolidated EBITDA to the sum of consolidated interest expense, capital expenditures, cash tax payments and principal payments, ratio of 1.1 to 1. Financial covenants are not tested if total liquidity is $25.0 million or greater. At December 31, 2006 and 2005, Philip was in compliance with the covenants under the credit agreement.

The various components of long-term debt described in this note are financial instruments. As of December 31, 2006 and 2005, the carrying value of PSC Metals' debt approximated its fair market value.

In connection with our acquisition of PSC Metals on November 5, 2007, certain proceeds of the transaction were used to release PSC Metals from all claims, guarantees and future obligations under the credit agreement. See Note 20, "Subsequent Events — Acquisition of PSC Metals," for further discussion.

***Mortgages Payable***

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

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Total mortgages | $ 109,289 | $ 81,512 |
| Less mortgages on properties held for sale | (18,174) | (18,104) |
| | $ 91,115 | $ 63,408 |

On June 30, 2006, certain of our indirect subsidiaries engaged in property development and associated resort activities entered into a $32.5 million loan agreement with Textron Financial Corp. The loan is secured by a mortgage on our New Seabury golf

course and resort in Mashpee, Massachusetts. The loan bears interest at the rate of 7.96% per annum and matures in five years with a balloon payment due of $30.0 million. Annual debt service payments of $3.0 million are required, which are payable in monthly installment amounts based on a 25-year amortization schedule.

***Secured Revolving Credit Agreement — WestPoint Home***

On June 16, 2006, WestPoint Home, Inc., an indirect wholly owned subsidiary of WPI, entered into a $250.0 million loan and security agreement with Bank of America, N.A., as administrative agent and lender. On September 18, 2006, The CIT Group/Commercial Services, Inc., General Electric Capital Corporation and Wells Fargo Foothill, LLC were added as lenders under this credit agreement. Under the five-year agreement, borrowings are subject to a monthly borrowing base calculation and include a $75.0 million sub-limit that may be used for letters of credit. Borrowings under the agreement bear interest, at the election of WestPoint Home, either at the prime rate adjusted by an applicable margin ranging from minus 0.25% to plus 0.50% or LIBOR adjusted by an applicable margin ranging from plus 1.25% to 2.00%. WestPoint Home pays an unused line fee of 0.25% to 0.275%. Obligations under the agreement are secured by WestPoint Home's receivables, inventory and certain machinery and equipment.

The agreement contains covenants including, among others, restrictions on the incurrence of indebtedness, investments, redemption payments, distributions, acquisition of stock, securities or assets of any other entity and capital expenditures. However, WestPoint Home is not precluded from effecting any of these transactions if excess availability, after giving effect to such transaction, meets a minimum threshold.





**12. Long-Term Debt – (continued)**

As of December 31, 2006, there were no borrowings under the agreement, but there were outstanding letters of credit of approximately $40.1 million, the majority of which relate to trade obligations.

***Maturities***

The following is a summary of the maturities of our debt obligations (in $000s):

| | |
|---|---|
| 2007 | $ 24,622 |
| 2008 | 29,621 |
| 2009 | 6,942 |
| 2010 | 41,799 |
| 2011 | 31,559 |
| 2012 – 2017 | 1,076,676 |
| | $ 1,211,219 |

**13. Compensation Arrangements**

***a. Investment Management***

The Investment Management and GP Entities have entered into agreements with certain of their employees whereby these employees have been granted rights to participate in a portion of the management fees and incentive allocations earned by the Investment Management and GP Entities, net of certain expenses, and subject to various vesting provisions. The vesting period of these rights is generally between two to seven years, and such rights expire at the end of the contractual term of each respective employment agreement. Up to 100% of the amounts earned annually under such rights may be deferred for a period not to exceed ten years from the date of deferral, based on an annual election made by the employee for the upcoming fiscal year's respective management fee and incentive allocation rights. These amounts remain invested in the Private Funds and generally earn the rate of return of these funds, before the effects of any management fees or incentive allocations, which are waived on such deferred amounts. Accordingly, these rights are accounted for as liabilities in accordance with SFAS No. 123R and remeasured at fair value each reporting period until settlement.

Prior to the adoption of SFAS No. 123R, the Investment Management and GP Entities had accounted for such rights under APB 25, which measured the liability at intrinsic value. The adoption of SFAS No. 123R and the remeasurement of all previously outstanding rights did not have any impact on the supplemental consolidated financial statements as the intrinsic value of these awards, as further described herein, approximates their fair value.

The fair value of amounts deferred under these rights is determined at the end of each reporting period based, in part, on the (i) fair value of the underlying net assets of the Private Funds, upon which the respective management fees and incentive allocations are based and (ii) performance of the funds in which the deferred amounts are reinvested. The carrying value of such amounts represents the allocable management fees or incentive fees initially deferred and the appreciation or depreciation on any reinvested deferrals. These amounts approximate fair value because the appreciation or depreciation on the deferrals is based on the fair value of the Private Funds' investments, which are marked-to-market through earnings on a quarterly basis.

The Investment Management and GP Entities recorded compensation expense of $17.3 million, $3.3 million and $0.3 million

related to these rights for the fiscal years ended December 31, 2006 and 2005, and for the period from November 1, 2004 (commencement of operations) to December 31, 2004, respectively, which is included in expenses of our Investment Management segment in the supplemental consolidated statements of operations. Compensation expense arising from deferral arrangements is recognized in the supplemental consolidated financial statements over the vesting period. Accordingly, unvested balances of deferred management fee and incentive fee income allocations to certain employees are not reflected in the supplemental





**13. Compensation Arrangements – (continued)**

consolidated financial statements. Deferred amounts not yet recognized as compensation expense within the supplemental consolidated statements of operations were $8.0 million, $3.4 million and $0.5 million as of December 31, 2006, 2005 and 2004, respectively. That cost is expected to be recognized over a weighted average of 4.1 years. Cash paid to settle rights that had vested and had been withdrawn for the fiscal years ended December 31, 2006 and 2005, and for the period from November 1, 2004 (commencement of operations) to December 31, 2004 was $6.4 million, $1.0 million and $0, respectively.

The liabilities incurred by Icahn Management related to the rights granted to certain employees to participate in a portion of the management fees earned by Icahn Management remained with Icahn Management upon the execution of the Contribution Agreement on August 8, 2007. However, because the employees to which these rights were granted became employees of New Icahn Management on August 8, 2007, New Icahn Management recognizes the future compensation expense associated with the unvested portion of rights granted by Icahn Management, even though such liability will be settled by an affiliated entity.

***b. Holding Company and Other Operations***

On June 29, 2005, we granted 700,000 nonqualified unit options to our then chief executive officer to purchase up to 700,000 of our depositary units at an exercise price of $35 per unit which would vest over a period of eight years. On March 14, 2006, our chief executive officer resigned from that position, became a director and Vice Chairman of the Board of IEGP, and was designated as IEGP's principal executive officer. These changes in status caused the options to be cancelled in accordance with their terms.

In accordance SFAS No. 123R, the cancellation required that any previously unrecognized compensation cost be recognized at the date of cancellation and accordingly we recorded a compensation charge of $6.2 million in the quarter ended December 31, 2006, or the fourth quarter of fiscal 2006, related to the previously unrecognized compensation cost.

**14. Employee Benefit Plans**

Employees of our subsidiaries who are members of various unions are covered by union-sponsored, collectively bargained, multi-employer health and welfare and defined benefit pension plans. Our subsidiaries recorded expenses for such plans of $14.1 million, $14.7 million and $13.5 million for fiscal 2006, fiscal 2005 and fiscal 2004, respectively.

We and certain of our subsidiaries have retirement savings plans under Section 401(k) of the Internal Revenue Code covering our non-union employees. The plans allow employees to defer, within prescribed limits, a portion of their income on a pre-tax basis through contributions to the plans. We currently match the deferrals based upon certain criteria, including levels of participation by our employees. We recorded charges for matching contributions of $1.8 million, $1.4 million and $1.3 million for fiscal 2006, fiscal 2005 and fiscal 2004, respectively.

**15. Preferred Units**

Pursuant to certain rights offerings consummated in 1995 and 1997, preferred units were issued. 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 to receive distributions, payable solely in additional preferred units, at the rate of $0.50 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 referred to herein as a Payment Date). On any Payment Date commencing with the Payment Date on March 31, 2000, we, with the approval of the Audit Committee, may opt to redeem all of the preferred units for a price, payable either in all cash or by issuance of additional depositary units, equal to the liquidation preference of the preferred units, plus any accrued but unpaid distributions thereon. On March 31, 2010, we must redeem all of the preferred units on the same terms as any optional redemption.

**15. Preferred Units – (continued)**

Pursuant to the terms of the preferred units, on February 8, 2006, we declared our scheduled annual preferred unit distribution payable in additional preferred units at the rate of 5% of the liquidation preference per preferred unit of $10.0. The distribution was paid on March 31, 2006 to holders of record as of March 15, 2006. A total of 539,846 additional preferred units were issued. As of December 31, 2006, 11,340,243 preferred units were issued and outstanding. In March 2006, the number of authorized preferred units was increased to 11,400,000.

On July 1, 2003, we adopted SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS No. 150"). SFAS No. 150 requires that a financial instrument, which is an unconditional obligation, be classified as a liability. Previous guidance required an entity to include in equity financial instruments that the entity could redeem in either cash or stock. Pursuant to SFAS No. 150, our preferred units, which are an unconditional obligation, have been reclassified from "partners' equity" to a liability account in the supplemental consolidated balance sheets and the preferred pay-in-kind distribution from July 1, 2003 forward have been and will be recorded as interest expense in the supplemental consolidated statement of operations.

We recorded $5.6 million, $5.3 million and $5.1 million of interest expense in fiscal 2006, fiscal 2005 and fiscal 2004, respectively, in connection with the preferred units distribution.

**16. Earnings Per Limited Partnership Unit**

Basic earnings per LP unit are based on earnings which are attributable to limited partners. Net earnings available for limited partners are divided by the weighted average number of limited partnership units outstanding. Diluted earnings per LP unit are based on earnings before the preferred pay-in-kind distribution 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 equivalent units.

We declared dividends of $0.10 per depositary unit for each of the four quarters in fiscal 2006. We declared dividends of $0.10 per depositary unit for the third and fourth quarters of fiscal 2005.

As discussed in Note 2, "Summary of Significant Accounting Policies — Change in Accounting Principle — Method of Allocating of Gains and Losses Related to Dispositions of Common Control Acquisitions," in the third quarter of fiscal 2007 we elected to change our method of allocating gains and losses related to dispositions of common control entities accounted for on an as-if pooling basis when acquired. The impact of the change is more fully described in Note 2, "Summary of Significant Accounting Policies."





**16. Earnings Per Limited Partnership Unit – (continued)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | (In 000s, Except Per Unit Data) | | |
| Attributable to limited partners: | | | |
| Basic income (loss) from continuing operations | $ 624 | $ (48,903) | $ 22,677 |
| Add preferred unit distribution | — | — | — |
| Income (loss) before discontinued operations | 624 | (48,903) | 22,677 |
| Income from discontinued operations | 508,148 | 29,012 | 108,173 |
| Diluted earnings (loss) | $ 508,772 | $ (19,891) | $ 130,850 |
| Weighted average limited partnership units outstanding | 61,857 | 54,085 | 46,098 |
| Dilutive effect of LP options issued to our CEO | — | — | — |
| Dilutive effect of redemption of preferred units | — | — | — |
| Weighted average limited partnership units and equivalent partnership units outstanding | 61,857 | 54,085 | 46,098 |
| Basic earnings (loss) per LP unit: | | | |
| Income (loss) from continuing operations | $ 0.01 | $ (0.91) | $ 0.49 |
| Income from discontinued operations | 8.21 | 0.54 | 2.35 |
| Basic earnings (loss) per LP unit | $ 8.22 | $ (0.37) | $ 2.84 |
| Diluted earnings (loss) per LP unit: | | | |
| Income (loss) from continuing operations | $ 0.01 | $ (0.91) | $ 0.49 |
| Income from discontinued operations | 8.21 | 0.54 | 2.35 |
| Diluted earnings (loss) per LP unit | $ 8.22 | $ (0.37) | $ 2.84 |

For purposes of calculating earnings per LP unit, the income relating to our share of ImClone's earnings per share is based on the earnings per share reported by ImClone.

As their effect would have been anti-dilutive, the following number of units have been excluded from the weighted average LP units outstanding for fiscal 2006, fiscal 2005 and fiscal 2004 (in 000s):

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| LP options issued to our CEO | 42 | — | — |
| Redemption of preferred LP units | 2,362 | 3,538 | 5,444 |

**17. Segment Reporting**

Through the quarter ended June 30, 2006, or the second quarter of fiscal 2006, we maintained the following six reportable segments: (1) Oil and Gas; (2) Gaming; (3) Rental Real Estate; (4) Property Development; (5) Associated Resort Activities and (6) Home Fashion. In November 2006, we divested our Oil and Gas segment and our Atlantic City gaming properties. On April 22, 2007, we entered into an agreement to sell our Nevada gaming operations, which comprise our remaining gaming operations. As a result, our former Oil and Gas segment and our former Gaming segment are now classified as discontinued operations and thus are not considered reportable segments of our continuing operations, as described in Note 5, "Discontinued Operations and Assets Held for Sale."

The three related operating lines of our Real Estate segment are all individually immaterial and have been aggregated for purposes of reporting financial information related to its operations.

We now maintain the following remaining four reportable segments: (1) Investment Management; (2) Metals; (3) Real Estate and (4) Home Fashion. Our Investment Management segment provides investment





**17. Segment Reporting – (continued)**

advisory and certain management services to the Private Funds, but does not provide such services to any other entities, individuals or accounts. Our Metals segment consists of PSC Metals. PSC Metals collects industrial and obsolete scrap metal, processes it into reusable forms and supplies the recycled metals to its customers including electric-arc furnace mills, integrated steel mills, foundries, secondary smelters and metals brokers. Our Real Estate segment includes rental real estate that primarily consists of fee and leasehold properties in 19 states as of December 31, 2006, property development that is primarily focused on the construction and sale of single-family houses and residential developments and the operation of resort properties associated with our residential developments. Our Home Fashion segment, through our subsidiary, WPI, markets a broad range of manufactured and sourced bed, bath and basic bedding products.

We assess and measure segment operating results based on segment earnings as disclosed below. Segment earnings from operations are not necessarily indicative of cash available to fund cash requirements, nor synonymous with cash flow from operations. As discussed above, the terms of financings for the Home Fashion and Real Estate segments impose restrictions on their ability to transfer funds to us, including restrictions on dividends, distributions, loans and other transactions.

In the table below the Investment Management segment is represented by the first four columns. The first column, entitled Investment Management and GP Entities, represents the results of operations of the Investment Management segment without the impact of eliminations arising from the consolidation of the Private Funds. This includes the gross amount of management fees, incentive allocations and returns on investments in the Private Funds that are attributable to Icahn Enterprises only. The second column represents the total consolidated income and expenses of the Private Funds for all investors, including Icahn Enterprises, before eliminations. The third column represents the eliminations required in order to arrive at our consolidated U.S. GAAP reported income for the segment.





**17. Segment Reporting – (continued)**

The following tables set forth consolidated operating results for our segments to arrive at our consolidated income from continuing operations (in $000s):

**For the Year Ended December 31, 2006**

| Investment Management | Other Operations |
|---|---|

| | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income | Metals | Real Estate | Home Fashion | Holding Company | U.S. GAAP Reported Income |
|---|---|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | | | |
| Management fees | $ 82,415 | $ — | $ (82,415) | $ — | $ — | $ — | $ — | $ — | $ — |
| Incentive allocations | 190,478 | — | (190,478) | — | — | — | — | — | — |
| Net gain from investment activities | 25,822 | 1,030,740 | (25,822) | 1,030,740 | — | — | — | 91,308 | 1,122,048 |
| Interest, dividends and other income | 345 | 73,218 | — | 73,563 | 5,144 | 2,708 | 4,520 | 43,205 | 129,140 |
| Other income, net | — | — | — | — | — | — | — | 19,288 | 19,288 |
| Other segment revenues | — | — | — | — | 710,054 | 132,610 | 890,840 | — | 1,733,504 |
| | 299,060 | 1,103,958 | (298,715) | 1,104,303 | 715,198 | 135,318 | 895,360 | 153,801 | 3,003,980 |
| Costs and expenses | 37,629 | 32,205 | — | 69,834 | 667,118 | 105,825 | 1,034,216 | 25,822 | 1,902,815 |
| Interest expense | — | 9,901 | — | 9,901 | 160 | 5,734 | 613 | 78,951 | 95,359 |
| Income (loss) from continuing operations before income taxes and non-controlling interests | 261,431 | 1,061,852 | (298,715) | 1,024,568 | 47,920 | 23,759 | (139,469) | 49,028 | 1,005,806 |
| Income tax (expense) benefit | (1,763) | — | — | (1,763) | 2,845 | 234 | (114) | (513) | 689 |
| Non-controlling interests in (income) loss of consolidated entities | — | (763,137) | — | (763,137) | — | — | 65,827 | — | (697,310) |
| Income (loss) from continuing operations | $ 259,668 | $ 298,715 | $ (298,715) | $ 259,668 | $ 50,765 | $ 23,993 | $ (73,756) | $ 48,515 | $ 309,185 |





**17. Segment Reporting – (continued)**

**For the Year Ended December 31, 2005**

| | Investment Management | | | | Other Operations | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income | Metals | Real Estate | Home Fashion | Holding Company | U.S. GAAP Reported Income |
| Revenues: | | | | | | | | | |
| Management fees | $ 44,201 | $ — | $ (44,201) | $ — | $ — | $ — | $ — | $ — | $ — |
| Incentive allocations | 57,302 | — | (57,302) | — | — | — | — | — | — |
| Net gain (loss) from investment activities | 1,887 | 305,440 | (1,887) | 305,440 | — | — | — | (21,260) | 284,180 |
| Interest, dividends and other income | 168 | 47,268 | — | 47,436 | 1,457 | 619 | 1,819 | 38,736 | 90,067 |
| Other income, net | — | — | — | — | — | — | — | 9,306 | 9,306 |
| Other segment revenues | — | — | — | — | 600,989 | 98,392 | 441,771 | — | 1,141,152 |
| | 103,558 | 352,708 | (103,390) | 352,876 | 602,446 | 99,011 | 443,590 | 26,782 | 1,524,705 |
| Costs and expenses | 18,093 | 7,914 | — | 26,007 | 569,836 | 81,596 | 462,115 | 17,142 | 1,156,696 |
| Interest expense | — | 43 | — | 43 | 278 | 4,451 | 67 | 67,810 | 72,649 |
| Income (loss) from continuing operations before income taxes and non-controlling interests | 85,465 | 344,751 | (103,390) | 326,826 | 32,332 | 12,964 | (18,592) | (58,170) | 295,360 |
| Income tax expense | (890) | — | — | (890) | (8,907) | (567) | (125) | (689) | (11,178) |
| Non-controlling interests in (income) loss of consolidated entities | — | (241,361) | — | (241,361) | — | — | 9,466 | — | (231,895) |
| Income (loss) from continuing operations | $ 84,575 | $ 103,390 | $ (103,390) | $ 84,575 | $ 23,425 | $ 12,397 | $ (9,251) | $ (58,859) | $ 52,287 |

**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2006, 2005 and 2004**

**17. Segment Reporting – (continued)**

**For the Year Ended December 31, 2004**

| | Investment Management | | | | Other Operations | | | |
|---|---|---|---|---|---|---|---|---|
| | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income | Metals | Real Estate | Holding Company | U.S. GAAP Reported Income |
| Revenues: | | | | | | | | |
| Management fees | $ 3,198 | $ — | $ (3,198) | $ — | $ — | $ — | $ — | $ — |
| Incentive allocations | 9,661 | — | (9,661) | — | — | — | — | — |
| Net gain from investment activities | 57 | 59,254 | (57) | 59,254 | — | — | 16,540 | 75,794 |
| Interest, dividends and other income | — | 2,846 | — | 2,846 | 4,502 | — | 41,096 | 48,444 |
| Other income, net | — | — | — | — | — | — | 7,913 | 7,913 |
| Other segment revenues | — | — | — | — | 660,172 | 60,123 | — | 720,295 |
| | 12,916 | 62,100 | (12,916) | 62,100 | 664,674 | 60,123 | 65,549 | 852,446 |
| Costs and expenses | 1,441 | 463 | — | 1,904 | 582,105 | 49,166 | 4,741 | 637,916 |
| Interest expense | — | 72 | — | 72 | 2,405 | 4,115 | 24,266 | 30,858 |
| Income from continuing operations before income taxes and non-controlling interests | 11,475 | 61,565 | (12,916) | 60,124 | 80,164 | 6,842 | 36,542 | 183,672 |
| Income tax (expense) benefit | (81) | — | — | (81) | 18,949 | — | — | 18,868 |
| Non-controlling interests in income of consolidated entities | — | (48,649) | — | (48,649) | — | — | — | (48,649) |
| Income from continuing operations | $ 11,394 | $ 12,916 | $ (12,916) | $ 11,394 | $ 99,113 | $ 6,842 | $ 36,542 | $ 153,891 |



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2006, 2005 and 2004**

**17. Segment Reporting – (continued)**

Total assets by reportable segment were as follows for the periods indicated (in $000s):

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Assets: | | |
| Investment Management | $4,815,156 | $ 3,091,237 |
| Metals | 220,067 | 201,888 |
| Real Estate | 382,220 | 415,361 |
| Home Fashion | 784,981 | 729,667 |
| Subtotal | 6,202,424 | 4,438,153 |
| Assets held for sale | 620,974 | 1,667,224 |
| Reconciling items[1] | 2,456,572 | 1,151,293 |
| Total assets | $9,279,970 | $ 7,256,670 |

---

(1) Reconciling items relate principally to cash and investments of the Holding Company.

Total depreciation and amortization by reportable segment were as follows for the periods indicated (in $000s):

**Depreciation and Amortization**
**December 31,**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Holding Company and other operations: | | | |
| Metals | $ 6,816 | $ 4,097 | $ 2,827 |
| Real Estate | 5,692 | 4,730 | 5,178 |
| Home Fashion | 30,724 | 18,981 | — |
| Amortization of interest expense | 3,052 | 3,522 | 860 |
| | $ 46,284 | $ 31,330 | $ 8,865 |

Total capital expenditures by reportable segment were as follows for the periods indicated (in $000s):

| | Capital Expenditures December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Holding Company and other operations: | | | |
| Metals | $ 15,900 | $ 26,972 | $ 10,585 |
| Real Estate | 3,378 | 2,443 | 95,523 |
| Home Fashion | 11,107 | 5,718 | — |
| | $ 30,387 | $ 35,133 | $ 106,108 |

**18. Income Taxes**

The difference between the book basis and the tax basis of our net assets, not directly subject to income taxes, is as follows:

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Book basis of net assets excluding corporate entities | $2,310,878 | $ 2,253,567 |
| Book/tax basis difference | (95,300) | (559,043) |
| Tax basis of net assets | $2,215,578 | $ 1,694,524 |





**18. Income Taxes – (continued)**

Our corporate subsidiaries recorded the following income tax (expense) benefit attributable to operations for our taxable subsidiaries (in $000s):

| | December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| **Continuing Operations** | | | |
| Current | $ (5,138) | $ (4,617) | $ (1,431) |
| Deferred | 5,827 | (6,561) | 20,299 |
| | $ 689 | $ (11,178) | $ 18,868 |

| | December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| **Discontinued Operations** | | | |
| Current | $ (18,513) | $ (9,785) | $ (4,016) |
| Deferred | 1,394 | (9,926) | (14,296) |
| | $ (17,119) | $ (19,711) | $ (18,312) |

The tax effect of significant differences representing deferred tax assets (liabilities) (the difference between financial statement carrying value and the tax basis of assets and liabilities) is as follows at December 31, (in $000s):

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Deferred tax assets: | | |
| Property, plant and equipment | $ 51,642 | $ 19,272 |
| Net operating loss | 74,252 | 36,414 |
| Other | 24,791 | 41,124 |
| Total deferred tax assets | 150,685 | 96,810 |
| Less: Valuation allowance | (116,799) | (82,868) |
| Total deferred tax assets after valuation allowance | $ 33,886 | $ 13,942 |
| Deferred tax liabilities: | | |
| Other | $ (2,588) | $ (1,036) |
| Total deferred tax liabilities | (2,588) | (1,036) |
| Net deferred tax assets/(liabilities) | 31,298 | 12,906 |
| Less: Current portion | (6,945) | — |
| Net deferred tax assets/(liabilities) – non-current | $ 24,353 | $ 12,906 |

A reconciliation of the effective tax rate on continuing operations as shown in the supplemental consolidated statements of

operations to the federal statutory rate is as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Federal statutory rate | 35.0% | 35.0% | 35.0% |
| Valuation allowance | 0.5 | 4.8 | (25.5) |
| Income not subject to taxation | (36.0) | (34.7) | (19.7) |
| Other | 0.4 | (1.3) | (0.1) |
| | (0.1)% | 3.8% | (10.3)% |





**18. Income Taxes – (continued)**

For the year ended December 31, 2006, the valuation allowance on deferred tax assets increased approximately $33.9 million. The increase is primarily attributable to a $81.5 million increase attributable to the additional valuation allowance established on the deferred tax assets of WPI, offset by a $25.7 million reversal of the valuation allowance at Atlantic Coast and a $21.9 million reversal of the valuation allowance at PSC Metals.

***Former Gaming Segment***

SFAS No. 109 requires a "more likely than not" criterion be applied when evaluating the realizability of a deferred tax asset. As of December 31, 2005, given Atlantic Coast's history of losses for income tax purposes and certain other factors, Atlantic Coast had established a valuation allowance of $27.7 million on its deferred tax assets. However, at December 31, 2006, based on various factors including the sale of its gaming operations and the future taxable income projections from the reinvestment of the sales proceeds, Atlantic Coast determined that it was more likely than not that a significant portion of the deferred tax assets will be realized and removed $25.7 million of the valuation allowance.

At December 31, 2006, Atlantic Coast had federal net operating loss carryforwards totaling approximately $41.7 million, which will begin expiring in the year 2023 and forward. We also had New Jersey net operating loss carryforwards totaling approximately $0.6 million as of December 31, 2006, which will begin expiring in the year 2012. Additionally, Atlantic Coast had general business credit carryforwards of approximately $1.4 million which expire in 2009 through 2026, and New Jersey alternative minimum assessment credit carryforwards of approximately $1.9 million, which can be carried forward indefinitely.

***Former Oil and Gas Segment***

As of December 31, 2005, NEGI had established a valuation allowance of approximately $8.8 million due to the uncertainty that it would generate enough future taxable income in order to utilize all of its deferred tax assets. For fiscal 2006, NEGI generated enough taxable income, primarily from the gain on its sale of its interest in NEG Holdings, to utilize all of its net operating loss carryforwards, and as of December 31, 2006 has no remaining deferred tax assets. Accordingly, for fiscal 2006, the valuation allowance of $8.8 million was also reversed.

***Investment Management Segment***

Icahn Management (and, subsequent to the acquisition of the Partnership Interests on August 8, 2007, New Icahn Management) is subject to a New York City Unincorporated Business Tax ("UBT") at a statutory rate of 4% on a portion of its net income. UBT is accounted for under SFAS No. 109, *Accounting for Income Taxes*.

***Metals Segment***

Management considers whether it is more likely than not that all of the deferred tax assets will be realized. Projected future income, tax-planning strategies and the expected reversal of deferred tax liabilities are considered in making this assessment. Based on the projected taxable income for the fiscal year ending December 31, 2007 and beyond, we have adjusted our valuation allowance with regard to our U.S. deferred tax assets. Accordingly, for fiscal 2006 and fiscal 2005, the valuation allowance has decreased by $21.9 million and increased by $2.1 million, respectively.

**19. Commitments and Contingencies**

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

**19. Commitments and Contingencies – (continued)**

***WPI Litigation***

*Federal Proceedings*

In November and December 2005, the U.S. District Court for the Southern District of New York, or the District Court, rendered a decision in *Contrarian Funds LLC v. WestPoint Stevens, Inc. et al.,* and issued orders reversing certain provisions of the Bankruptcy Court order (the "Sale Order"), pursuant to which we acquired our ownership of a majority of the common stock of WPI. WPI acquired substantially all of the assets of WestPoint Stevens, Inc. The District Court remanded to the Bankruptcy Court for further proceedings.

On April 13, 2006, the Bankruptcy Court entered a remand order (the "Remand Order"), which provided, among other things, that all of the shares of common stock and rights to acquire shares of common stock of WPI issued to us and the other first lien lenders or held in escrow pursuant to the Sale Order constituted "replacement collateral." The Bankruptcy Court held that the 5,250,000 shares of common stock that we acquired for cash were not included in the replacement collateral. The Bankruptcy Court also held that, in the event of a sale of the collateral, including the sale of the shares we received upon exercise of certain subscription rights (the "Exercise Shares"), all proceeds would be distributed, pro rata, among all first lien lenders, including us, until the first lien debt was satisfied, in full. The parties filed cross-appeals of the Remand Order.

On October 9, 2007, the District Court entered an Order (the "October 9th Order") on the appeal and cross-appeal. The District Court affirmed the Remand Order but held that, as to the Exercise Shares, any sale proceeds would be divided between us and the first lien lenders (including us), generally based upon the ratio of the amount we paid to exercise the rights to the total value of the Exercise Shares on the date they were acquired. We are holders of approximately 39.99% of the outstanding first lien debt and approximately 51.21% of the outstanding second lien debt.

Each of the parties has filed a notice of appeal with the United States Court of Appeals for the Second Circuit. As part of that appeal, the parties have the right to raise issues relating to the District Court's November 2005 Opinion, and the Orders entered thereon, as well as issues relating to the October 9th Order.

*Delaware Proceedings*

On October 3, 2007, the Court of Chancery of the State of Delaware in and for New Castle County, or the Chancery Court, issued a Limited Status Quo Order ("the Order") in Beal Bank, S.S.B., et. al. v. WestPoint International, Inc. et. al., in connection with the complaint filed on January 19, 2007, as amended, by Beal Bank, S.S.B. and certain creditors of WestPoint Stevens, Inc., collectively, the Plaintiffs. The Order required that WPI and subsidiaries seek a further court order, obtain consent, or give notice before engaging in certain actions. On October 15, 2007, the Chancery Court issued a Modified Limited Status Quo Order (the "Modified Order"), modifying certain provisions of the prior order to permit WPI and its subsidiaries to conduct ordinary course of business activities without further notice, consent, or order, including (i) ordinary course of business sales and purchases provided any particular transaction does not exceed $20,000,000 and (ii) transfers of excess inventory, unused equipment and/or unused real property to an unrelated third party provided the sale price for any particular real property transaction does not exceed $30,000,000.

We continue to vigorously defend against all claims asserted in the Federal and Delaware proceedings and believe that we have valid defenses. However, we cannot predict the outcome of these proceedings or the ultimate impact on our investment in WPI and its subsidiaries or the business prospects of WPI and its subsidiaries.





**19. Commitments and Contingencies – (continued)**

***Lear Corporation***

We were named as a defendant in various actions filed in connection with our proposed merger agreement with Lear Corporation ("Lear"). The Lear shareholders rejected the merger and the merger agreement has terminated. See Note 20, "Subsequent Events." We remain a party to an action filed in the Court of Chancery of the State of Delaware challenging the payment to us of a break-up fee as provided in the merger agreement. We intend to vigorously defend the Delaware action but we cannot predict the outcome of the action.

***GBH***

On September 29, 2005, GBH filed a voluntary petition for bankruptcy relief under Chapter 11 of the Bankruptcy Code. As a result of this filing, we determined that we no longer control GBH for accounting purposes, and deconsolidated our investment in GBH effective September 30, 2005.

An Official Committee of Unsecured Creditors, or the Committee, of GBH, was formed and, on October 13, 2006, was granted standing by the Bankruptcy Court to commence litigation in the name of GBH against us, ACE, Atlantic Coast and other entities affiliated with Carl C. Icahn, as well as the directors of GBH. The Committee challenged the transaction in July 2004 that, among other things, resulted in the transfer of The Sands to ACE, a wholly owned subsidiary of Atlantic Coast, the exchange by certain holders of GBH's 11% notes for Atlantic Coast 3% senior secured convertible notes due 2008, or the 3% notes, the issuance to the holders of GBH's common stock of warrants allowing the holders to purchase shares of Atlantic Coast common stock and, ultimately, our ownership of approximately 67.6% of the outstanding shares of Atlantic Coast common stock and ownership by GBH of approximately 30.7% of such stock. We also maintained ownership of approximately 77.5% of the outstanding shares of GBH common stock. The Committee originally filed an objection to the allowance of our claims against GBH. The Bankruptcy Court placed the consideration of the Committee's Proposed Plan of Liquidation and Disclosure Statement in abeyance until the resolution of the proposed litigation.

Additionally, on September 2, 2005, Robino Stortini Holdings, LLC ("RSH") which claimed to own beneficially 1,652,590 shares of common stock of GBH, filed a complaint in the Court of Chancery of the State of Delaware against GBH and its Board of Directors seeking appointment of a custodian and receiver for GBH and a declaration that the director defendants breached their fiduciary duties.

During the fourth quarter of fiscal 2006, we and other entities affiliated with Mr. Icahn entered into a term sheet with the Committee, GBH and RSH which outlined the resolution of claims relating to the July 2004 transactions. The provisions of the term sheet were incorporated in the Committee's Eighth Modified Chapter 11 Plan of Liquidation of GBH ("the Plan"). On January 30, 2007, the Bankruptcy Court approved the plan. On February 22, 2007, in accordance with the Plan, we acquired (1) all of the Atlantic Coast common stock owned by GBH for a cash payment of approximately $52.0 million and in satisfaction of all claims arising under the Loan and Security Agreement, dated as of July 25, 2005, between GBH and us and (2) all of the warrants to acquire Atlantic Coast common stock and the Atlantic Coast common stock owned by RSH for a cash payment of $3.7 million. In accordance with the Plan, GBH used the $52.0 million to pay amounts owed to its creditors, including the holders of GBH's 11% notes and holders of administrative claims and to establish an approximate $330,000 fund to be distributed *pro rata* to holders of equity interests in GBH other than us and other Icahn affiliates. In addition, we and other Icahn affiliates received releases of all direct and derivative claims that could be asserted by GBH, its creditors and stockholders, including RSH. All issues relating to GBH have now been resolved. See Note 20, "Subsequent Events."



---



**19. Commitments and Contingencies – (continued)**

***Metals***

PSC Metals is subject to federal, state, local and foreign environmental laws and regulations concerning discharges to the air, soil, surface and subsurface waters and the generation, handling, storage, transportation, treatment and disposal of waste materials and hazardous substances. PSC Metals is also subject to other federal, state, local and foreign laws and regulations including those that require PSC Metals to remove or mitigate the effects of the disposal or release of certain materials at various sites.

It is impossible to predict precisely what effect these laws and regulations will have on PSC Metals in the future. Compliance with environmental laws and regulations may result in, among other things, capital expenditures and costs and liabilities. Management believes, based on past experience and its best assessment of future events, that these environmental liabilities and costs will be assessed and paid over an extended period of time. PSC Metals believes that it will be able to fund such costs in the ordinary course of business.

Certain of PSC Metals' facilities are environmentally impaired in part as a result of operating practices at the sites prior to their acquisition by PSC Metals and as a result of PSC Metals operations. PSC Metals has established procedures to periodically evaluate these sites, giving consideration to the nature and extent of the contamination. PSC Metals has provided for the remediation of these sites based upon management's judgment and prior experience. PSC Metals has estimated the liability to remediate these sites to be $19.9 million at December 31, 2006 and 2005.

PSC Metals has been named as a potentially responsible or liable party under U.S. federal and state superfund laws in connection with various sites. It is alleged that PSC Metals and its subsidiaries or their predecessors transported waste to the sites, disposed of waste at the sites or operated the sites in question. PSC Metals has reviewed the nature and extent of the allegations, the number, connection and financial ability of other named and unnamed potentially responsible parties and the nature and estimated cost of the likely remedy. Based on its review, PSC Metals has accrued its estimate of its liability to remediate these sites to be $0 and $300,000 at December 31, 2006 and 2005, respectively. If it is determined that PSC has liability to remediate those sites and that more expensive remediation approaches are required in the future, PSC Metals could incur additional obligations, which could be material.

Estimates of PSC Metals' liability for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions that are inherently difficult to make, and the ultimate outcome may differ from current estimates. As additional information becomes available, estimates are adjusted. It is possible that technological, regulatory or enforcement

developments, the results of environmental studies or other factors could alter estimates and necessitate the recording of additional liabilities, which could be material. Moreover, because PSC Metals has disposed of waste materials at numerous third-party disposal facilities, it is possible that PSC Metals will be identified as a potentially responsible party at additional sites. The impact of such future events cannot be estimated at the current time.





**19. Commitments and Contingencies – (continued)**

***Leases***

Future minimum lease payments under operating leases and capital leases with initial or remaining terms of one or more years consist of the following at December 31, 2006 (in $000s):

| | Operating Leases | Capital Leases |
|---|---|---|
| 2007 | $ 22,655 | $ 1,312 |
| 2008 | 19,567 | 1,054 |
| 2009 | 16,345 | 1,235 |
| 2010 | 12,734 | 200 |
| 2011 | 9,449 | 198 |
| Thereafter | 44,068 | 7,946 |
| Total minimum lease payments | $ 124,818 | 11,945 |
| Less imputed interest costs | | 6,860 |
| Present value of net minimum capital lease payments | | $ 5,085 |

***Other***

In the ordinary course of business, we, our subsidiaries and other companies in which we invest are parties to various legal actions. In management's opinion, the ultimate outcome of such legal actions will not have a material effect on our supplemental consolidated financial statements taken as a whole.

**20. Subsequent Events**

***Debt Offerings***

On January 16, 2007, we issued an additional $500.0 million aggregate principal amount of 7.125% notes, or the additional 7.125% notes (the 7.125% notes and the additional 7.125% notes being referred to herein as the notes), priced at 98.4% of par, or at a discount of 1.6%, pursuant to the 2005 Indenture. See Note 12, "Long-Term Debt." The notes have a fixed annual interest rate of 7.125%, which will be paid every six months on February 15 and August 15 and will mature on February 15, 2013. At the time we issued the additional 7.125% notes, we entered into a new registration rights agreement in which we agreed to permit noteholders to exchange the private notes for new notes which will be registered under the Securities Act of 1933, as amended, or the Securities Act. A preliminary registration statement on Form S-4 with respect thereto was filed on June 21, 2007. Pursuant to the registration rights agreement entered into in connection with the issuance of additional 7.125% Notes, the registration statement must be declared effective by the SEC on or before November 13, 2007. Since the registration statement was not declared effective in a timely manner, we are required to pay to the holders of the additional notes liquidated damages in an amount equal to $0.05 per week per $1,000 in principal amount of the additional notes for each week or portion thereof that the registration statement has not been declared effective for the first 90-day period following November 13, 2007, with such liquidated damages increasing by an additional $0.05 per week per $1,000 in principal amount of the additional notes with respect to each subsequent 90-day period until the registration statement has been declared effective, up to a maximum amount of liquidated damages of $0.50 per week per $1,000 in principal amount of the additional notes. All such accrued liquidated damages shall be paid by us on each February 15th and August 15th until the registration statement has been declared effective.

In April 2007, we issued an aggregate of $600.0 million aggregate principle amount of variable rate senior convertible notes due 2013, or the variable rate notes. The variable rate notes were sold in a private placement pursuant to Section 4(2) of the Securities Act and issued pursuant to an indenture dated as of April 5, 2007, by and among us, as issuer, IEF, as co-issuer, and Wilmington Trust Company, as trustee. The

**20. Subsequent Events – (continued)**

variable rate notes bear interest at a rate of three month LIBOR minus 125 basis points, but no less than 4.0% nor higher than 5.5%, and are convertible into depositary units of Icahn Enterprises at a conversion price of $132.595 per share, subject to adjustments in certain circumstances. As of September 30, 2007, the interest rate was 4.1%. In the event that we declare a cash dividend or similar cash distribution in any calendar quarter with respect to our depositary units in an amount in excess of $0.10 per depositary unit (as adjusted for splits, reverse splits, and/or stock dividends), the indenture requires that we simultaneously make such distribution to holders of the variable rate notes in accordance with a formula set forth in the indenture.

The variable rate notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. In connection with the sale of the variable rate notes, we and the initial buyers have entered into a registration rights agreement, pursuant to which we have agreed to file a shelf registration statement on Form S-3 with respect to resales of depositary units issuable upon conversion of the variable rate notes. A preliminary registration statement on Form S-3 with respect thereto was filed on June 21, 2007. Pursuant to the registration rights agreement entered into in connection with the issuance of these variable rate notes, the registration statement must be declared effective by the SEC on or before December 31, 2007. Otherwise, we shall pay to the holders of the convertible notes $2.0 million in the aggregate in additional interest for each 30-day period after December 31, 2007 that the registration statement has not been declared effective. All such accrued additional interest shall be paid by us on each January, April, July and October 15th until the registration statement has been declared effective.

***Investment Management Operations***

Subsequent to December 31, 2006, through the date of this report, the Onshore Fund received $700.0 million in capital contributions from Icahn Enterprises on which no management fees or incentive allocations are applicable.

Subsequent to December 31, 2006, through the date of this report, Offshore Master Fund I received $791.3 million in subscriptions from Offshore Master Fund I limited partners (including investors in the Offshore Fund), and paid redemptions of $4.4 million.

Offshore Master Fund II, a Cayman Islands exempted limited partnership, was formed on January 18, 2007. Offshore Master Fund II commenced operations on February 1, 2007. Icahn Fund II Ltd., a Cayman Islands exempted limited liability corporation, invests substantially all of its assets in Offshore Master Fund II. Koala Holding Limited Partnership, a Delaware limited partnership ("Koala Holding"), is also an investor in Offshore Master Fund II. The Offshore GP is the general partner of Offshore Master Fund II and is responsible for the management and investment decisions of Offshore Master Fund II.

Offshore Master Fund III, a Cayman Islands exempted limited partnership, was formed on March 7, 2007. Offshore Master Fund III commenced operations on April 1, 2007. Icahn Fund III Ltd., a Cayman Islands exempted limited liability corporation, invests substantially all of its assets in Offshore Master Fund III. Koala Holding is also an investor in Offshore Master Fund III. The Offshore GP is the general partner of Offshore Master Fund III and is responsible for the management and investment decisions of Offshore Master Fund III.

Subsequent to the acquisition of the Partnership Interests on August 8, 2007, New Icahn Management provides certain management and administrative services to Icahn Fund II Ltd. and Icahn Fund III Ltd. in exchange for a management fee.

***Terminated Acquisition of Lear***

On February 9, 2007, we, through a wholly owned subsidiary, entered into an agreement and plan of merger (as amended on July 9, 2007) (referred to as the "merger agreement") pursuant to which we would





**20. Subsequent Events – (continued)**

acquire Lear, a publicly traded company that provides automotive interior systems worldwide, for an aggregate consideration of approximately $5.2 billion, including the assumption by the surviving entity of certain outstanding indebtedness of Lear and refinancing of Lear's existing term loan and credit facility. The consummation of the transaction was subject to a shareholder vote.

On July 16, 2007, at Lear's 2007 Annual Meeting of Stockholders, the merger did not receive the affirmative vote of the holders of a majority of the outstanding shares of Lear's common stock. As a result, the merger agreement terminated in accordance with its terms. As required by the merger agreement, in connection with the termination, Lear (i) paid to our subsidiary $12.5 million in cash, (ii) issued to the subsidiary 335,570 shares of Lear's common stock and (iii) increased from 24% to 27% the share ownership limitation under the limited waiver of Section 203 of the Delaware General Corporation Law ("Delaware Law") granted by Lear to us along with affiliates of and funds managed by Carl C. Icahn. In addition, if (1) Lear stockholders enter into a definitive agreement with respect to an Acquisition Proposal, as defined in the merger agreement, within 12 months after the termination of the merger agreement and such transaction is completed and (2) such Acquisition Proposal has received approval, if

required by applicable Law (as defined in the merger agreement), by the affirmative vote or consent of the holders of a majority of the outstanding shares of Lear common stock within such 12-month period, Lear will be required to pay to our subsidiary an amount in cash equal to the Superior Fee, as defined in the merger agreement, less $12.5 million.

In connection with the termination of the merger agreement, the commitment letter, dated as of February 9, 2007, or the commitment letter, by and among our subsidiary, Bank of America, N.A. and Banc of America Securities LLC, also terminated pursuant to its terms. The commitment letter provided for certain credit facilities intended to refinance and replace Lear's existing credit facilities and to fund the transactions contemplated by the merger agreement. See Note 19, "Commitments and Contingencies — Lear Corporation" for a discussion of a pending legal proceeding in challenging the payment of the break-up fee to us in connection with the termination.

***Acquisition of PSC Metals, Inc.***

On November 5, 2007, we acquired, through a subsidiary, all of the issued and outstanding capital stock of PSC Metals from Philip Services Corporation ("Philip"). PSC Metals is engaged in transporting, recycling and processing metals. The consideration for the transaction was $335 million in cash.

As part of the transaction, our wholly owned subsidiary purchased 100% of the issued and outstanding capital stock of PSC Metals, whereby PSC Metals became our indirect wholly owned subsidiary. Prior to the acquisition, PSC Metals was a co-borrower with Philip, and other Philip subsidiaries under a credit agreement (the "Credit Agreement"), with UBS Securities LLC, as lead arranger, and had granted a security interest in substantially all of its assets to secure its obligations thereunder. Approximately $34.6 million of the proceeds from the transaction was paid to release PSC Metals from all claims, guarantees and future obligations under the Credit Agreement. In addition, Philip used a portion of the proceeds to collateralize PSC Metals' letters of credit of approximately $6.3 million. PSC Metals is currently under negotiations to enter into a $100.0 million asset-based borrowing agreement. Subsequent to the consummation of the borrowing agreement, PSC Metals will fund its letters of credit from its borrowing base and funds used to collateralize the letters of credit by Philip will be released.

Mr. Icahn indirectly owns a 95.6% interest and we indirectly own the remaining 4.4% interest in Philip. The transaction was approved by a special committee of independent members of our board of directors. The special committee was advised by its own legal counsel and independent financial adviser with respect to the transaction. The special committee received an opinion from its financial adviser as to the fairness to us, from a financial point of view, of the consideration paid by us.





**20. Subsequent Events – (continued)**

***Settlement of GBH Bankruptcy Proceedings***

On January 30, 2007, the Eighth Modified Chapter 11 Plan of Liquidation of GBH, or the Plan, was approved. On February 22, 2007, in accordance with the Plan, we acquired (1) all of the Atlantic Coast common stock owned by GBH for a cash payment of approximately $52.0 million and in satisfaction of all claims arising under the Loan and Security Agreement, dated as of July 25, 2005, between GBH and us and (2) all of the warrants to acquire Atlantic Coast common stock and the Atlantic Coast common stock owned by RSH for a cash payment of $3.7 million. In accordance with the Plan, GBH used the $52.0 million to pay amounts owed to its creditors, including the holders of GBH's 11% notes and holders of administrative claims and to establish an approximate $330,000 fund to be distributed pro rata to holders of equity interests in GBH other than us and other Icahn affiliates. In addition, we and other Icahn affiliates received releases of all direct and derivative claims that could be asserted by GBH, its creditors and stockholders, including RSH, and $50 million of the amount placed in escrow at the closing of the sale of our Atlantic City gaming properties was released to us. We recorded a gain of $18.5 million in the first quarter of fiscal 2007 in connection with the settlement of these claims. All claims relating to GBH asserted by its creditors and RSH have now been resolved. In the second quarter of fiscal 2007, we and several other investors exercised warrants to purchase shares of common stock of Atlantic Coast, resulting in an increase of the minority interest in Atlantic Coast and decrease in our ownnership to 94.2%.

***Atlantic Coast Entertainment Holdings, Inc. Merger***

On November 15, 2007, ACE HI Merger Corp., or Merger Corp, our indirect wholly owned subsidiary and the owner of approximately 94.2% of the outstanding shares of Atlantic Coast common stock, completed a short-form merger transaction, or the Merger, under Section 253 of Delaware Law, pursuant to which Merger Corp merged with and into Atlantic Coast and Atlantic Coast became our wholly owned subsidiary. Pursuant to the Merger, the holders of Atlantic Coast common stock (other than Merger Corp) are entitled to receive $21.19 per share in cash in exchange for their shares. Alternatively, by following the procedures set forth under Delaware Law, any of these stockholders who do not wish to accept the $21.19 per share cash consideration are entitled to receive payment in cash of the "fair value" of these shares as determined by an appraisal proceeding by the Delaware Court of Chancery.

Merger Corp will mail Notices of Merger and Appraisal Rights, Letters of Transmittal and other documents necessary for the exchange of stock certificates to stockholders within the time provided by Delaware Law. The Notice of Merger and Appraisal

Rights will also provide information for stockholders who choose to exercise their appraisal rights under Delaware Law.

On November 16, 2007, Atlantic Coast filed a Form 15 with the SEC, thereby terminating its reporting obligations under the ’34 Act and its status as a public company.

***NEGI Liquidation***

On November 12, 2007, the board of directors of NEGI determined that it is in the best interests of NEGI’s shareholders to liquidate all of NEGI’s assets and approved the dissolution of NEGI and a plan of dissolution and liquidation (“the Plan”), subject to required shareholder approval. NEGI will announce the timing of the shareholder meeting at which approval will be requested and set a record date for the shares entitled to vote at such meeting after the SEC has completed its review of the related proxy materials that NEGI intends to file.

Following shareholder approval of NEGI’s dissolution pursuant to the Plan, NEGI expects to carry out an orderly disposition of NEGI’s assets and liabilities and then declare a cash distribution to its shareholders. NEGI will then file a Form 15 with the SEC, terminating its reporting obligations under the ’34 Act and its status as a public company.





**20. Subsequent Events – (continued)**

***Sale of Common Stock of SandRidge Energy, Inc.***

On April 4, 2007, our subsidiaries signed agreements to sell their entire position in the common stock of SandRidge to a consortium of investors in a series of private transactions. The per share selling price was $18, and total cash consideration received at closing was approximately $243.2 million.

***Declaration of Dividends on Preferred Units***

On February 27, 2007, we declared our scheduled annual preferred unit distribution payable in additional preferred units at the rate of 5% of the liquidation preference of $10.00. The distribution is payable on March 30, 2007 to holders of record as of March 15, 2007. In March 2007, the number of authorized preferred units was increased to 12,100,000.

***Declaration of Distribution on Depositary Units***

On February 27, 2007, the Board of Directors approved payment of a quarterly cash distribution of $0.10 per unit on its depositary units for the first quarter of fiscal 2007 consistent with the distribution policy established in fiscal 2005. The distribution was paid on March 29, 2007 to depositary unitholders of record at the close of business on March 14, 2007.

On May 4, 2007, the Board of Directors approved a $0.05 increase in our quarterly distribution policy and payment of a quarterly cash distribution of $0.15 per unit on our depositary units payable in the second quarter of fiscal 2007. The distribution was paid on June 1, 2007 to depositary unitholders of record at the close of business on May 22, 2007. Under the terms of the indenture dated April 5, 2007 governing our variable rate notes as previously defined, we also made a $0.05 distribution to holders of these notes in accordance with the formula set forth in the indenture.

On August 3, 2007, the Board of Directors approved payment of a quarterly cash distribution of $0.15 per unit on our depositary units for the third quarter of fiscal 2007. The distribution was paid on September 7, 2007 to depositary unitholders of record at the close of business on August 27, 2007. Under the terms of the indenture dated April 5, 2007 governing our variable rate notes, we also made a $0.05 distribution to holders of these notes in accordance with the formula set forth in the indenture.

On November 2, 2007, the Board of Directors approved a quarterly distribution of $0.15 per unit on our depositary units payable in the fourth quarter of fiscal 2007. The distribution will be paid on December 3, 2007 to depositary unitholders of record at the close of business on November 19, 2007. Under the terms of the indenture dated April 5, 2007 governing our variable rate notes due 2013, we will also be making a $0.05 distribution to holders of these notes in accordance with the formula set forth in the indenture.





**21. Quarterly Financial Data (Unaudited) (In $000s, except per unit data)**

| | Three Months Ended[1] | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | March 31, | | June 30, | | September 30, | | December 31, | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues | $ 632,700 | $299,328 | $ 748,157 | $227,206 | $ 698,282 | $462,835 | $ 924,841 | $535,336 |
| Income from continuing operations before income tax and minority interest | $ 145,445 | $108,299 | $ 218,889 | $ 32,265 | $ 209,105 | $108,468 | $ 432,367 | $ 46,328 |
| Income tax benefit (expense) | 438 | (3,375) | 504 | (1,450) | (561) | (3,342) | 308 | (3,011) |
| Non-controlling interests in income of consolidated entities | (108,170) | (57,361) | (121,728) | (39,044) | (144,563) | (97,201) | (322,849) | (38,289) |
| Income (loss) from continuing operations | 37,713 | 47,563 | 97,665 | (8,229) | 63,981 | 7,925 | 109,826 | 5,028 |
| Income (loss) from discontinued operations | 67,411 | 8,016 | 46,101 | 34,299 | 105,491 | (94,142) | 579,538 | 81,428 |
| Net earnings (loss) | $ 105,124 | $ 55,579 | $ 143,766 | $ 26,070 | $ 169,472 | $ (86,217) | $ 689,364 | $ 86,456 |
| Net earnings (loss) per limited partnership unit[2]: | | | | | | | | |
| Basic earnings: | | | | | | | | |
| Income (loss) from continuing operations | $ (0.28) | $ 0.76 | $ 0.54 | $ (0.78) | $ (0.01) | $ (0.48) | $ (0.24) | $ (0.30) |
| Income (loss) from discontinued operations | 1.07 | 0.17 | 0.73 | 0.73 | 1.67 | (1.49) | 4.74 | 1.29 |
| Basic earnings (loss) per LP unit | $ 0.79 | $ 0.93 | $ 1.27 | $ (0.05) | $ 1.66 | $ (1.97) | $ 4.50 | $ 0.99 |
| Diluted earnings: | | | | | | | | |
| Income (loss) from continuing operations | $ (0.28) | $ 0.73 | $ 0.53 | $ (0.78) | $ (0.01) | $ (0.48) | $ (0.24) | $ (0.30) |
| Income (loss) from discontinued operations | 1.07 | 0.16 | 0.70 | 0.73 | 1.67 | (1.49) | 4.74 | 1.29 |
| Diluted earnings (loss) per LP unit | $ 0.79 | $ 0.89 | $ 1.23 | $ (0.05) | $ 1.66 | $ (1.97) | $ 4.50 | $ 0.99 |

(1) All quarterly amounts have been reclassified for the effects of reporting discontinued operations.

(2) Net earnings (loss) 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.



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS**
**(In $000s, Except Unit Amounts)**

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| **ASSETS** | (Unaudited) | |
| Investment Management: | | |
| Cash and cash equivalents | $ 4,095 | $ 4,822 |
| Cash held at consolidated affiliated partnerships and restricted cash | 1,136,546 | 1,106,809 |
| Securities owned, at fair value | 5,585,669 | 2,757,229 |
| Unrealized gains on derivative contracts, at fair value | 55,855 | 80,216 |
| Due from brokers | 1,600,306 | 838,620 |
| Other assets | 154,003 | 27,460 |
| | 8,536,474 | 4,815,156 |
| Holding Company and other operations: | | |
| Cash and cash equivalents | 2,839,705 | 1,879,655 |
| Restricted cash | 41,405 | 87,159 |
| Investments | 508,459 | 700,595 |
| Unrealized gains on derivative contracts, at fair value | 1,849 | 20,538 |
| Inventories, net | 302,520 | 282,921 |
| Trade, notes and other receivables, net | 243,653 | 225,052 |
| Assets of discontinued operations held for sale | 646,278 | 620,974 |
| Property, plant and equipment, net | 523,730 | 535,273 |
| Intangible assets and goodwill | 35,308 | 23,402 |
| Other assets | 87,475 | 89,245 |
| | 5,230,382 | 4,464,814 |
| **Total Assets** | $ 13,766,856 | $ 9,279,970 |
| **LIABILITIES AND PARTNERS' EQUITY** | | |
| Investment Management: | | |
| Accounts payable, accrued expenses and other liabilities | $ 29,219 | $ 59,286 |

| | | |
|---|---|---|
| Deferred management fee payable to related party | 146,863 | — |
| Subscriptions received in advance | 23,336 | 66,030 |
| Payable for purchases of securities | 211,279 | 11,687 |
| Securities sold, not yet purchased, at fair value | 1,068,262 | 691,286 |
| Unrealized losses on derivative contracts, at fair value | 116,498 | 1,770 |
| | 1,595,457 | 830,059 |
| Holding Company and other operations: | | |
| Accounts payable | 109,227 | 85,095 |
| Accrued expenses and other liabilities | 126,646 | 177,269 |
| Securities sold, not yet purchased, at fair value | — | 25,398 |
| Unrealized losses on derivative contracts, at fair value | 5,687 | — |
| Accrued environmental costs | 24,012 | 19,861 |
| Liabilities of discontinued operations held for sale | 314,895 | 318,085 |
| Long-term debt | 2,077,106 | 953,394 |
| Preferred limited partnership units: | | |
| $10 per unit liquidation preference, 5% cumulative pay-in-kind, 12,100,000 and 11,400,000 authorized, 11,907,073 and 11,340,243 issued as of September 30, 2007 and December 31, 2006, respectively | 122,049 | 117,656 |
| | 2,779,622 | 1,696,758 |
| **Total Liabilities** | 4,375,079 | 2,526,817 |
| Commitments and contingencies (Note 18) | | |
| Non-controlling interests in consolidated entities: | | |
| Investment Management | 6,601,480 | 3,628,470 |
| Holding Company and other operations | 164,472 | 292,221 |
| Partners' equity: | | |
| Limited partners: | | |
| Depositary units; 72,400,000 and 67,850,000 at September 30, 2007 and December 31, 2006, respectively; authorized; issued 71,626,710 and 62,994,031 at September 30, 2007 and December 31, 2006, respectively; outstanding 70,489,510 and 61,856,831 at September 30, 2007 and December 31, 2006, respectively | 3,071,016 | 2,248,170 |
| General partner | (433,270) | 596,213 |
| Treasury units at cost: 1,137,200 depositary units | (11,921) | (11,921) |
| Partners' equity | 2,625,825 | 2,832,462 |
| **Total Liabilities and Partners' Equity** | $ 13,766,856 | $ 9,279,970 |

*See notes to supplemental consolidated financial statements*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In 000s, Except Per Unit Amounts) (Unaudited)**

| | Three Months Ended September 30, | |
|---|---|---|
| | **2007** | **2006** |
| Revenues: | | |
| Investment Management: | | |
| Interest, dividends and other income | $ 51,121 | $ 18,911 |
| Net gain (loss) from investment activities | (133,652) | 209,288 |
| Management fees, related parties | 4,118 | — |
| | (78,413) | 228,199 |
| Holding Company and other operations: | | |
| Metals | 198,903 | 179,173 |
| Real Estate | 30,356 | 32,518 |
| Home Fashion | 183,360 | 223,066 |
| Interest and other income | 42,733 | 11,573 |
| Net gain from investment activities | 14,156 | 22,169 |
| Other income, net | 22,495 | 1,584 |
| | 492,003 | 470,083 |
| Total revenues | 413,590 | 698,282 |
| Expenses: | | |
| Investment Management | 20,453 | 18,771 |
| Holding Company and other operations: | | |
| Metals | 189,814 | 170,824 |
| Real Estate | 25,366 | 27,147 |
| Home Fashion | 220,171 | 246,045 |
| Holding Company | 13,025 | 4,113 |
| Interest expense | 36,466 | 22,277 |
| | 484,842 | 470,406 |
| Total expenses | 505,295 | 489,177 |

| | | |
|---|---|---|
| Income (loss) from continuing operations before income taxes and non-controlling interests in income (loss) of consolidated entities | (91,705) | 209,105 |
| Income tax expense | (9,952) | (561) |
| Non-controlling interests in (income) loss of consolidated entities: | | |
| Investment Management | 94,276 | (152,995) |
| Holding Company and other operations | 12,681 | 8,432 |
| | 106,957 | (144,563) |
| Income from continuing operations | 5,300 | 63,981 |
| Discontinued operations: | | |
| Income from discontinued operations, net of income taxes | 4,772 | 111,423 |
| Non-controlling interests in (income) loss of consolidated entities | 4,959 | (10,833) |
| Gain on disposition of property | 7,660 | 4,901 |
| Income from discontinued operations, net of income taxes | 17,391 | 105,491 |
| Net Earnings | $ 22,691 | $ 169,472 |
| Net earnings (loss) attributable to: | | |
| Limited partners | $ 34,783 | $ 102,095 |
| General partner | (12,092) | 67,377 |
| | $ 22,691 | $ 169,472 |
| Net earnings per limited partnership unit: | | |
| Basic earnings: | | |
| Income (loss) from continuing operations | $ 0.27 | $ (0.01) |
| Income from discontinued operations | 0.26 | 1.67 |
| Basic earnings per LP unit | $ 0.53 | $ 1.66 |
| Weighted average limited partnership units outstanding: | 66,830 | 61,857 |
| Diluted earnings: | | |
| Income (loss) from continuing operations | $ 0.27 | $ (0.01) |
| Income from discontinued operations | 0.26 | 1.67 |
| Diluted earnings per LP unit | $ 0.53 | $ 1.66 |
| Weighted average limited partnership units and equivalent partnership units outstanding: | 66,830 | 61,857 |

*See notes to supplemental consolidated financial statements*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED STATEMENTS OF OPERATIONS – (continued)**
**(In 000s, Except Per Unit Amounts) (Unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2007** | **2006** |
| Revenues: | | |
| Investment Management: | | |
| Interest, dividends and other income | $ 133,045 | $ 45,115 |
| Net gain from investment activities | 554,223 | 571,774 |
| Management fees, related parties | 7,494 | — |
| | 694,762 | 616,889 |
| Holding Company and other operations: | | |
| Metals | 622,282 | 556,143 |
| Real Estate | 83,617 | 101,316 |
| Home Fashion | 531,109 | 672,350 |
| Interest and other income | 115,032 | 34,516 |
| Net gains from investment activities | 75,647 | 84,830 |
| Other income, net | 28,478 | 13,095 |
| | 1,456,165 | 1,462,250 |
| Total revenues | 2,150,927 | 2,079,139 |
| Expenses: | | |
| Investment Management | 82,934 | 45,600 |
| Holding Company and other operations: | | |
| Metals | 594,253 | 521,360 |
| Real Estate | 73,416 | 78,235 |
| Home Fashion | 656,158 | 777,517 |
| Holding Company | 24,564 | 19,093 |
| Interest expense | 99,221 | 63,895 |
| | 1,447,612 | 1,460,100 |
| Total expenses | 1,530,546 | 1,505,700 |
| Income from continuing operations before income taxes and non-controlling interests in income of consolidated entities | 620,381 | 573,439 |
| Income tax (expense) benefit | (13,807) | 381 |

| | | |
|---|---|---|
| Non-controlling interests in (income) loss of consolidated entities: | | |
| Investment Management: | (417,242) | (422,337) |
| Holding Company and other operations: | 43,644 | 47,876 |
| | (373,598) | (374,461) |
| Income from continuing operations | 232,976 | 199,359 |
| Discontinued operations: | | |
| Income from discontinued operations, net of income taxes | 50,519 | 221,869 |
| Non-controlling interests in (income) loss of consolidated entities | 4,428 | (9,326) |
| Gain on disposition of property | 21,686 | 6,460 |
| Income from discontinued operations, net of income taxes | 76,633 | 219,003 |
| Net Earnings | $ 309,609 | $ 418,362 |
| Net earnings attributable to: | | |
| Limited partners | $ 104,429 | $ 228,372 |
| General partner | 205,180 | 189,990 |
| | $ 309,609 | $ 418,362 |
| Net earnings per limited partnership unit: | | |
| Basic earnings: | | |
| Income from continuing operations | $ 0.47 | $ 0.25 |
| Income from discontinued operations | 1.18 | 3.47 |
| Basic earnings per LP unit | $ 1.65 | $ 3.72 |
| Weighted average limited partnership units outstanding: | 63,533 | 61,857 |
| Diluted earnings: | | |
| Income from continuing operations | $ 0.47 | $ 0.25 |
| Income from discontinued operations | 1.18 | 3.47 |
| Diluted earnings per LP unit | $ 1.65 | $ 3.72 |
| Weighted average limited partnership units and equivalent partnership units outstanding: | 63,533 | 61,857 |

*See notes to supplemental consolidated financial statements*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED STATEMENT OF PARTNERS' EQUITY AND COMPREHENSIVE INCOME**
**Nine Months Ended September 30, 2007 (In 000s) (Unaudited)**

| | General Partner's Equity (Deficit) | Limited Partners' Equity Depositary Units | Held in Treasury | | Total Partners' Equity |
|---|---|---|---|---|---|
| | | | Amounts | Units | |
| Balance, December 31, 2006 as adjusted[(1)] | $ 596,213 | $ 2,248,170 | $(11,921) | 1,137 | $ 2,832,462 |
| Cumulative effect of adjustment from adoption of SFAS No. 159 | (840) | (41,344) | — | — | (42,184) |
| Comprehensive income: | | | | | |
| Net earnings | 205,180 | 104,429 | — | — | 309,609 |
| Foreign currency adjustment | 3,199 | — | — | — | 3,199 |
| Net unrealized losses on available-for-sale-securities | 445 | (20,112) | — | — | (19,667) |
| Comprehensive income | 208,824 | 84,317 | — | — | 293,141 |
| General partner contribution | 16,446 | — | — | — | 16,446 |
| Partnership distributions | (529) | (26,037) | — | — | (26,566) |
| Investment Management and GP Entities acquisition | (810,000) | 810,000 | — | — | — |
| Investment Management and GP Entities distributions | (442,501) | — | — | — | (442,501) |
| Change in subsidiary equity | (88) | (4,315) | — | — | (4,403) |
| Other | (795) | 225 | — | — | (570) |
| Balance, September 30, 2007 | $ (433,270) | $ 3,071,016 | $(11,921) | 1,137 | $ 2,625,825 |

Accumulated other comprehensive income at September 30, 2007 was $4.8 million.

---

(1) See Note 2, "Summary of Significant Accounting Policies," for discussion of retrospective application change in accounting principle of allocation of gains and losses related to disposition of common-control acquisitions.

*See notes to supplemental consolidated financial statements*

**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In $000s) (Unaudited)**

| | Nine Months Ended September 30, 2007 | Nine Months Ended September 30, 2006 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net Earnings | | |
| Investment Management | $ 191,411 | $ 147,876 |
| Holding Company and other operations | 41,565 | 51,483 |
| Income from discontinued operations | 76,633 | 219,003 |
| Net earnings | $ 309,609 | $ 418,362 |
| Income from continuing operations | | |
| Investment Management | $ 191,411 | $ 147,876 |
| Adjustments to reconcile net earnings to net cash (used in) provided by operating activities: | | |
| Income attributable to non-controlling interest in consolidated affiliated partnerships | 417,242 | 422,337 |
| Investment gains | (646,454) | (570,317) |
| Purchases of securities | (6,907,622) | (3,390,674) |
| Proceeds from sales of securities | 4,812,569 | 3,565,446 |
| Purchases to cover securities sold, not yet purchased | (1,223,657) | (423,732) |
| Proceeds from securities sold, not yet purchased | 1,513,698 | 915,466 |
| Changes in operating assets and liabilities: | | |
| Cash held at consolidated affiliated partnerships and restricted cash | (29,737) | (81,448) |
| Due from brokers | (761,686) | (752,046) |
| Receivable for securities sold | (112,094) | (20,192) |
| Unrealized losses (gains) on derivative contracts | 139,089 | (19,099) |
| Accounts payable, accrued expenses and other liabilities | 195,651 | 4,660 |
| Other | 129,825 | 7,045 |
| Net cash used in continuing operations | (2,281,765) | (194,678) |
| Holding Company and other operations | 41,565 | 51,483 |
| Adjustments to reconcile net earnings to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 29,166 | 37,849 |
| Investment gains | (75,644) | (84,830) |
| Preferred LP unit interest expense | 4,393 | 4,171 |
| Non-controlling interests in income of consolidated entities | (43,644) | (47,876) |
| Equity in earnings of affiliate | — | (9,527) |
| Stock based compensation expense | — | 6,248 |
| Deferred income tax (expense) benefit | 5,954 | (4,750) |
| Impairment loss on long-lived assets | 22,432 | 26,740 |
| Net cash (used in) provided by activities on trading securities | (38,505) | 71,000 |
| Other, net | (3,525) | (6,689) |
| Changes in operating assets and liabilities: | | |
| Trade, notes and other receivables | (40,089) | 21,023 |
| Other assets | 17,020 | 27,556 |
| Inventories, net | (9,144) | (34,138) |
| Accounts payable, accrued expenses and other liabilities | (961) | (656) |
| Other, net | — | — |
| Net cash (used in) provided by continuing operations | (90,982) | 57,604 |

*See notes to supplemental consolidated financial statements*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS – (continued)**
**(In $000s) (Unaudited)**

| | Nine Months Ended September 30, 2007 | Nine Months Ended September 30, 2006 |
|---|---|---|
| Net cash used in continuing operations | (2,372,747) | (137,074) |

| | | |
|---|---|---|
| Income from discontinued operations | 76,633 | 219,003 |
| Depreciation, depletion and amortization | 8,160 | 105,708 |
| Net gain from sales of businesses and properties | (11,749) | (122,390) |
| Other, net | 2,412 | 10,896 |
| Net cash provided by discontinued operations | 75,456 | 213,217 |
| **Net cash (used in) provided by operating activities** | (2,297,291) | 76,143 |
| **Cash flows from investing activities:** | | |
| Holding Company and other operations: | | |
| Capital expenditures | (48,424) | (25,351) |
| Purchases of marketable equity and debt securities | (151,133) | (359,574) |
| Proceeds from sales of marketable equity and debt securities | 364,994 | 194,712 |
| Net proceeds from the sales and disposition of real estate | 1,573 | — |
| Net proceeds from the sales and disposition of fixed assets | 15,687 | 12,564 |
| Acquisitions of businesses, net of cash acquired | (46,886) | 1,733 |
| Other | 1,164 | — |
| Net cash provided by (used in) investing activities from continuing operations | 136,975 | (175,916) |
| Discontinued operations: | | |
| Capital expenditures | (19,252) | (276,000) |
| Net proceeds from the sales and disposition of assets | 18,442 | (92,210) |
| Other | 12,116 | (6,854) |
| Net cash provided by (used in) investing activities from discontinued operations | 11,306 | (375,064) |
| **Net cash provided by (used in) investing activities** | 148,281 | (550,980) |
| **Cash flows from financing activities:** | | |
| Investment Management: | | |
| Capital distributions to partners | (442,501) | — |
| Subscriptions received in advance | 23,336 | 15,500 |
| Capital contributions by non-controlling interests in consolidated affiliated partnerships | 2,525,273 | 183,188 |
| Capital distributions to non-controlling interests in consolidated affiliated partnerships | (35,536) | (113) |
| Redemptions payable to non-controlling interests in consolidated affiliated partnerships | (23,830) | — |
| Net cash provided by financing activities | 2,046,742 | 198,575 |
| Holding Company and other operations: | | |
| Partners' equity: | | |
| Partnership distributions | (26,566) | (18,934) |
| General partner contribution | 16,446 | — |
| Dividends paid to minority holders of subsidiary | (18,529) | — |
| Proceeds from senior notes payable | 492,130 | — |
| Proceeds from other borrowings | 662,411 | 48,844 |
| Repayments of other borrowings | (31,305) | (20,759) |
| Dividend payment | — | (9,560) |
| Debt issuance costs | (275) | — |
| Capital contribution | 540 | — |
| Other | (161) | (5,055) |
| Net cash provided (used in) by financing activities | 1,094,691 | (5,464) |
| Net cash provided by financing activities from continuing operations | 3,141,433 | 193,111 |
| Net cash (used in) provided by financing activities from discontinued operations | (370) | 35,795 |
| **Net cash provided by financing activities** | 3,141,063 | 228,906 |

*See notes to supplemental consolidated financial statements*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**

**SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS – (continued)**
**(In $000s) (Unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2007** | **2006** |
| Net increase (decrease) in cash and cash equivalents* | 992,053 | (245,931) |
| Net change in cash of assets held for sale | (32,730) | 122,613 |
| Cash and cash equivalents, beginning of period | 1,884,477 | 367,065 |
| Cash and cash equivalents, end of period | $2,843,800 | $ 243,747 |
| **Cash balances per balance sheet:** | | |
| Investment Management | $ 4,095 | $ 6,238 |
| Holding Company and other operations: | 2,839,705 | 237,509 |
| | $2,843,800 | $ 243,747 |
| ***Net increase (decrease) in cash and cash equivalents consists of the following:*** | | |
| Investment Management | $ (235,023) | $ 3,897 |
| Holding Company and other operations | 1,227,076 | (249,828) |
| | $ 992,053 | $ (245,931) |

| Supplemental information | | |
|---|---|---|
| Cash payments for interest, net of amounts capitalized | $ 93,799 | $ 87,345 |
| Cash payments for income taxes, net of refunds | $ 19,596 | $ 13,824 |
| Net realized losses on securities available for sale | $ (20,520) | $ (12,613) |
| LP Unit Issuance | $ 810,000 | $ — |
| Debt conversion relating to Atlantic Coast | $ — | $ 2,492 |
| Receipt of Lear common stock | $ 12,500 | $ — |

*See notes to supplemental consolidated financial statements*



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**
**NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
**September 30, 2007**

### Note 1 — Description of Business and Basis of Presentation

***General***

Icahn Enterprises L.P. (“Icahn Enterprises” or the “Company”), which was formerly known as American Real Estate Partners, L.P., is a master limited partnership formed in Delaware on February 17, 1987. We own a 99% limited partnership interest in Icahn Enterprises Holdings L.P. (“IEH”), which was formerly known as American Real Estate Holdings Limited Partnership. Substantially all of our assets and liabilities are owned through IEH and substantially all of our operations are conducted through IEH and its subsidiaries. Icahn Enterprises G.P. Inc. (“IEGP”), which was formerly known as American Property Investors, Inc., owns a 1% general partnership interest in both us and IEH, representing an aggregate 1.99% general partnership interest in us and IEH. IEGP is owned and controlled by Mr. Carl C. Icahn. As of September 30, 2007, affiliates of Mr. Icahn owned 10,304,013 of our preferred units and 64,288,061 of our depositary units, which represented approximately 86.5% and 91.2% of our outstanding preferred units and depositary units, respectively. We are a diversified holding company owning subsidiaries currently engaged in the following continuing operating businesses: Investment Management, Metals, Real Estate and Home Fashion. Further information regarding our continuing reportable segments is contained in Note 3, “Operating Units,” and Note 16, “Segment Reporting.” We also operate discontinued operations as further discussed below and in Note 4, “Discontinued Operations and Assets Held for Sale.”

***Change in Reporting Entity***

As discussed in further detail below, on August 8, 2007, we acquired the general partnership interests in the General Partners (as defined below) and in Icahn Capital Management L.P. (“New Icahn Management”). Our historical financial statements contained herein have been adjusted to reflect this acquisition. In addition, as discussed in further detail below, on November 5, 2007, we acquired, through a subsidiary, all of the issued and outstanding capital stock of PSC Metals, Inc. (“PSC Metals”). PSC Metals is considered a company under common control. Accordingly, the accompanying supplemental consolidated financial statements and footnotes include the net assets and results of operations of PSC Metals.

In accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), assets transferred between entities under common control are accounted for at historical cost similar to a pooling of interests, and the financial statements of previously separate companies for periods prior to the acquisition are retrospectively adjusted on a consolidated basis.

As a result of the restatements arising from the acquisitions that occurred on August 8, 2007 and November 5, 2007, our financial statements now include additional entities as described below. Some of these entities prepare financial statements based on accounting policies that were not described in our annual report on Form 10-K for the fiscal year ended December 31, 2006 filed with the SEC on March 6, 2007 (the “2006 Annual Report on Form 10-K”). Accordingly, certain required additional information is included in this current report on Form 8-K in order to supplement disclosures already included in our 2006 Annual Report on Form 10-K. The new accounting policies, which relate to our Investment Management and Metals segments, are set out in Note 2, “Summary of Significant Accounting Policies.”

***Basis of Presentation***

The supplemental consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) related to interim financial statements. The financial information contained herein is unaudited; however, management believes all adjustments have been made that are necessary to present fairly the results for the interim periods. All such adjustments are of a normal and recurring nature, except for the adoption of certain accounting pronouncements as discussed below in Note 2, “Summary of Significant Accounting Policies.”

**Note 1 — Description of Business and Basis of Presentation – (continued)**

The supplemental consolidated financial statements include the accounts of Icahn Enterprises and its wholly and majority owned subsidiaries in which control can be exercised, in addition to those entities in which Icahn Enterprises has a substantive controlling, general partner interest or in which it is the primary beneficiary of a variable interest entity. Icahn Enterprises is considered to have control if it has a direct or indirect ability to make decisions about an entity's activities through voting or similar rights. All material intercompany accounts and transactions have been eliminated in consolidation.

As further described in Note 2, the Investment Funds and the Offshore Fund (as each term is defined herein) are consolidated into our financial statements even though we only have a minority interest in the equity and income of these funds. The majority ownership interests in these funds, which represent the portion of the consolidated net assets and net income attributable to the limited partners and shareholders in the consolidated Private Funds (as defined herein) for the periods presented, are reflected as non-controlling interests of consolidated entities — Investment Management in the accompanying financial statements.

Because of the diversified and seasonal nature of our business, the results of operations for quarterly and other interim periods are not indicative of the results to be expected for the full year. Variations in the amount and timing of gains and losses on our investments can be significant. The results of our Real Estate and Home Fashion segments are seasonal.

***Change in Presentation***

As a result of the acquisition of the Partnership Interests on August 8, 2007 and the consolidation of the affiliated partnership entities, we have changed the presentation of our balance sheets to an unclassified format in the accompanying financial statements as of September 30, 2007 and December 31, 2006. Accordingly, certain amounts reflected in our classified balance sheets in our 2006 Annual Report on Form 10-K have been reclassified to conform to the unclassified balance sheet presentation.

We have also changed the presentation of our statements of operations. The reclassifications to the statement of operations included in our Quarterly Report on Form 10-Q filed with the SEC on August 9, 2007 are as follows:

1. The grouping of revenues and expenses to arrive at "operating income" and certain categories of "other income and expense" has been discontinued.
2. Interest and other income, net gain from investment activities and other income, net are now classified as revenues.
3. Interest expense is included in total expenses.

***Acquisitions***

*Acquisition of PSC Metals*

On November 5, 2007, we acquired, through a subsidiary, all of the issued and outstanding capital stock of PSC Metals from Philip Services Corporation ("Philip"). PSC Metals is engaged in transporting, recycling and processing metals. The consideration for the transaction was $335 million in cash.

Mr. Icahn indirectly owns a 95.6% interest and we indirectly own the remaining 4.4% interest in Philip. The transaction was approved by a special committee of independent members of our board of directors. The special committee was advised by its own legal counsel and independent financial adviser with respect to the transaction. The special committee received an opinion from its financial adviser as to the fairness to us, from a financial point of view, of the consideration paid by us.

PSC metals is considered an entity under common control with us. Accordingly, the accompanying supplemental consolidated financial statements and footnotes include the net assets and results of operations of PSC Metals during the period of common control, commencing December 31, 2003.





**Note 1 — Description of Business and Basis of Presentation – (continued)**

*Acquisition of Partnership Interests*

On August 8, 2007, we acquired the general partnership interests in the General Partners and New Icahn Management. These entities provide investment advisory and certain management services to the Private Funds but do not provide such services to any other entities, individuals or accounts. Interests in the Private Funds are offered only to certain sophisticated and accredited investors on the basis of exemptions from the registration requirements of the federal securities laws and are not publicly available.

We entered into a Contribution and Exchange Agreement (the "Contribution Agreement"), dated as of August 8, 2007, with CCI Offshore Corp. ("CCI Offshore"), CCI Onshore Corp. ("CCI Onshore"), Icahn Management LP, a Delaware limited partnership ("Icahn Management" and together with CCI Offshore and CCI Onshore collectively referred to herein as the "Contributors") and

Carl C. Icahn. Pursuant to the Contribution Agreement, we acquired general partnership interests in Icahn Onshore LP (the "Onshore GP") and Icahn Offshore LP (the "Offshore GP" and, together with the Onshore GP, the "General Partners"), acting as general partners of Icahn Partners LP, ("the Onshore Fund") and the Offshore Master Funds (as defined below) managed and controlled by Mr. Icahn. As referred to herein, the "Offshore Master Funds" consist of (i) Icahn Partners Master Fund LP ("Offshore Master Fund I"); (ii) Icahn Partners Master Fund II L.P. ("Offshore Master Fund II") and (iii) Icahn Partners Master Fund III L.P. ("Offshore Master Fund III"). The Onshore Fund and the Offshore Master Funds are collectively referred to herein as the "Investment Funds."

The Offshore GP also acts as general partner of certain funds formed as Cayman Islands exempted limited partnerships that invest in the Offshore Master Funds. These funds, together with other funds that also invest in the Offshore Master Funds, constitute the "Feeder Funds" and, together with the Investment Funds, are referred to herein as the "Private Funds." We also acquired the general partnership interests in New Icahn Management, a Delaware limited partnership, which is a newly formed management company that provides certain management and administrative services to the Private Funds.

The total initial consideration paid for the acquisition was $810 million of our depositary units based on the volume-weighted average price of our depositary units on the NYSE for the 20-trading-day period ending on August 7, 2007 (the day before the closing). In addition, we have agreed to make certain earn-out payments to the Contributors over a five-year period payable in additional depositary units based on our after-tax earnings from the General Partners and New Icahn Management subsequent to the acquisition, which includes both management fees and performance-based or incentive allocations paid by the Private Funds to New Icahn Management and the General Partners. There is a maximum potential aggregate earn-out (including any catch-up) of $1.121 billion, which is subject to achieving total after-tax earnings during the five-year period of at least $3.906 billion.

Prior to the acquisition of the Partnership Interests (as defined below) on August 8, 2007, CCI Offshore was the general partner of the Offshore GP, which, in turn, is the general partner of the Offshore Master Funds, each of which is a Cayman Islands exempted limited partnership. Offshore Master Fund I commenced investment operations on November 1, 2004 and each of Offshore Master Fund II and Offshore Master Fund III commenced operations in fiscal 2007. In addition, CCI Onshore was the general partner of the Onshore GP, which, in turn, is the general partner of the Onshore Fund, which is a Delaware limited partnership that commenced investment operations on November 1, 2004.

CCI Offshore contributed to us 100% of CCI Offshore's general partnership interests in the Offshore GP (the "Offshore Partnership Interests") and CCI Onshore contributed to us 100% of CCI Onshore's general partnership interests in the Onshore GP (the "Onshore Partnership Interests"). The General Partners' capital account with respect to the Offshore Partnership Interests and the Onshore Partnership Interests at the time of our acquisition aggregated $10 million.





**Note 1 — Description of Business and Basis of Presentation – (continued)**

Immediately prior to the execution and delivery of the Contribution Agreement, Icahn Management and New Icahn Management entered into an agreement pursuant to which Icahn Management contributed substantially all of its assets and liabilities, other than certain rights in respect of deferred management fees, to New Icahn Management in exchange for 100% of the general partnership interests in New Icahn Management. Such contribution included the assignment of certain management agreements with the Private Funds. Pursuant to the Contribution Agreement, Icahn Management contributed to us 100% of Icahn Management's general partnership interests in New Icahn Management (the "New Icahn Management Partnership Interests" and, together with the Onshore Partnership Interests and the Offshore Partnership Interests, referred to herein as the "Partnership Interests").

Prior to the formation of New Icahn Management, Icahn Management provided management and administrative services to the Private Funds. New Icahn Management currently provides management and administrative services to the Private Funds. As referred to herein, the term "Investment Management and GP Entities" include either Icahn Management (for the period prior to the acquisition on August 8, 2007) or New Icahn Management (for the period subsequent to the acquisition on August 8, 2007) and, in either case, the General Partners.

The consolidated Private Funds and the Investment Management and GP Entities are considered entities under common control with us. Accordingly, the accompanying supplemental consolidated financial statements and footnotes include the net assets and results of operations of the consolidated Private Funds and the Investment Management and GP Entities during the period of common control, commencing November 1, 2004. See Note 2, "Summary of Significant Accounting Policies," for a discussion on principles of consolidation.

***Discontinued Operations***

On October 18, 2007, within our Home Fashion segment, our indirect majority owned subsidiary, WestPoint International Inc. ("WPI"), entered into an agreement to sell the inventory at substantially all of its 30 retail outlet stores. These operations met the criteria for discontinued operations during the third quarter of fiscal 2007. Therefore, the portion of the business related to the stores' retail operations has been classified for all years presented as discontinued operations.

During the nine months ended September 30, 2007, within our Real Estate segment, five properties were reclassified to held for sale as they were subject to a contract or letter of intent. The operations of these properties were classified as discontinued

operations.

On April 22, 2007, within our former Gaming segment, American Entertainment Properties Corp. (“AEP”), our wholly owned indirect subsidiary, entered into an agreement to sell all of the issued and outstanding membership interests of American Casino and Entertainment Properties LLC (“ACEP”), which comprise our remaining gaming operations.

On November 21, 2006, within our former Oil and Gas segment, our indirect wholly owned subsidiary, AREP O & G Holdings LLC, consummated the sale of all of the issued and outstanding membership interests of NEG Oil & Gas LLC (“NEG Oil & Gas”) to SandRidge, formerly Riata Energy, Inc.

On November 17, 2006, within our former Gaming segment, our indirect majority owned subsidiary, Atlantic Coast Entertainment Holdings, Inc. (“Atlantic Coast”), completed the sale to Pinnacle Entertainment, Inc. (“Pinnacle”) of the outstanding membership interests in ACE Gaming LLC (“ACE”), the owner of The Sands Hotel and Casino (“The Sands”), in Atlantic City, New Jersey, and 100% of the equity interests in certain subsidiaries of IEH that owned parcels of real estate adjacent to The Sands, including the Traymore site.

The financial position and results of these operations discussed above are presented as assets and liabilities of discontinued operations held for sale in the supplemental consolidated balance sheets and discontinued operations in the supplemental consolidated statements of operations.





**Note 1 — Description of Business and Basis of Presentation – (continued)**

***Filing Status of Subsidiaries***

National Energy Group, Inc. (“NEGI”) and Atlantic Coast are reporting companies under the Securities Exchange Act of 1934, as amended (the “34 Act”). In addition, ACEP voluntarily files annual, quarterly and current reports under the ’34 Act. See Note 19, “Subsequent Events,” for additional information.

**Note 2 — Summary of Significant Accounting Policies**

***a. Investment Management***

The accounting policies and disclosures specifically related to the Investment Management segment are discussed in this section.

*Principles of Consolidation*

The supplemental consolidated financial statements include the accounts of Icahn Enterprises and its wholly and majority owned subsidiaries in which control can be exercised, in addition to those entities in which we have a substantive controlling, general partner interest or in which it is the primary beneficiary of a variable interest entity. We are considered to have control if we have a direct or indirect ability to make decisions about an entity’s activities through voting or similar rights. We use the guidance set forth in Emerging Issues Task Force (“EITF”) Issue No. 04-05, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (“EITF No. 04-05”), FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*, *an Interpretation of ARB No. 51* (“FIN 46R”), and in SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries — An Amendment of ARB No. 51, with Related Amendments of APB Opinion No. 18, and ARB No. 43 Chapter 12* (“SFAS No. 94”), with respect to our investments in partnerships and limited liability companies. All intercompany balances and transactions are eliminated.

The accompanying supplemental consolidated financial statements include the consolidated financial statements of the Investment Management and GP Entities and certain consolidated Private Funds during the periods presented. The Investment Management and GP Entities consolidate those entities in which (i) they have an investment of more than 50% and have control over significant operating, financial and investing decisions of the entity pursuant to SFAS No. 94, (ii) they have a substantive controlling, general partner interest pursuant to EITF No. 04-05 or (iii) they are the primary beneficiary of a variable interest entity (a “VIE”) pursuant to FIN 46R. With respect to the consolidated Private Funds, the limited partners and shareholders have no substantive rights to impact ongoing governance and operating activities.

New Icahn Management, the Onshore GP and the Offshore GP are consolidated into Icahn Enterprises pursuant to SFAS No. 94 as Icahn Enterprises owns greater than 50% of the partnership interests in these entities. Icahn Enterprises has a substantive controlling, general partnership interest in these entities.

The Onshore Fund is consolidated into the Onshore GP, pursuant to EITF No. 04-05, which defines the criteria for determining whether a general partner controls a limited partnership when the limited partners have certain rights, such as“kick-out” rights. According to EITF No. 04-05, consolidation of a limited partnership by the general partner is required when these rights do not exist.

Offshore Master Fund I is consolidated into Icahn Fund Ltd. (the “Offshore Fund”). In addition, the Offshore Fund, Offshore Master Fund II, Offshore Master Fund III and, from May 1, 2006 through October 1, 2006, Icahn Sterling Fund Ltd. (the “Sterling Fund”) are consolidated into the Offshore GP, pursuant to FIN 46R. On October 1, 2006, the Sterling Fund’s assets were

contributed to the Offshore Fund. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE must be consolidated only by its primary beneficiary, which is defined as





**Note 2 — Summary of Significant Accounting Policies – (continued)**

the party who, along with its affiliates and agents, will absorb a majority of the VIE's expected losses or receive a majority of the expected residual returns as a result of holding variable interests.

The Investment Funds and the Offshore Fund are consolidated into our financial statements even though we only own a minority interest in the equity and income of these funds. As a result, our supplemental consolidated financial statements reflect the assets, liabilities, revenues, expenses and cash flows of these funds on a gross basis, rather than reflecting only the value of our investments in such funds. As of September 30, 2007, the net asset value of the consolidated Private Funds on our balance sheet was $7.1 billion, while the net asset value of our investments in these consolidated funds was approximately $355.9 million. The majority ownership interests in these funds, which represent the portion of the consolidated net assets and net income attributable to the limited partners and shareholders for the periods presented, are reflected as non-controlling interests in consolidated entities — Investment Management in the supplemental consolidated balance sheets and as non-controlling interests in income of consolidated entities — Investment Management in the statements of operations. In addition, the management fees and incentive allocations earned by us from these funds have been eliminated in consolidation and are reflected on our financial statements as an increase in our allocated share of the net income from these funds. However, management fees earned from unconsolidated Private Funds are not eliminated in our supplemental consolidated financial statements.

Although the Private Funds are not investment companies within the meaning of the Investment Company Act of 1940, as amended, each of the consolidated Private Funds is, for purposes of U.S. GAAP, an investment company under the AICPA Audit and Accounting Guide — Investment Companies (the “AICPA Guide”). The Investment Management and GP Entities adopted Statement of Position No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide — Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (“SOP 07-1”) as of January 1, 2007. SOP 07-1, issued in June 2007, addresses whether the accounting principles of the AICPA Guide may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. Upon the adoption of SOP 07-1, (i) the Offshore GP lost its ability to retain specialized accounting pursuant to the AICPA Guide for either its equity method investment in Offshore Master Fund I or for its consolidation of the Offshore Fund, Offshore Master Fund II and Offshore Master Fund III and (ii) the Onshore GP lost its ability to retain specialized accounting for its consolidation of the Onshore Fund, in each case, because both the Offshore GP and the Onshore GP do not meet the requirements for retention of specialized accounting under SOP 07-1, as the Offshore GP and Onshore GP and their affiliates acquire interests for strategic operating purposes in the same companies in which their subsidiary investment companies invest.

However, upon losing their ability to retain specialized accounting, the Investment Management and GP Entities applied SFAS No. 115, *Accounting for Investments in Debt and Equity Securities* (“SFAS No. 115”) to their investments held by the consolidated Private Funds in debt securities and in those equity securities with readily determinable fair values, as defined by that Statement, and classified such investments as available-for-sale securities and elected the fair value option pursuant to SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an Amendment of FASB Statement No. 115* (“SFAS No. 159”), and reclassified such securities as trading securities. For those equity securities that fall outside the scope of SFAS No. 115 because they do not have readily determinable fair values as defined by that Statement, the Investment Management and GP entities elected the fair value option pursuant to SFAS No. 159 and measured the fair value of such securities in accordance with the requirements of SFAS No. 157, *Fair Value Measurements* (“SFAS No. 157”). For those investments in which the Investment Management and GP Entities would otherwise account for such investments under the equity method, the Investment Management and GP Entities, in accordance with their accounting policy, elected the fair value option pursuant to





**Note 2 — Summary of Significant Accounting Policies – (continued)**

SFAS No. 159 for all such investments. The election of the fair value option pursuant to SFAS No. 159 was deemed to most accurately reflect the nature of our business relating to investments.

Derivative contracts entered into by the consolidated Private Funds continue to be accounted for pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"), which was amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* ("SFAS No. 138"). These pronouncements require recognition of all derivatives as either assets or liabilities in the balance sheet at their fair value. All changes in the fair values of derivatives held by the consolidated Private Funds are reported in earnings.

The management fees earned by New Icahn Management (and by Icahn Management prior to the acquisition on August 8, 2007) from consolidated entities and the incentive allocations earned by the Onshore GP and the Offshore GP from the Onshore Fund and the Offshore Master Funds, respectively, are eliminated in consolidation; however, the Investment Management and GP Entities' allocated share of the net income from the Private Funds includes the amount of these eliminated fees. Accordingly, the consolidation of the Private Funds has no material net effect on the Investment Management and GP Entities' earnings from the Private Funds.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

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

*Cash Held at Consolidated Affiliated Partnerships and Restricted Cash*

Cash held at consolidated affiliated partnerships and restricted cash consists of (i) cash and cash equivalents held by the Onshore Fund and the Offshore Master Funds that, although not legally restricted, is not available to fund the general liquidity needs of the Investment Management and GP Entities or Icahn Enterprises and (ii) restricted cash relating to derivatives held on deposit.

*Investments and Related Transactions*

*Investment Transactions and Related Investment Income.* Investment transactions of the Private Funds are recorded on a trade date basis. Realized gains or losses on sales of investments are based on the first-in, first-out or the specific identification methods. Realized and unrealized gains or losses on investments are recorded in the supplemental consolidated statements of operations. Interest income and expenses are recorded on an accrual basis and dividends are recorded on the ex-dividend date. Premiums and discounts on fixed income securities are amortized using the effective yield method.

*Valuation of Investments.* Securities of the Private Funds that are listed on a securities exchange are valued at their last sales price on the primary securities exchange on which such securities are traded on such date. Securities that are not listed on any exchange but are traded over-the-counter are valued at the mean between the last "bid" and "ask" price for such security on such date. Securities and other instruments for which market quotes are not readily available are valued at fair value as determined in good faith by the applicable general partner.





**Note 2 — Summary of Significant Accounting Policies – (continued)**

*Foreign Currency Transactions.* The books and records of the Private Funds are maintained in U.S. dollars. Assets and liabilities denominated in currencies other than U.S. dollars are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Transactions during the period denominated in currencies other than U.S. dollars are translated at the rate of exchange applicable on the date of the transaction. Foreign currency translation gains and losses are recorded in the supplemental consolidated statements of operations. The Private Funds do not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in the market prices of securities. Such fluctuations are included in the net realized gains (losses) from securities transactions and the net unrealized gains (losses) on securities positions.

*Fair Values of Financial Instruments.* The fair values of the Private Funds' assets and liabilities that qualify as financial instruments under SFAS No. 107, *Disclosures About Fair Value of Financial Instruments,* approximate the carrying amounts presented in the supplemental consolidated balance sheets.

*Securities Sold, Not Yet Purchased.* The Private Funds may sell an investment they do not own in anticipation of a decline in the fair value of that investment. When the Private Funds sell an investment short, they must borrow the investment sold short and deliver it to the broker-dealer through which they made the short sale. A gain, limited to the price at which the Private Funds sold the investment short, or a loss, unlimited in amount, will be recognized upon the cover of the short sale.

*Due from Brokers.* Due from brokers represents cash balances with the Private Funds' clearing brokers. A portion of the cash at

brokers is related to securities sold, not yet purchased; its use is therefore restricted until the securities are purchased. Securities sold, not yet purchased are collateralized by certain of the Private Funds' investments in securities. Margin debit balances, which may exist from time to time, are collateralized by certain of the Private Funds' investments in securities.

*Derivatives*

From time to time, the Private Funds enter into purchased and written option contracts, swap contracts, futures contracts and forward contracts and follow SFAS No. 133. This pronouncement establishes accounting and reporting standards for derivative instruments and for hedging activities, which generally require recognition of all derivatives as either assets or liabilities in the balance sheet at their fair value. The accounting for changes in fair value depends on the intended use of the derivative and its resulting designation. Through September 30, 2007, we did not use hedge accounting and, accordingly, all unrealized gains and losses are reflected in our supplemental consolidated statements of operations.

*Allocation of Net Profits and Losses in Consolidated Affiliated Partnerships*

Net investment income and net realized and unrealized gains and losses on investments of the Private Funds are allocated to both the respective general partner and the limited partners or shareholders of the Private Funds based on the ratio of their respective capital balances at the beginning of each allocation period to the total capital of all partners or shareholders of the Private Funds. Such allocations made to the limited partners or shareholders of the Private Funds are represented as non-controlling interests in our supplemental consolidated statements of operations. The beginning of an allocation period is defined as the beginning of each fiscal year, the date of admission of any new partner or shareholder of the Private Funds or the date of any additional subscription or redemption by a partner or shareholder of the Private Funds. Upon the allocation to partners based on their respective capital balances, generally 25% of the capital appreciation (both realized and unrealized) allocated to the Investment Funds' limited partners or lesser amounts for certain limited partners are then reallocated to the Investment Funds' General Partners. Such reallocation is referred to as the General Partners' incentive allocation. The total profits and losses allocated to the respective General Partners of the Investment Funds are included in the net income of the consolidated Investment Management and GP Entities (as either the Onshore GP or Offshore GP act as general partner to the Investment Funds) and





**Note 2 — Summary of Significant Accounting Policies – (continued)**

are allocated in a manner consistent with the manner in which capital is allocated to the partners of the Investment Management and GP Entities as further discussed below.

*Partners' Capital of the Investment Management and GP Entities*

The Investment Management and GP Entities are each organized as a limited partnership formed pursuant to the provisions of the Delaware Revised Uniform Limited Partnership Act. Limited partnership interests have been granted in the Investment Management and GP Entities to allow certain employees and individuals to participate in a share of the management fees and incentive allocations earned by the Investment Management and GP Entities. Prior to the completion of our acquisition of the Partnership Interests on August 8, 2007, all limited partnership admissions to the Investment Management and GP Entities were determined by the respective general partner entity of the Investment Management and GP Entities, each of which was principally owned by Mr. Icahn.

The Investment Management and GP Entities, individually, intend to be treated as partnerships for federal income tax purposes, and as such shall maintain a capital account for each of their partners. Each partner will be allocated an amount of the management fees and incentive allocations subject to, and as determined by, the provisions of each limited partner's respective agreements with each of the Investment Management and GP Entities. All other partnership profits and losses of each of the Investment Management and GP Entities will be allocated among the respective partners in each of the Investment Management and GP Entities pro rata in accordance with their respective capital accounts.

Income allocations to all partners in each of the Investment Management and GP Entities, except the general partner entity and any limited partnership interests held directly by Mr. Icahn, are accounted for as compensation expense as more fully described in Note 13, "Compensation Arrangements." All amounts allocated to these partners' capital accounts and their respective capital contributions are included in accounts payable and accrued expenses and other liabilities on the supplemental consolidated balance sheets until those amounts are paid out in accordance with the terms of each respective partner's agreement. Payments made to the respective general partner and any limited partnership interests held by Mr. Icahn are treated as equity distributions.

*Revenue Recognition*

The Investment Management and GP Entities generate income from amounts earned pursuant to contractual arrangements with the Private Funds. Such amounts typically include an annual management fee of 2.5% of the net asset value before a performance-based, or incentive allocation of 25% of capital appreciation (both realized and unrealized) earned by the Investment Funds subject to a "high water mark" (whereby the General Partners do not earn incentive allocations during a particular year even though the fund had a positive return in such year until losses in prior periods are recovered). Such amounts have been (and may in the future be) modified or waived in certain circumstances. The Investment Management and GP Entities and their affiliates may also earn income through their principal investments in the Private Funds.

At the end of each fiscal year of the Onshore Fund (or sooner upon the occurrence of withdrawals), 25% of the capital appreciation (based on realized and unrealized gains and losses), if any, that is allocated to each capital account of a limited partner of the Onshore Fund (20% of the capital appreciation, if any, for certain limited partners) for such fiscal year is reallocated to the capital account of the Onshore GP subject to a loss carryforward provision as described in the Fourth Amended and Restated Limited Partnership Agreement of the Onshore Fund, dated as of February 1, 2007, as amended from time to time.

At the end of each fiscal year of the Offshore Master Funds and at certain other times, 25% of the capital appreciation (based on realized and unrealized gains and losses), if any, that is allocated to each capital account of a fee-paying limited partner of the Offshore Master Funds (20% in some cases) for such fiscal year shall be reallocated to the capital account of the Offshore GP subject to a loss carryforward provision as described in the applicable limited partnership agreement of each offshore master fund in effect at such time.





**Note 2 — Summary of Significant Accounting Policies – (continued)**

Prior to the acquisition on August 8, 2007, Icahn Management recognized management fee income in the period in which the related services were performed and in accordance with certain management agreements with each of the Onshore Fund, the Offshore Fund, Icahn Fund II Ltd. ("Offshore Fund II"), Icahn Fund III Ltd. ("Offshore Fund III" and, together with the Offshore Fund and Offshore Fund II, the "Offshore Funds") and, from May 1, 2006 through October 1, 2006, the Sterling Fund (collectively, the "Management Agreements"). Subsequent to the acquisition on August 8, 2007, New Icahn Management provides such management and administrative services to the Private Funds and recognizes management fee income in the period in which the related services are performed in accordance with the Management Agreements.

The general partner incentive allocations earned from the Onshore Fund and the Offshore Master Funds are accrued on a quarterly basis in accordance with Method 2 of EITF Topic D-96, *Accounting for Management Fees Based on a Formula* ("EITF Topic D-96"), and are allocated to the Onshore GP and the Offshore GP, respectively, at the end of the Onshore Fund's and the Offshore Master Funds' fiscal year (or sooner on redemptions). Such accruals may be reversed as a result of subsequent investment performance prior to the conclusion of the Onshore Fund's and the Offshore Master Funds' fiscal year at December 31.

The incentive allocations earned by the Onshore GP and the Offshore GP from the Onshore Fund and the Offshore Master Funds, respectively, and the management fees earned by New Icahn Management (and by Icahn Management prior to the acquisition on August 8, 2007) from consolidated Private Funds, are eliminated in consolidation; however, the Investment Management and GP Entities' allocated share of the net income from the Private Funds includes the amount of these eliminated fees.

*Income Taxes*

Except as discussed below, no provision has been made for federal, state or local income taxes on the results of operations generated by partnership activities, as such taxes are the responsibility of the partners. Provision has been made for federal, state or local income taxes on the results of operations generated by our corporate subsidiaries. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. 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.

New Icahn Management (and Icahn Management prior to the acquisition on August 8, 2007) is subject to a New York City Unincorporated Business tax ("UBT"), at a statutory rate of 4% on a portion of its income. UBT is accounted for under SFAS No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). New Icahn Management accounts for these taxes using the asset and liability method under which 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.

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

*Compensation Arrangements*

In December 2004, SFAS No. 123 (Revised 2004), *Share-Based Payment* ("SFAS No. 123R") was issued. This accounting standard eliminated the ability to account for share-based compensation transactions using the intrinsic value method in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and requires instead that such transactions be accounted for using a fair-value-based method. SFAS No. 123R requires public entities to record non-cash compensation expense related to payment for employee services by an equity award, such as stock options, in their financial statements over the requisite service period. We have adopted SFAS No. 123R as of June 30, 2005.

**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**
**NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
**September 30, 2007**

**Note 2 — Summary of Significant Accounting Policies – (continued)**

The Investment Management and GP Entities have entered into agreements with certain of their employees whereby these employees have been granted rights to participate in a portion of the management fees and incentive allocations earned by the Investment Management and GP Entities, net of certain expenses, and subject to various vesting provisions. These rights are accounted for as liabilities in accordance with SFAS No. 123R and remeasured at fair value each reporting period until settlement. See Note 13, "Compensation Arrangements," for a further description of these arrangements.

***b. Holding Company and Other Operations***

The following section discusses the accounting policies and disclosures related to Icahn Enterprises and its other consolidated subsidiaries.

*Sales of Subsidiary Stock*

SEC Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary* ("SAB 51"), provides guidance on accounting for the effect of issuances of a subsidiary's stock on the parent's investment in that subsidiary. SAB 51 allows registrants to elect an accounting policy of recording such increases or decreases in a parent's investment (SAB 51 credits or charges, respectively) as either a gain or loss in the statement of operations or reflected as an equity transaction. In accordance with the election provided in SAB 51, we adopted a policy of recording such SAB 51 credits or charges directly to partners' equity. As further discussed in Note 11, "Non-Controlling Interests," during the quarter ended June 30, 2007, or the second quarter of fiscal 2007, we recognized certain SAB 51 charges to partners' equity of approximately $6.1 million related to our investment in Atlantic Coast under our adopted policy.

*General Partnership Interest of Icahn Enterprises*

The general partner's capital account generally consists of its cumulative share of our net income less cash distributions plus capital contributions. Additionally, in acquisitions of common control companies accounted for at historical cost similar to a pooling of interests, the general partner's capital account would be charged or credited in a manner similar to a distribution for the excess (or deficit) of the fair value of consideration paid over historical basis in the business acquired.

Capital Accounts, as defined under our Amended and Restated Agreement of Limited Partnership dated as of May 12, 1987, as amended from time to time (together with the partnership agreement of IEH, the "Partnership Agreement"), are maintained for our general partner and our limited partners. The Capital Account provisions of our Partnership Agreement incorporate principles established for U.S. federal income tax purposes and are not comparable to the equity accounts reflected under U.S. GAAP, in our financial statements. Under our Partnership Agreement, the general partner is required to make additional capital contributions to us upon the issuance of any additional depositary units in order to maintain a Capital Account balance equal to 1.99% of the total Capital Accounts of all partners.

Generally, net earnings for U.S. federal income tax purposes are allocated 1.99% and 98.01% between the general partner and the limited partners, respectively, in the same proportion as aggregate cash distributions made to the general partner and the limited partners during the period. This is generally consistent with the manner of allocating net income under our Partnership Agreement; however, it is not comparable to the allocation of net income reflected in our financial statements. Additionally, as discussed below, we elected to change the allocation of gains or losses on disposition of common control acquisitions accounted for as a pooling of interests.

According to the Partnership Agreement, in the event of our dissolution, after satisfying our liabilities, our remaining assets would be divided among our limited partners and the general partner in accordance with their respective percentage interests under the Partnership Agreement (i.e., 98.01% to the limited partners and



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**
**NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
**September 30, 2007**

**Note 2 — Summary of Significant Accounting Policies – (continued)**

1.99% to the general partner). If a deficit balance still remains in the general partner's capital account after all allocations are made between the partners, the general partner would not be required to make whole any such deficit.

*Change in Accounting Principle — Method of Allocating Gains and Losses Related to Dispositions of Common Control Acquisitions*

In the third quarter of fiscal 2007, we elected to change our method of allocating gains and losses for financial reporting purposes related to dispositions of common control entities accounted for on an as-if pooling basis when acquired. Both the historical method and the new method are acceptable alternative principles under GAAP. The new method of allocating gains and losses from dispositions of common control acquisitions for financial reporting purposes would not affect the amounts distributable to the partners in accordance with their respective percentage interests under the Partnership Agreement (i.e., 98.01% to the limited partners and 1.99% to the general partner). This change in accounting principle was applied retrospectively in accordance with the provisions of SFAS No. 154, *Accounting Changes and Error Corrections — A Replacement of APB Opinion No. 20 and FASB Statement No. 3* ("SFAS No. 154").

When we acquire an entity under common control, we will continue to reflect the acquired entity in a manner similar to a pooling of interests, as we have in the past. We will also continue to charge or credit the general partner's capital account with the difference between the consideration we pay for the entity and the predecessor basis prior to our acquisition.

Historically, upon later sale of the entity to a third party, the entire gain or loss, including cumulative gains and losses relating to periods prior to our acquisition of the entity, was allocated between the general partner and the limited partners in accordance with their respective percentage interests under the Partnership Agreement (i.e., 98.01% to the limited partners and 1.99% to the general partner).

The newly adopted accounting principle only affects transactions involving the sale of a previously acquired common control entity. The newly adopted accounting principle allocates gain or loss for financial reporting purposes by first restoring the general partner's capital account for the cumulative charge or credit relating to prior periods recorded at the time of our acquisition and then allocating the remaining gain or loss among the general and limited partners in accordance with their respective percentage interests under the Partnership Agreement (i.e., 98.01% to the limited partners and 1.99% to the general partner).

The impact of this change in accounting principle only affects the financial statements for the year ended December 31, 2006, or fiscal 2006, related to the gains on sale of the former Oil and Gas segment as well as the Atlantic City operations from our former Gaming segment which occurred in the quarter ended December 31, 2006, or the fourth quarter of fiscal 2006. The following information details the financial statement line items for fiscal 2006 that were affected by the change in accounting principle, which includes amounts from the common control acquisition of the Partnership Interests made on August 8, 2007 as more fully described in Note 1, "Description of Business and Basis of Presentation." Net earnings attributable to limited partners decreased from $781.4 million to $506.9 million while net earnings attributable to general partner increased from $326.3 million to $600.8 million. Total net earnings did not change. Basic and diluted net earnings per LP unit from discontinued operations decreased from $12.65 to $8.21, resulting in a decrease in basic and diluted earnings per LP unit from $12.68 to $8.22. Basic and diluted net earnings per LP unit from continuing operations of $0.01 did not change. In addition, partners' equity attributed to the limited partners decreased from $2.5 billion to $2.3 billion and partners' equity attributed to the general partner increased from $321.7 million to $596.2 million. Total partners' equity, which is 98.01% attributable to the limited partners pursuant to the Partnership Agreement, did not change.





**Note 2 — Summary of Significant Accounting Policies – (continued)**

*Environmental Liability*

PSC Metals accrues environmental remediation costs associated with identified sites where an assessment has indicated that cleanup costs are probable and can be reasonably estimated. Such accruals are based on currently available information, existing technology and enacted laws and regulations. The liability for environmental and closure costs is included in the supplemental consolidated balance sheet under accrued environmental costs. PSC Metals accounts for its environmental remediation costs in accordance with AICPA Statement of Position 96-1, *Environmental Remediation Liabilities*.

***c. Recently Issued Accounting Pronouncements***

*SFAS No. 155.* On February 16, 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Instruments — an Amendment of FASB Statements No. 133 and 140* ("SFAS No. 155"). The statement amends Statement No. 133 to permit fair value measurement for certain hybrid financial instruments that contain an embedded derivative, provides additional guidance on the applicability of SFAS No.133 and 140 to certain financial instruments and subordinated concentrations of credit risk. The new standard is effective for the first fiscal year beginning after September 15, 2006. The adoption of SFAS No. 155 as of January 1, 2007 did not have any impact on our supplemental consolidated financial statements.

*EITF 06-3.* In June 2006, the EITF issued EITF Issue 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)* ("EITF 06-3"), to clarify diversity in practice on the presentation of different types of taxes in the financial statements. EITF 06-3 concluded that, for taxes within the scope of the issue, a company may adopt a policy of presenting taxes either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. If taxes are reported on a gross basis, and are significant, an entity should disclose the amounts of those taxes subject to EITF 06-3. The guidance is effective for periods beginning after December 15, 2006. We present sales tax on a net basis in our supplemental consolidated

financial statements, and the adoption of EITF 06-3 did not have any impact on our supplemental consolidated financial position, results of operations or cash flows.

*FIN 48.* In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement 109* ("FIN 48"), which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the "more-likely-than-not" threshold, the largest amount of tax benefit that is greater than 50 percent likely to be recognized upon ultimate settlement with the taxing authority is recorded. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening partners' equity. We adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have a material impact on our supplemental consolidated financial statements. See Note 17, "Income Taxes," for additional information.

*SFAS No. 157.* In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS No. 157 does not require any new fair value measurements. We adopted SFAS No. 157 as of January 1, 2007, in conjunction with the adoption of SFAS No. 159, as required. The adoption of SFAS No. 157 did not have any material impact on our supplemental consolidated financial statements.





**Note 2 — Summary of Significant Accounting Policies – (continued)**

*SFAS No. 158.* In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106, and 132).* SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. We are required to adopt SFAS No. 158 as of December 31, 2007. We are currently evaluating the effect, if any, of the adoption of SFAS No. 158 on our supplemental consolidated financial statements.

*SFAS No. 159.* In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115* ("SFAS No. 159"), which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning partners' equity.

We adopted SFAS No. 159 as of January 1, 2007 and elected to apply the fair value option to our investment in ImClone Systems Incorporated ("ImClone"). It is our policy to apply the fair value option to all of our investments that would be subject to the equity method of accounting pursuant to APB 18, *The Equity Method of Accounting for Investments in Common Stock* ("APB 18"). In the fourth quarter of fiscal 2006, we first applied the equity method of accounting to our investment in ImClone due to changes in ImClone's board, resulting in our having the ability to exercise significant influence over ImClone. We believe that the quality of the earnings and the value of the investment that we report over time relating to our investment in ImClone are more accurately reflected by the market value methodology of SFAS No. 159 rather than the equity method of accounting. The equity method of accounting would require an appraisal of the fair values of ImClone's assets and liabilities at the dates that we acquired shares of common stock of ImClone as well as future appraisals should there be any material indications of impairment. We believe that such an appraisal would be subjective given the nature of ImClone's pharmaceutical operations.

As of the date of adoption, the carrying value of our investment in ImClone was approximately $164.3 million and the fair value of our investment was approximately $122.2 million. In accordance with the transition requirements of SFAS No. 159, we recorded a cumulative effect adjustment to beginning partners' equity for the difference between the fair value and carrying value on the date of adoption, which reduced partners' equity by approximately $42.2 million.

As a result of the adoption of SFAS No. 159, we are required to record unrealized gains or losses for the change in fair value of our investment in ImClone. During the three and nine months ended September 30, 2007, we recorded approximately $27.2 million and $66.5 million of unrealized gains, respectively, resulting from the change in the market value of ImClone's stock which is recorded as a component of other income, net in the supplemental consolidated statements of operations.

We also applied the fair value option pursuant to SFAS No. 159 to our investment in Lear Corporation common stock to be consistent with the Private Funds' accounting for its investment in Lear Corporation common stock.

As described below in our discussion of the impact of our early adoption of SOP 07-1, we also elected the fair value option for the investments in debt and equity securities held by our consolidated Private Funds.

**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**
**NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
**September 30, 2007**

**Note 2 — Summary of Significant Accounting Policies – (continued)**

*SOP 07-1.* In June 2007, SOP 07-1 was issued. SOP 07-1 addresses whether the accounting principles of the AICPA Guide may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 applies to reporting periods beginning on or after December 15, 2007, although early application is permitted. The Investment Management and GP Entities adopted SOP 07-1 as of January 1, 2007.

As discussed above, because the General Partners and their affiliates acquire interests for strategic operating purposes in certain of the same companies in which their subsidiary investment companies invest, they lose their ability to retain specialized accounting pursuant to the AICPA Guide. However, the Investment Management and GP Entities apply SFAS No. 115 to their investments held by the consolidated Private Funds in debt securities and in those equity securities with readily determinable fair values, as defined by that Statement, and classified such investments as available-for-sale securities and elected the fair value option pursuant to SFAS No. 159. For those equity securities that fall outside the scope of SFAS No. 115 because they do not have readily determinable fair values as defined by that Statement, the Investment Management and GP Entities elected the fair value option pursuant to SFAS No.159 and measured the fair value of such securities in accordance with the requirements of SFAS No. 157. For those investments in which the Investment Management and GP Entities would otherwise account for such investments under the equity method, the Investment Management and GP Entities, in accordance with their accounting policy, elected the fair value option pursuant to SFAS No. 159 for all such investments.

*FSP FIN 39-1.* On April 30, 2007, the FASB issued FASB Staff Position No. FIN 39-1 (“FSP FIN 39-1”), which amends FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts (FIN 39)*. FSP FIN 39-1 impacts entities that enter into master netting arrangements as part of their derivative transactions by allowing net derivative positions to be offset in the financial statements against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral or the obligation to return cash collateral under those arrangements. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, although early application is permitted. We are currently evaluating the effect, if any, of the adoption of FSP FIN 39-1 on our supplemental consolidated financial statements.

*FSP FIN 46(R)-7.* In May 2007, the staff of the FASB issued FASB Staff Position on FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* (“FSP FIN 46(R)-7”). The staff position amends FIN 46R to indicate that investments accounted for at fair value in accordance with SOP 07-1 are not subject to consolidation under FIN 46R. The adoption of FSP FIN 46(R)-7 will require the Investment Management and GP Entities to apply consolidation provisions of FIN 46R to their consolidated entities that previously fell within the scope of the AICPA Guide. The adoption of FSP FIN 46(R)-7 will not have any material impact on our supplemental consolidated financial statements.

**Note 3 — Operating Units**

Including the acquisition of PSC Metals on November 5, 2007, we have four principal operating businesses: Investment Management, Metals, Real Estate and Home Fashion. Additional financial information for these businesses is provided in Note 16, “Segment Reporting.”

***a. Investment Management***

The entities in our Investment Management operations provide investment advisory and certain management services to the Private Funds, but do not provide such services to any other entities, individuals or accounts. Interests in the Private Funds are offered only to certain sophisticated and accredited investors on the basis of exemptions from the registration requirements of the federal securities laws and are not publicly available. The Investment Management and GP Entities generally receive management fees and incentive allocations from the Private Funds. Management fees are generally 2.5% of the net asset value of certain Private Funds. Incentive allocations, which are primarily earned on an annual basis, are generally 25% of the



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**
**NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
**September 30, 2007**

**Note 3 — Operating Units – (continued)**

net profits generated by the Private Funds that we manage. Therefore, investment management revenues will be affected by the combination of fee-paying assets under management (“AUM”) and the investment performance of the Private Funds.

Summary financial information for our Investment Management operations as of September 30, 2007 and December 31, 2006 included in the supplemental consolidated balance sheets are as follows (in $000s):

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Cash and cash equivalents | $ 4,095 | $ 4,822 |
| Cash held at consolidated affiliated partnerships and restricted cash | 1,136,546 | 1,106,809 |
| Securities owned, at fair value | 5,585,669 | 2,757,229 |
| Unrealized gains on derivative contracts, at fair value | 55,855 | 80,216 |
| Due from brokers | 1,600,306 | 838,620 |
| Other assets | 154,003 | 27,460 |
| Total assets | $ 8,536,474 | $ 4,815,156 |
| Accounts payable, accrued expenses and other liabilities | $ 29,219 | $ 59,286 |
| Deferred management fee payable | 146,863 | — |
| Subscriptions received in advance | 23,336 | 66,030 |
| Payable for purchases of securities | 211,279 | 11,687 |
| Securities sold, not yet purchased, at fair value | 1,068,262 | 691,286 |
| Unrealized losses on derivative contracts, at fair value | 116,498 | 1,770 |
| Total liabilities | $ 1,595,457 | $ 830,059 |
| Non-controlling interests in consolidated entities | $ 6,601,480 | $ 3,628,470 |





**Note 3 — Operating Units – (continued)**

Summarized consolidated income statement information for our Investment Management operations for the three and nine months ended September 30, 2007 and 2006 included in the supplemental consolidated statements of operations is as follows (in $000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Management fees from related parties | $ 4,118 | $ — | $ 7,494 | $ — |
| Consolidated affiliated partnerships: | | | | |
| Realized gains – securities | 174,281 | 50,623 | 689,762 | 536,870 |
| Unrealized gains (losses) – securities | (177,746) | 159,128 | (43,308) | 33,447 |
| Realized gains (losses) – derivative contracts | (81,322) | (4,224) | 22,126 | (19,510) |
| Unrealized gains (losses) – derivative contracts | (48,865) | 3,761 | (114,357) | 20,967 |
| Interest, dividends and other income | 51,023 | 18,816 | 132,640 | 44,894 |
| Other income | 98 | 95 | 405 | 221 |
| | (78,413) | 228,199 | 694,762 | 616,889 |
| Costs and expenses: | | | | |
| Compensation | 5,906 | 6,626 | 30,502 | 18,548 |
| Shareholder actions | 255 | 714 | 3,361 | 4,617 |
| General and administrative | 1,013 | 916 | 3,694 | 1,866 |
| Consolidated affiliated partnerships: | | | | |
| Interest expense | 4,141 | 2,178 | 13,686 | 6,784 |
| Dividend expense | 2,728 | 1,839 | 3,319 | 4,709 |
| Financing expense | 4,066 | 4,689 | 18,206 | 4,689 |
| Other investment expenses | 231 | 877 | 4,153 | 1,743 |
| Other expenses | 2,113 | 932 | 6,013 | 2,644 |
| | 20,453 | 18,771 | 82,934 | 45,600 |
| Income (loss) before taxes and non-controlling interests in income of consolidated affiliated partnerships | (98,866) | 209,428 | 611,828 | 571,289 |
| Non-controlling interests in (income) loss of consolidated affiliated partnerships | 94,276 | (152,995) | (417,242) | (422,337) |
| Income tax expense | (1,571) | (398) | (3,175) | (1,076) |
| Net earnings (loss) | $ (6,161) | $ 56,035 | $ 191,411 | $ 147,876 |

The General Partners' incentive allocations earned from the Onshore Fund and the Offshore Master Funds are accrued on a quarterly basis in accordance with Method 2 of EITF Topic D-96 and are allocated to the Onshore GP and Offshore GP, respectively, at the end of the Onshore Fund's and the Offshore Master Funds' fiscal year (or sooner on redemptions). Such accruals may be reversed as a result of subsequent investment performance prior to the conclusion of the Onshore Fund's and the

Offshore Master Funds' fiscal year. The management fees earned by New Icahn Management (and by Icahn Management prior to the acquisition on August 8, 2007) are calculated based on the net asset values of certain Private Funds and are accrued quarterly.





**Note 3 — Operating Units – (continued)**

The table below reflects changes to the Private Funds' AUM, for the nine months ended September 30, 2007 and 2006. Amounts presented are net of management fees and accrued incentive allocations and include deferred balances and amounts invested by us and certain other affiliated parties for which we are charged no management fees and pay no incentive allocations for the periods presented. Accordingly, the amounts presented below are not the amounts used to calculate management fees for the respective periods.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Balance, beginning of period | $6,361,407 | $3,153,985 | $4,019,993 | $ 2,646,652 |
| Net in-flows | 848,411 | 81,597 | 2,468,035 | 219,760 |
| Appreciation (depreciation) | (105,453) | 212,202 | 616,337 | 581,372 |
| | $7,104,365 | $3,447,784 | $7,104,365 | $ 3,447,784 |
| Fee-paying AUM | $5,138,328 | $2,790,580 | $5,138,328 | $ 2,790,580 |

The table below presents amounts of gross management fees and incentive allocations earned before related eliminations for the periods stated (in $000):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Management Fees: | | | | |
| Consolidated funds: | | | | |
| Onshore Fund | $ 9,633 | $ 5,449 | $ 25,292 | $ 14,969 |
| Offshore Funds | 15,934 | 15,025 | 62,743 | 39,432 |
| Unconsolidated offshore funds | 4,118 | — | 7,494 | — |
| Total | $ 29,685 | $ 20,474 | $ 95,529 | $ 54,401 |
| Incentive Allocations: | | | | |
| Onshore Fund | $ (10,826) | $ 13,030 | $ 28,770 | $ 38,516 |
| Offshore Master Funds | (14,961) | 25,891 | 65,952 | 66,092 |
| Total | $ (25,787) | $ 38,921 | $ 94,722 | $ 104,608 |

***b. Metals***

We conduct our Metals operations through our 100% ownership in PSC Metals. PSC Metals collects industrial and obsolete scrap metal, processes it into reusable forms and supplies the recycled metals to its customers including electric-arc furnace mills, integrated steel mills, foundries, secondary smelters and metals brokers. PSC Metals' ferrous products include shredded, sheared and bundled scrap metal and other purchased scrap metal such as turnings (steel machining fragments), cast furnace iron and broken furnace iron. PSC Metals also processes non-ferrous metals including aluminum, copper, brass, stainless steel and nickel-bearing metals. Non-ferrous products are a significant raw material in the production of aluminum and copper alloys used in manufacturing. PSC Metals also operates a secondary products business that includes the supply of secondary plate and structural grade pipe that is sold into niche markets for counterweights, piling and foundations, construction materials and infrastructure end-markets.

PSC Metals is headquartered in Mayfield Heights, Ohio, and operates 23 yards, three mill service operations and one pipe storage center. The PSC Metals' facilities are strategically located in high volume scrap markets throughout the upper Midwestern and Southeastern United States, placing PSC Metals in proximity to both suppliers and consumers of scrap metals. As of September 30, 2007, PSC Metals employed 1,055 persons, including 244 employees with collective bargaining agreements.





**Note 3 — Operating Units – (continued)**

The following are consolidated summary balance sheets for our Metals operating unit as of September 30, 2007 and December 31, 2006, as included in the supplemental consolidated balance sheets (in $000s):

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Cash and cash equivalents | $ 3,302 | $ 22,332 |
| Marketable securities | 6,855 | 5,543 |
| Accounts receivable, net of allowance for doubtful accounts | 94,911 | 55,308 |
| Inventories, net | 68,655 | 58,438 |
| Other assets | 35,775 | 27,529 |
| Property plant and equipment, net | 78,365 | 50,917 |
| Goodwill | 14,908 | — |
| Total assets | $ 302,771 | $ 220,067 |
| Accounts payable and accrued liabilities | $ 46,151 | $ 32,768 |
| Long-term debt and capital lease obligations | 37,048 | 2,259 |
| Accrued environmental costs | 24,012 | 19,861 |
| Total liabilities | $ 107,211 | $ 54,888 |

Summarized income statement information for the three and nine months ended September 30, 2007 and 2006 included in the supplemental consolidated statements of operations is as follows ($000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | $ 198,903 | $ 179,173 | $ 622,282 | $ 556,143 |
| Expenses: | | | | |
| Cost of sales | 184,368 | 168,412 | 578,274 | 509,743 |
| Selling, general and administrative expenses | 5,446 | 2,412 | 15,979 | 11,617 |
| Total costs and expenses | 189,814 | 170,824 | 594,253 | 521,360 |
| Income from continuing operations before interest, income taxes, and non-controlling interests in income of consolidated entities | $ 9,089 | $ 8,349 | $ 28,029 | $ 34,783 |

The following is a breakdown of depreciation expense for the periods indicated in ($000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Depreciation expense included in cost of sales | $ 3,264 | $ 2,730 | $ 7,079 | $ 4,630 |
| Depreciation expense included in selling, general and administrative expenses | 65 | 67 | 196 | 407 |
| Total depreciation expense | $ 3,329 | $ 2,797 | $ 7,275 | $ 5,037 |

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), indefinite-lived intangible assets are not amortized, but are subject to impairment testing annually or when indicators of impairment are present. Goodwill of $14.9 million represents the excess of purchase price over the fair value of the net tangible and identified intangible assets acquired. Goodwill of $10.8 million is deductible for tax





**Note 3 — Operating Units – (continued)**

purposes over a 15-year period and $4.1 million is deductible for tax purposes in the period environmental reserve payments are made. In accordance with SFAS No. 142, goodwill is allocated to a reporting unit level and tested for impairment at least annually.

***c. Real Estate***

Our Real Estate operations consists of rental real estate, property development and associated resort activities. As of September 30, 2007 and December 31, 2006, our rental real estate operations owned 33 and 37 rental real estate properties, respectively. These primarily consist of fee and leasehold interests in real estate in 16 states as of September 30, 2007 and 19 states as of December 31, 2006. Most of these properties are net-leased to single corporate tenants. Approximately 85% of these properties are currently net-leased, 3% are operating properties and 12% are vacant. For the three and nine months ended September 30, 2007, rental real estate recorded an asset impairment charge totaling approximately $0.73 million for three properties. For the nine months ended September 30, 2006, an asset impairment charge totaling approximately $0.16 million was recorded for two properties.

Our property development operations are run primarily through Bayswater, a real estate investment, management and development subsidiary that focuses primarily on the construction and sale of single-family houses, multi-family homes, lots in

subdivisions and planned communities and raw land for residential development. Our New Seabury development property in Cape Cod, Massachusetts and our Grand Harbor and Oak Harbor development property in Vero Beach, Florida each include land for future residential development of approximately 400 and 1,000 units of residential housing, respectively. Both developments operate golf and resort activities as well. We are also developing residential communities in Naples, Florida and Westchester County, New York.

Included in total expenses for the nine months ended September 30, 2007 was a $1.8 million and $0.73 million asset impairment charge related to our property development and rental real estate properties, respectively. The impairment charge of $1.8 million related to certain condominium land in our Oak Harbor, FL subdivision caused by the current slowdown. The $0.73 million impairment charge was primarily due to decreased rental renewal rates at certain of our commercial properties. There were no impairment charges for the nine months ended September 30, 2006.

The three related operating lines of our Real Estate operations are all individually immaterial and have been aggregated for purposes of presenting their financial results as set forth below.

The following is a consolidated summary of our Real Estate operating unit property and equipment as of September 30, 2007 and December 31, 2006 included in the supplemental consolidated balance sheets (in $000s):

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Rental properties | $ 103,417 | $ 112,505 |
| Property development | 109,691 | 126,537 |
| Resort properties | 43,020 | 44,932 |
| Total real estate | $ 256,128 | $ 283,974 |





**Note 3 — Operating Units – (continued)**

Summarized income statement information attributable to our continuing Real Estate operations for the three and nine months ended September 30, 2007 and 2006 included in the supplemental consolidated statements of operations is as follows (in $000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Rental real estate | $ 3,343 | $ 3,393 | $ 10,205 | $ 10,061 |
| Property development | 17,321 | 19,914 | 50,202 | 69,149 |
| Resort activities | 9,692 | 9,211 | 23,210 | 22,106 |
| Total revenues | 30,356 | 32,518 | 83,617 | 101,316 |
| Expenses: | | | | |
| Rental real estate | 1,594 | 1,228 | 4,502 | 3,017 |
| Property development | 15,578 | 17,887 | 46,263 | 53,837 |
| Resort activities | 8,194 | 8,032 | 22,651 | 21,381 |
| Total expenses | 25,366 | 27,147 | 73,416 | 78,235 |
| Income from continuing operations before interest, income taxes and non-controlling interests in income of consolidated entities | $ 4,990 | $ 5,371 | $ 10,201 | $ 23,081 |

***d. Home Fashion***

We conduct our Home Fashion operations through our majority ownership in WPI, a manufacturer and distributor of home fashion consumer products. WPI markets a broad range of manufactured and sourced bed, bath and basic bedding products.

The following are consolidated summary balance sheets for our Home Fashion operating unit as of September 30, 2007 and December 31, 2006, as included in the supplemental consolidated balance sheets (in $000s):

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Cash | $ 75,705 | $ 178,464 |
| Inventories, net | 233,865 | 224,483 |
| Assets held for sale | 33,868 | 44,857 |
| Property plant and equipment, net | 189,237 | 200,383 |
| Intangible and other assets | 190,176 | 181,651 |
| Total assets | $ 722,851 | $ 829,838 |
| Accrued expenses and other liabilities | $ 128,871 | $ 99,989 |
| Long-term debt | 10,124 | 10,600 |
| Total liabilities | $ 138,995 | $ 110,589 |
| Non-controlling interests in consolidated entities | $ 127,136 | $ 178,843 |

ICAHN ENTERPRISES L.P. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2007

**Note 3 — Operating Units – (continued)**

Summarized income statement information for the three and nine months ended September 30, 2007 and 2006 included in the supplemental consolidated statements of operations is as follows ($000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | $183,360 | $223,066 | $ 531,109 | $ 672,350 |
| Expenses: | | | | |
| Cost of sales | 177,912 | 211,047 | 529,996 | 643,504 |
| Selling, general and administrative expenses | 28,218 | 31,650 | 87,427 | 100,327 |
| Restructuring and impairment charges | 14,041 | 3,348 | 38,735 | 33,686 |
| Total expenses | 220,171 | 246,045 | 656,158 | 777,517 |
| Loss from continuing operations before interest, income taxes, and non-controlling interests in income of consolidated entities | $ (36,811) | $ (22,979) | $(125,049) | $(105,167) |

The following is a breakdown of depreciation expense for the periods indicated in ($000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Depreciation expense included in cost of sales | $ 1,924 | $ 4,747 | $ 9,146 | $ 21,056 |
| Depreciation expense included in general and administrative expenses | 706 | 1,290 | 2,584 | 4,360 |
| Total depreciation expense | $ 2,630 | $ 6,037 | $11,730 | $ 25,416 |

In accordance with SFAS No. 142*, Goodwill and Other Intangible Assets* (“SFAS No. 142”), indefinite-lived intangible assets are not amortized, but are subject to impairment testing annually or when indicators of impairment are present. The identifiable intangible assets in our Home Fashion operating unit consist of trademarks acquired by WPI. These include Martex, Vellux, Grand Patrician, WestPoint and Utica. As of September 30, 2007, WPI believes that the decrease in the sales of branded home fashion products is of a long-term nature resulting in an impairment in the carrying value of WPI’s trademarks. As of September 30, 2007, WPI recorded an impairment charge of $3.0 million, reducing the fair value of the trademarks to $20.4 million. In accordance with its annual assessments, WPI will continue to review the value of this intangible asset every quarter.

We intend to close substantially all of our retail stores based on a comprehensive evaluation of the stores’ long-term growth prospects and their on-going value to the business. On October 18, 2007, we entered into an agreement to sell the inventory at substantially all of WPI’s retail stores. In accordance with SFAS No. 144, we have classified the retail outlet stores business as discontinued operations for all periods presented.

Restructuring efforts continued during the third quarter of fiscal 2007. WPI recorded charges related to asset impairment associated with closing certain of its plants in the United States. Total expenses for the three months ended September 30, 2007 include $2.6 million of fixed asset impairment, $3.9 million of machinery parts impairment and $4.6 million in restructuring charges, of which approximately $1.0 million relate to severance and $3.6 million relate to continuing costs of closed plants. Additionally, WPI reduced the fair value of the trademarks and recorded intangible asset impairment charges of $3.0 million. Total expenses for the three months ended September 30, 2006 include $3.3 million in restructuring charges, of which approximately $0.2 million relate to severance and $3.1 million relate to continuing costs of closed plants.



ICAHN ENTERPRISES L.P. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2007

**Note 3 — Operating Units – (continued)**

Total expenses for the nine months ended September 30, 2007 include $18.0 million of fixed asset impairment, $3.9 million of machinery parts impairment and $13.9 million in restructuring charges, of which approximately $4.8 million relates to severance and $9.1 million relates to continuing costs of closed plants. Additionally, WPI reduced the fair value of the trademarks and recorded intangible asset impairment charges of $3.0 million. Total expenses for the nine months ended September 30, 2006 include $26.5 million of fixed asset impairment and $7.1 million in restructuring charges of which approximately $1.5 million relates to severance and $5.6 million relates to continuing costs of closed plants.

Included in restructuring expenses are cash charges associated with the ongoing costs of closed plants, employee severance, benefits and related costs. The amount of the accrued liability balance was $1.2 million as of December 31, 2006. During the nine months ended September 30, 2007, we incurred additional restructuring costs of $13.9 million, and $14.1 million was paid during this period. As of September 30, 2007, the accrued liability balance was $1.0 million, which is included in other accrued liabilities in our supplemental consolidated balance sheet.

Total cumulative impairment and restructuring charges for the period from our acquisition of WPI on August 8, 2005 through September 30, 2007 were $86.0 million.

To improve WPI's competitive position, WPI intends to continue to restructure its operations to significantly reduce its cost of sales by closing certain plants located in the United States, sourcing goods from lower-cost overseas facilities and, potentially, acquiring manufacturing facilities outside of the United States. WPI has incurred impairment charges to write-down the value of WPI plants taken out of service to their estimated realizable value. We expect that restructuring charges will continue to be incurred throughout fiscal 2007 and into fiscal 2008. WPI expects to incur additional restructuring costs over the next twelve months relating to the current restructuring plan in the range of $15.0 million and $20.0 million.

Ongoing litigation may result in our ownership of WPI being reduced to less than 50% as described in Part I, Item 3 of our 2006 Annual Report on Form 10-K, as supplemented in Part II, Item 1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 filed with the SEC on November 9, 2007. For a further description, also see Note 18, "Commitments and Contingencies."

**Note 4 — Discontinued Operations and Assets Held for Sale**

***Results of Discontinued Operations and Assets Held for Sale***

The financial position and results of operations described above are presented as assets and liabilities of discontinued operations held for sale in the supplemental consolidated balance sheets and discontinued operations in the supplemental consolidated statements of operations, respectively, for all periods presented in accordance with SFAS No. 144.





**Note 4 — Discontinued Operations and Assets Held for Sale – (continued)**

A summary of the results of operations for our discontinued operations for the periods indicated are as follows (in $000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Oil and Gas | $ — | $135,578 | $ — | $330,476 |
| Gaming | 109,367 | 141,297 | 336,393 | 402,795 |
| Home Fashion – retail stores | 16,010 | 17,390 | 44,654 | 48,744 |
| Real Estate | 997 | 1,857 | 3,804 | 5,606 |
| Total revenues | $126,374 | $296,122 | $384,851 | $787,621 |
| Income (loss) from discontinued operations: | | | | |
| Oil and Gas | $ — | $ 89,343 | $ — | $200,859 |
| Gaming | 23,410 | (1,033) | 77,956 | 33,445 |
| Home Fashion – retail stores | (15,129) | (1,368) | (18,908) | (5,478) |
| Real Estate | 913 | 1,403 | 3,228 | 3,984 |
| Total income from discontinued operations before income taxes, interest and other income | 9,194 | 88,345 | 62,276 | 232,810 |
| Interest expense | (4,649) | (10,426) | (16,086) | (31,663) |
| Interest and other income | 660 | 2,261 | 19,994 | 7,332 |
| Income tax (expense) benefit | (433) | 31,243 | (15,665) | 13,390 |
| Income from discontinued operations | 4,772 | 111,423 | 50,519 | 221,869 |
| Gain on sales of discontinued operations, net of income taxes | 7,660 | 4,901 | 21,686 | 6,460 |
| Non-controlling interest in (income) loss of consolidated entities | 4,959 | (10,833) | 4,428 | (9,326) |
| | $ 17,391 | $105,491 | $ 76,633 | $219,003 |

Interest and other income for the three and nine months ended September 30, 2007 includes approximately $8.3 million relating to a real estate tax refund received by Atlantic Coast and approximately $10.1 million representing the net gain on the settlement of litigation relating to GB Holdings, Inc. ("GBH").

The gain on sales of discontinued operations in the nine months ended September 30, 2007 includes approximately $12.4 million of gain on sales of real estate and $9.3 million relating to the working capital adjustment to the gain recorded on the sale of our former Oil and Gas segment in November 2006. In accordance with SFAS No. 144, we ceased depreciation on the fixed assts of ACEP in the second quarter of fiscal 2007. The amount of the depreciation and amortization not expensed by us approximated

$9.2 million and $18.2 million for the three and nine months ended September 30, 2007, respectively.





**Note 4 — Discontinued Operations and Assets Held for Sale – (continued)**

***Assets and Liabilities of Discontinued Operations***

A summary of assets of discontinued operations held for sale and liabilities of discontinued operations held for sale as of September 30, 2007 and December 31, 2006 is as follows (in $000) consolidated:

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Cash and cash equivalents | $ 87,911 | $ 54,912 |
| Trade, notes and other receivables | 6,725 | 6,752 |
| Property, plant and equipment | 489,913 | 422,715 |
| Other assets | 61,729 | 136,595 |
| Assets of discontinued operations held for sale | $ 646,278 | $ 620,974 |
| Accounts payable and accrued expenses | $ 55,112 | $ 54,267 |
| Long-term debt | 257,455 | 257,825 |
| Other liabilities | 2,328 | 5,993 |
| Liabilities of discontinued operations held for sale | $ 314,895 | $ 318,085 |

***American Casino & Entertainment Properties LLC***

On April 22, 2007, AEP, a wholly owned indirect subsidiary of Icahn Enterprises, entered into a Membership Interest Purchase Agreement with W2007/ACEP Holdings, LLC, an affiliate of Whitehall Street Real Estate Funds, a series of real estate investment funds affiliated with Goldman, Sachs & Co., to sell all of the issued and outstanding membership interests of ACEP, which comprises all of our remaining gaming operations, for $1.3 billion, plus or minus certain adjustments such as working capital, more fully described in the agreement. Pursuant to the terms of the agreement, AEP is required to cause ACEP to repay from funds provided by AEP, the principal, interest, prepayment penalty or premium due on ACEP's 7.85% senior secured notes due 2012 and ACEP's senior secured credit facility. With this transaction, we anticipate realizing a gain of approximately $554 million on our investments in ACEP, after income taxes. ACEP's casino assets are comprised of the Stratosphere Casino Hotel & Tower, the Arizona Charlie's Decatur, the Arizona Charlie's Boulder and the Aquarius Casino Resort. The transaction is subject to the approval of the Nevada Gaming Commission and the Nevada State Gaming Control Board, as well as customary conditions. The parties expect to close the transaction by the end of the first quarter of fiscal 2008; however, there can be no assurance that we will be able to consummate the transaction.

***Oil and Gas Operations***

On November 21, 2006, our indirect wholly owned subsidiary, AREP O & G Holdings, LLC, consummated the sale of all of the issued and outstanding membership interests of NEG Oil & Gas to SandRidge, for consideration consisting of $1.025 billion in cash, 12,842,000 shares of SandRidge's common stock valued, at the date of closing, at $18 per share, and the repayment by SandRidge of $300.0 million of debt of NEG Oil & Gas. On April 4, 2007, we sold our entire position in SandRidge for cash consideration of approximately $243.2 million.

On November 21, 2006, pursuant to an agreement dated October 25, 2006 among IEH, NEG Oil & Gas and NEGI, NEGI sold its membership interest in NEG Holding LLC to NEG Oil & Gas for consideration of approximately $261.1 million in cash. Of that amount, $149.6 million was used to repay the principal and accrued interest on the NEGI 10.75% senior notes due 2007, all of which were held by us.

***The Sands and Related Assets***

On November 17, 2006, Atlantic Coast, ACE, IEH and certain other entities owned by or affiliated with IEH completed the sale to Pinnacle of the outstanding membership interests in ACE and 100% of the equity





**Note 4 — Discontinued Operations and Assets Held for Sale – (continued)**

interests in certain subsidiaries of IEH that own parcels of real estate adjacent to The Sands, including 7.7 acres known as the

Traymore site. We owned, through subsidiaries, approximately 67.6% of Atlantic Coast, which owned 100% of ACE. The aggregate price was approximately $274.8 million, of which approximately $200.6 million was paid to Atlantic Coast and approximately $74.2 million was paid to affiliates of IEH for subsidiaries that owned the Traymore site and the adjacent properties. $51.8 million of the amount paid to Atlantic Coast was deposited into escrow to fund indemnification obligations, of which $50 million related to claims of creditors and stockholders of GBH, a holder of stock in Atlantic Coast. On February 22, 2007, we resolved all outstanding litigation involving GBH, resulting in a release of all claims against us. As a result of the settlement, our ownership of Atlantic Coast increased from 67.6% to 96.9% and $50.0 million of the amount placed into escrow was released to us. In the second quarter of fiscal 2007, we and several other investors exercised warrants to purchase shares of common stock of Atlantic Coast, resulting in an increase of the minority interest in Atlantic Coast and a decrease in our ownership to 94.2%. Additionally, this resulted in a SAB 51 charge of $6.1 million to partners' equity.

***Real Estate***

Operating properties from our rental real estate operations are reclassified to held for sale when subject to a contract or letter of intent. The operations of such properties are classified as discontinued operations. The properties classified as discontinued operations have changed during fiscal 2007 and, accordingly, certain amounts in the supplemental consolidated statements of operations for the three and nine months ended September 30, 2007 and 2006 have been reclassified to conform to the current classification of properties. Additionally, cash flows for the nine months ended September 30, 2007 and 2006 have also been reclassified for such properties classified as discontinued operations. During the nine months ended September 30, 2007, five properties were reclassified to discontinued properties held for sale.

***Home Fashion***

We intend to close substantially all of WPI's retail stores based on a comprehensive evaluation of the stores' long-term growth prospects and their on-going value to the business. On October 18, 2007, we entered into an agreement to sell the inventory at substantially all of WPI's retail stores. As a result, we reclassified approximately $15.1 million of losses relating to the operations of the stores to discontinued operations, inclusive of asset impairments and restructuring charges of $13.6 million, during the third quarter of fiscal 2007 of impairment charge was based upon an estimate of the overall outcome of this decision. In accordance with SFAS No. 144, we have reported the retail outlet stores business as discontinued operations for all periods presented.

**Note 5 — Related Party Transactions**

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

***a. Investment Management***

On August 8, 2007, in a related party transaction, we acquired the general partnership interests in the General Partners, acting as general partners of the Onshore Fund and the Offshore Master Funds managed and controlled by Carl C. Icahn, and the general partnership interests in New Icahn Management, the newly formed management company that provides certain management and administrative services to the Private Funds. The General Partners also act as general partners of certain funds formed as Cayman Islands exempted limited partnerships that invest in the Offshore Master Funds and that, together with other funds that also invest in the Offshore Master Funds, constitute the Feeder Funds. See Note 1, "Description of Business and Basis of Presentation" for further discussion of the acquisition.





**Note 5 — Related Party Transactions – (continued)**

In accordance with U.S. GAAP, assets transferred between entities under common control are accounted for at historical cost similar to a pooling of interests, and the financial statements of previously separate companies for periods prior to the acquisition are restated on a consolidated basis. Additionally, prior to acquisition, the earnings, losses, capital contributions and distributions of the acquired entities are allocated to the general partner as an adjustment to equity, and the consideration paid is shown as a reduction to the general partner's capital account.

We, along with the Private Funds, entered into an agreement (the "Covered Affiliate Agreement"), simultaneously with the closing of the transactions contemplated by the Contribution Agreement, pursuant to which we (and certain of our subsidiaries) agreed, in general, to be bound by certain restrictions on our investments in any assets that the General Partners deem suitable for the Private Funds, other than government and agency bonds, cash equivalents and investments in non-public companies. We and our subsidiaries will not be restricted from making investments in the securities of certain companies in which Mr. Icahn or companies he controlled had an interest in as of the date of the initial launch of the Private Funds, and companies in which we had an interest as of the date of acquisition on August 8, 2007. We and our subsidiaries, either alone or acting together with a group, will not be restricted from (i) acquiring all or any portion of the assets of any public company in connection with a negotiated transaction or series of related negotiated transactions or (ii) engaging in a negotiated merger transaction with a public company and, pursuant thereto, conducting and completing a tender offer for securities of the company. The terms of the Covered Affiliate Agreement may be amended, modified or waived with the consent of us and each of the Private Funds, provided, however, that a majority of the members of an investor committee maintained for certain of the Private Funds may (with our consent) amend,

modify or waive any provision of the Covered Affiliate Agreement with respect to any particular transaction or series of related transactions.

We have also entered into an employment agreement (the "Icahn Employment Agreement") with Mr. Icahn pursuant to which, over a five-year term, Mr. Icahn will serve as Chairman and Chief Executive Officer of New Icahn Management, in addition to his current role as Chairman of Icahn Enterprises. Mr. Icahn also serves as the Chief Executive Officer of the General Partners. During the employment term, we will pay Mr. Icahn an annual base salary of $900,000 and an annual incentive bonus based on a bonus formula with two components. The first component is based on the annual return on AUM by the Investment Management and GP Entities. The second component of the annual bonus payable by us is tied to the growth in our annual net income (other than income or losses resulting from the operations of the Investment Management and GP Entities).

Fifty percent of all bonus amounts payable by us and New Icahn Management shall be subject to mandatory deferral and treated as though invested in the Private Funds and as though subject to a 2% annual management fee (but no incentive allocation). Such deferred amounts shall be subject to vesting in equal annual installments over a three-year period commencing from the last day of the year giving rise to the bonus. Amounts deferred generally are not subject to acceleration and unvested deferred amounts shall be forfeited if Mr. Icahn ceases to be employed under his employment agreement, provided that all deferred amounts shall vest in full and be payable in a lump sum payment thereafter if the employment of Mr. Icahn is terminated by us without Cause or Mr. Icahn terminates his employment for Good Reason, as such terms are defined in the Icahn Employment Agreement, or upon Mr. Icahn's death or disability during the employment term. In addition, upon Mr. Icahn's completion of service through the end of the employment term, Mr. Icahn will also vest in full in any mandatory deferrals. Vested deferred amounts (and all deferred returns, earnings and profits thereon) shall be paid to Mr. Icahn within 60 days following the vesting date. Returns on amounts subject to deferral shall also be subject to management fees charged by New Icahn Management.

The Investment Management and GP Entities provide investment advisory and certain management services to the Private Funds. The Investment Management and GP Entities do not provide investment advisory or other management services to any other entities, individuals or accounts. Interests in the Private Funds





**Note 5 — Related Party Transactions – (continued)**

are offered only to certain sophisticated and accredited investors on the basis of exemptions from the registration requirements of the federal securities laws and are not publicly available. See Note 2, "Summary of Significant Accounting Policies — Revenue Recognition," for a further description of the management fees and incentive allocations earned by the Investment Management and GP Entities with respect to these services.

The Onshore GP may, in its sole discretion, elect to reduce or waive the incentive allocation with respect to the capital account of any limited partner of the Onshore Fund. For the three months ended September 30, 2007, an incentive allocation which was previously accrued was reversed in the amount of $10.8 million due to the negative performance of the Private Funds. For the three months ended September 30, 2006, an incentive allocation of $13.0 million was accrued. For the nine months ended September 30, 2007 and 2006, an incentive allocation of $28.8 million and $38.5 million, respectively, was accrued. Such amounts are eliminated in our supplemental consolidated financial statements.

The Offshore GP may, in its sole discretion, elect to reduce or waive the incentive allocation with respect to the capital account of any limited partner of the Offshore Master Funds. For the three months ended September 30, 2007, an incentive allocation, which was previously accrued from certain Offshore Master Funds, was reversed in the amount of $16.4 million due to the negative performance of certain Private Funds. This reversal was partially offset by incentive allocations of $1.4 million which were earned in other Private Funds. For the three months ended September 30, 2006, an incentive allocation of $25.9 million was accrued. For the nine months ended September 30, 2007 and 2006, an incentive allocation of $66.0 million and $66.1 million, respectively, was accrued. Such amounts are eliminated in our supplemental consolidated financial statements.

As described in further detail in Note 2, "Summary of Significant Accounting Policies — Revenue Recognition," pursuant to the Management Agreements, New Icahn Management typically is entitled to receive certain quarterly management fees. From August 8, 2007 through September 30, 2007, New Icahn Management earned $21.4 million in such management fees. Such amounts received from the Onshore Fund and the consolidated Offshore Funds are eliminated in our supplemental consolidated financial statements.

In addition, pursuant to the provisions of a deferred fee arrangement, Icahn Management was eligible to defer receipt of all or a portion of the management fee earned from the Offshore Funds during a particular fiscal quarter in a fiscal year, and to have a portion or all of the deferred fee invested either in the same manner as the applicable Offshore Fund's other assets, or in another manner approved by both the applicable Offshore Fund and Icahn Management. The value of such deferred amounts constitutes a liability of the applicable Offshore Fund to Icahn Management. Any amounts invested under the provisions of the deferred fee arrangement continue for all purposes to be part of the general assets of the applicable Offshore Funds and generally earn the same return as other investors (except where fees are waived), and Icahn Management has no proprietary interest in any such assets. At September 30, 2007, the balance of deferred management fees payable to Icahn Management was $146.9 million.

Icahn Management elected to defer an aggregate of 94% and 95% of the management fees from the Offshore Funds and such

amounts remain invested in the applicable Offshore Funds for the nine months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, the amounts of management fees elected to be deferred were $51.5 million and $27.9 million, respectively; in addition, the appreciation earned thereon was $13.8 million and $9.5 million, for the same corresponding periods.

Under separate deferred compensation employment agreements, certain employees are entitled to receive a percentage of the management fees, as defined in their agreements. As of September 30, 2007, deferred compensation related to management fees of Icahn Management amounted to $12.3 million, which included appreciation since inception on such deferred amounts of $2.8 million. As of December 31, 2006, deferred





**Note 5 — Related Party Transactions – (continued)**

compensation related to management fees amounted to $6.7 million, which included appreciation since inception on such deferred amounts of $1.7 million. See Note 13, "Compensation Arrangements," for additional information regarding these agreements.

Icahn & Co. LLC and certain other entities beneficially owned by Carl C. Icahn and affiliates of Icahn Management (collectively "Icahn Affiliates") have paid for the salaries and benefits of employees who perform various functions including accounting, administrative, investment, legal and tax services. Under a separate expense-sharing agreement, Icahn Affiliates have charged Icahn Management (for periods prior to the acquisition on August 8, 2007) and New Icahn Management (for periods subsequent to the acquisition on August 8, 2007) for a portion of these expenses. For the three months ended September 30, 2007 and 2006, the amounts charged to Icahn Management and New Icahn Management in the aggregate were $3.1 million and $2.1 million, respectively. For the nine months ended September 30, 2007 and 2006, the amounts charged to Icahn Management and New Icahn Management in the aggregate were $9.4 million and $5.8 million, respectively. Management believes that all allocated amounts are reasonable based upon the nature of the services provided (e.g. occupancy, salaries and benefits).

Icahn Affiliates have paid rent for the occupancy of space shared with the Investment Management and GP Entities. Icahn Management (for the periods prior to the acquisition on August 8, 2007) and New Icahn Management (for periods subsequent to the acquisition on August 8, 2007) were charged an aggregate of $.3 million and $.4 million for the three months ended September 30, 2007 and 2006, respectively, and $1.2 million and $1.1 million for the nine months ended September 30, 2007 and 2006, respectively. See clause b of Note 5 below, Holding Company and Other Operations, below for additional information regarding allocations between the Holding Company and the Investment Management and GP Entities for the period subsequent to the acquisition on August 8, 2007.

In addition, certain expenses borne by the Investment Management and GP Entities have been reimbursed by Icahn Affiliates, as appropriate and when such expenses were incurred. The expenses included investment-specific expenses for investments acquired by both the Private Funds and Icahn Affiliates which are allocated based on the amounts invested by each party, as well as investment management-related expenses which are allocated based on estimated usage agreed upon by both the Investment Management and GP Entities and the Icahn Affiliates.

***b. Holding Company and Other Operations***

**Metals**

Philip has entered into a Tax Allocation Agreement (the "Agreement") with Starfire Holding Corporation ("Starfire"). The Agreement provides that Starfire will pay all consolidated federal income taxes on behalf of the consolidated group which includes Philip. Philip will make payments to Starfire in an amount equal to the tax liability, if any, that it would have if it was to file as a consolidated group separate and apart from Starfire.

PSC Metals uses XO Holdings, Inc., formerly known as XO Communications, Inc., to provide the majority of its telecommunications services and incurred $281,000 and $352,000 for the periods ended September 30, 2007 and 2006. Mr. Icahn owns a majority interest in XO Holdings, Inc.

PSC Metals sold material to Alliance Castings of approximately $11.0 million and $9.1 million, for the nine-months ended September 30, 2007 and 2006, respectively. Mr. Icahn is a major shareholder of Alliance Castings.

Included in selling, general and administrative costs are $27,000 for each of the three months ended September 30, 2007 and 2006 and $81,000 and $79,000 for the nine months ended September 30, 2007 and 2006, respectively, for certain services provided to PSC Metals by Philip.

**Note 5 — Related Party Transactions – (continued)**

**Administrative Services**

In July 2005, we entered into a license agreement with an affiliate for the non-exclusive use of approximately 1,514 square feet of office space. The license agreement was amended effective August 8, 2007 to reflect an increase in our portion of the office space to approximately 4,246 square feet, or approximately 64.76% of the total space leased to the affilate (of which 3,125 is allocated to the Investment Management and GP Entities). Under the amended license agreement, effective August 8, 2007, the monthly base rent is approximately $147,500, of which approximately $39,000 is allocated to the Holding Company and approximately $108,500 is allocated to the Investment Management and GP Entities. We also pay 64.76% of the additional rent payable under the license agreement which is allocated 17.10% to the Holding Company and 47.66% to the Investment Management and GP Entities. The license agreement expires in May 2012. Under the amended agreement, base rent is subject to increases in July 2008 and December 2011. Additionally, we are entitled to certain annual rent credits each December through December 2011. For the three months ended September 30, 2007 and 2006, we paid rent of approximately $40,000 and $54,000 respectively. For the nine months ended September 30, 2007 and 2006, we paid rent of approximately $108,000 and $139,000, respectively.

An affiliate occupies a portion of certain office space leased by us. Monthly payments from the affiliate for the use of the space began on October 12, 2006. For the three and nine months ended September 30, 2007, we received $20,000 and $60,000, respectively, for the use of such space.

For the three months ended September 30, 2007 and 2006, we paid $124,000 and $189,000, respectively, to XO Holdings, Inc., formerly known as XO Communications, Inc., an affiliate of our general partner, for telecommunication services. For the nine months ended September 30, 2007 and 2006, these charges were $439,000 and $607,000, respectively.

An affiliate provided certain professional services to WPI for which WPI incurred charges of approximately $97,000 and $57,000 for the three months ended September 30, 2007 and 2006, respectively, and $346,000 and $196,000 for the nine months ended September 30, 2007 and 2006, respectively.

We provide certain professional services to affiliates for which we charged $225,000 and $219,000 for the three months ended September 30, 2007 and 2006, respectively, and $550,000 and $479,000 for the nine months ended September 30, 2007 and 2006, respectively.

As of September 30, 2007, affiliates of Mr. Icahn owned 10,304,013 of our preferred units and 64,288,061 of our depositary units, which represented approximately 86.5% and 91.2% of our outstanding preferred units and depositary units, respectively.

Icahn Sourcing, LLC, ("Icahn Sourcing"), is an entity formed and controlled by Mr. Icahn in order to leverage the potential buying power of a group of entities with which Mr. Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property. We are a member of the buying group and, as such, are afforded the opportunity to purchase goods, services and property from vendors with whom Icahn Sourcing has negotiated rates and terms. Icahn Sourcing does not guarantee that we will purchase any goods, services or property from any such vendors, and we are under no obligation to do so. We do not pay Icahn Sourcing any fees or other amounts with respect to the buying group arrangement. We have purchased a variety of goods and services as members of the buying group at prices and on terms that we believe are more favorable than those which would be achieved on a stand-alone basis.





**Note 6 — Investments and Related Matters**

***a. Investment Management***

Securities owned, and securities sold, not yet purchased consist of equities, bonds, bank debt and other corporate obligations, and derivatives, all of which are reported at fair value in our supplemental consolidated balance sheets. The following table summarizes our securities owned, securities sold, not yet purchased and unrealized gains and losses on derivatives (in $000s) consolidated:

| | September 30, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value |
| Securities owned, at fair value: | | | | |
| Common stock | $ 4,370,989 | $ 4,744,147 | $ 1,929,634 | $ 2,230,569 |
| Convertible preferred stock | 30,400 | 35,855 | 30,400 | 39,064 |
| Call options | 259,566 | 284,299 | 221,740 | 347,840 |

| | | | | |
|---|---|---|---|---|
| Put options | 24,481 | 22,072 | — | — |
| REITs | — | — | 123,971 | 127,063 |
| Corporate debt | 498,597 | 494,979 | 6,434 | 6,960 |
| Warrants | 2,214 | 4,317 | 2,214 | 5,733 |
| Total securities owned, at fair value | $ 5,186,247 | $ 5,585,669 | $ 2,314,393 | $ 2,757,229 |
| Securities sold, not yet purchased, at fair value: | | | | |
| Common stock | $ 981,325 | $ 1,054,714 | $ 422,256 | $ 483,122 |
| Put options | 5,551 | 5,662 | 195 | — |
| REITs | — | — | 75,836 | 81,784 |
| Corporate debt | 14,983 | 7,886 | 126,491 | 126,380 |
| Total securities sold, not yet purchased, at fair value | $ 1,001,859 | $ 1,068,262 | $ 624,778 | $ 691,286 |
| Unrealized gains on derivative contracts, at fair value: | $ — | $ 55,855 | $ — | $ 80,216 |
| Unrealized losses on derivative contracts, at fair value: | $ — | $ 116,498 | $ — | $ 1,770 |

As discussed in Note 2, “Summary of Significant Accounting Policies,” upon the adoption of SOP 07-1, the Investment Management and GP Entities lost their ability to retain specialized accounting pursuant to the AICPA Guide. For those investments (i) that were deemed to be available-for-sale securities, (ii) that fall outside the scope of SFAS No. 115 or (iii) that the Private Funds would otherwise account for under the equity method, the Private Funds apply the fair value option pursuant to SFAS No. 159. The application of the fair value option pursuant to SFAS No. 159 is irrevocable. The Private Funds record unrealized gains and losses for the change in the fair value of these securities as a component of net gain from investment activities in the supplemental consolidated statements of operations.





**Note 6 — Investments and Related Matters – (continued)**

The following table summarizes those investments for which the Private Funds would otherwise apply the equity method of accounting under APB 18. The Private Funds applied the fair value option pursuant to SFAS No. 159 to such investments through September 30, 2007 (in $000s) as included in table below:

| Investment | Private Funds Stock Ownership Percentage | Fair Value September 30, 2007 | Gains (Losses) Three Months Ended September 30, 2007 | Gains (Losses) Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| Adventrx Pharmaceuticals Inc. | 3.86% | $ 8,891 | $ 103 | $ (1,315) |
| BKF Capital Group Inc. | 8.72% | 1,669 | 63 | (661) |
| Blockbuster Inc. | 7.03% | 70,932 | 13,924 | 512 |
| Lear Corporation | 12.45% | 308,030 | (33,682) | 24,662 |
| WCI Communities Inc. | 11.45% | 28,851 | (51,488) | (64,867) |
| | | $ 418,373 | $ (71,080) | $ (41,669) |

Private Funds assess the applicability of APB 18 to their investments based on a combination of qualitative and quantitative factors, including overall stock ownership of the Private Funds combined with those affiliates of Icahn Enterprises.

*Investments in Variable Interest Entities*

The Investment Management and GP Entities consolidate certain VIEs when they are determined to be their primary beneficiary, either directly or indirectly through other consolidated subsidiaries. The assets of the consolidated VIEs are primarily classified within cash held at consolidated affiliated partnerships and restricted cash and securities owned, at fair value in the supplemental consolidated balance sheets. The liabilities of the consolidated VIEs are primarily classified within securities sold, not yet purchased, at fair value, subscriptions received in advance and redemptions payable in the supplemental consolidated balance sheets and are non-recourse to the Investment Management and GP Entities' general credit.

The consolidated VIEs consist of the Offshore Fund and each of the Offshore Master Funds, whose purpose and activities are further described in Note 1, “Description of Business and Basis of Presentation.” The Investment Management and GP Entities sponsored the formation of and manage each of these VIEs and, in some cases, have a principal investment therein.

The following table presents information regarding interests in VIEs for which the Investment Management and GP Entities hold a variable interest as of September 30, 2007 (in $000s) consolidated:

| Investment Management and GP Entities Are Primary Beneficiary | Investment Management and GP Entities Are Not Primary Beneficiary |
|---|---|

| | Net Assets | Investment Management and GP Entities' Interests | Pledged Collateral[1] | Net Assets | Investment Management and GP Entities' Interests |
|---|---|---|---|---|---|
| Offshore Fund and Offshore Master Funds | $4,304,866 | $ 7,746 | $ 272,691 | $ 632,170 | $ 225 |

(1) Includes collateral pledged in connection with securities sold, not yet purchased, derivative contracts and collateral held for securities loaned.





**Note 6 — Investments and Related Matters – (continued)**

***b. Holding Company and Other Operations***

Investments consist of the following (in $000s) consolidated:

| | September 30, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value |
| | (Unaudited) | | | |
| *Available-for-Sale* | | | | |
| Marketable equity and debt securities | $177,287 | $187,998 | $242,080 | $ 270,954 |
| Other investments | 104,458 | 105,445 | 247,674 | 249,708 |
| Total available-for-sale | 281,745 | 293,443 | 489,754 | 520,662 |
| Investment in ImClone Systems, at fair value | 122,122 | 188,660 | 146,794 | 164,306 |
| Investment in Lear Corporation, at fair value | 12,500 | 10,772 | — | — |
| Other securities | 15,585 | 15,584 | 15,627 | 15,627 |
| Total investments | $431,952 | $508,459 | $652,175 | $ 700,595 |

As of September 30, 2007, the Holding Company invested $234.0 million in the Onshore Fund, which is eliminated in consolidation. As described in Note 19, "Subsequent Events," subsequent to September 30, 2007, the Holding Company invested an additional $466.0 million in the Onshore Fund, for a total of $700.0 million, for which no management fees or incentive allocations are applicable.

*Investment in Lear Corporation*

On February 9, 2007, we, through a wholly owned subsidiary, entered into an agreement and plan of merger (as amended on July 9, 2007), or the merger agreement, pursuant to which we would acquire Lear Corporation ("Lear"). On July 16, 2007, at Lear's 2007 Annual Meeting of Stockholders, the merger did not receive the affirmative vote of the holders of a majority of the outstanding shares of Lear's common stock. As a result, the merger agreement terminated in accordance with its terms. As required by the merger agreement, in connection with the termination, Lear paid to our subsidiary a break-up fee of $12.5 million in cash and issued to the subsidiary 335,570 shares of Lear's common stock, resulting in a net gain of $21.4 million recorded in the third quarter. As discussed in Note 18, "Commitments and Contingencies," we remain a party to an action filed in the Court of Chancery of the State of Delaware challenging the payment to us of a break-up fee as provided in the merger agreement.

In the third quarter of fiscal 2007, we adopted the fair value option pursuant to SFAS No. 159 to Lear Corporation common stock which became eligible for the fair value option at the time we first recognized it in our supplemental consolidated financial statements. We have adopted SFAS No. 159 to our investment in Lear common stock to be consistent with the Private Funds' accounting for their investment in Lear common stock. We record unrealized gains and losses for the change in fair value of such shares as a component of net gain (loss) from investment activities in the supplemental consolidated statements of operations. As of September 30, 2007, the fair value of Lear common stock owned by us amounted to approximately $10.8 million. For the three and nine months ended September 30, 2007, we recorded $1.7 million in unrealized losses resulting from the change in market value of Lear common stock. As of September 30, 2007, the total shares of Lear common stock held by the Holding Company as a percentage of Lear's total outstanding shares was approximately 0.4%. Lear is an SEC reporting company and its consolidated financial statements are available at www.sec.gov.

**Note 6 — Investments and Related Matters – (continued)**

*Investment in ImClone*

As described in Note 2, "Summary of Significant Accounting Policies," we adopted SFAS No. 159 as of January 1, 2007 and elected to apply the fair value option to our investment in ImClone at the time of adoption. Previously, we accounted for our investment in ImClone under the equity method in accordance with APB 18. The transition adjustment to beginning partners' equity as of January 1, 2007 related to the adoption of SFAS No. 159 was a charge of approximately $42.2 million. During the three and nine months ended September 30, 2007, we recorded approximately $27.2 million and $66.5 million of unrealized gains, respectively, resulting from the change in the market value of ImClone's stock.

At September 30, 2007 and December 31, 2006, the carrying value of our equity investment in ImClone was $188.7 million based on the fair value method of accounting and $164.3 million based on the equity method of accounting, respectively. As of September 30, 2007 and December 31, 2006, the market value of our ImClone shares held was $188.7 million and $122.2 million, respectively, which we believe is not material to our total assets. As of September 30, 2007, the total shares of ImClone common stock held by us as a percentage of ImClone's total outstanding shares was approximately 5.3%. ImClone is an SEC reporting company and its consolidated financial statements are available at www.sec.gov.

**Note 7 — Fair Value Measurements**

We adopted SFAS No. 157 as of January 1, 2007, which, among other things, requires enhanced disclosures about investments that are measured and reported at fair value. SFAS No. 157 establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 — Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives. As required by SFAS No. 157, we do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 — Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.





**Note 7 — Fair Value Measurements – (continued)**

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following table summarizes the valuation of our investments by the above SFAS No. 157 fair value hierarchy levels as of September 30, 2007 (in $000s) consolidated.

**Investment Management**

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Assets** | | | |
| Securities owned, at fair value | $ 4,638,218 | $ 947,451 | $ 5,585,669 |
| Unrealized gains on derivative contracts, at fair value | — | 55,855 | 55,855 |
| | $ 4,638,218 | $ 1,003,306 | $ 5,641,524 |
| **Liabilities** | | | |
| Securities sold, not yet purchased, at fair value | $ 1,054,701 | $ 13,561 | $ 1,068,262 |
| Unrealized losses on derivative contracts, at fair value | — | 116,498 | 116,498 |
| | $ 1,054,701 | $ 130,059 | $ 1,184,760 |

**Holding Company and Other Operations**

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Assets** | | | |
| Available-for-sale investments: | | | |
| Marketable equity and debt securities | $ 387,430 | $ — | $ 387,430 |
| Other securities | 105,445 | — | 105,445 |
| Unrealized gains on derivative contracts | — | 1,849 | 1,849 |
| | $ 492,875 | $ 1,849 | $ 494,724 |
| **Liabilities** | | | |
| Unrealized losses on derivative contracts | $ — | $ 5,687 | $ 5,687 |

**Note 8 — Financial Instruments, Off-Balance-Sheet Risk and Concentrations of Credit Risk**

***a. Investment Management***

The Private Funds maintain their cash deposits with a major financial institution. Certain account balances may not be covered by the Federal Deposit Insurance Corporation, while other accounts, at times, may exceed federally insured limits. We believe that the risk is not significant. Substantially all of the Onshore Fund's and the Offshore Master Funds' investments are held by, and its depository and clearing operations are transacted by, two prime brokers. The prime brokers are highly capitalized and members of major securities exchanges.

In the normal course of business, the Private Funds trade various financial instruments and enter into certain investment activities, which may give rise to off-balance-sheet risk. Currently, the Private Funds invest in futures, options and securities sold, not yet purchased. These financial instruments represent future commitments to purchase or sell other financial instruments or to exchange an amount of cash based on the change in an underlying instrument at specific terms at specified future dates. Risks arise with these financial instruments from potential counter-party non-performance and from changes in the market values of underlying instruments.





**Note 8 — Financial Instruments, Off-Balance-Sheet Risk and Concentrations of Credit Risk – (continued)**

Securities sold, not yet purchased represent obligations of the Private Funds to deliver the specified security, thereby creating a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk, as the Private Funds' satisfaction of the obligations may exceed the amount recognized in the supplemental consolidated balance sheets. The Private Funds' investments in securities and amounts due from broker are partially restricted until the Private Funds satisfy the obligation to deliver the securities sold, not yet purchased.

The Private Funds also may purchase and write option contracts. As a writer of option contracts, the Private Funds receive a premium at the outset and then bear the market risk of unfavorable changes in the price of the underlying financial instrument. As a result of writing option contracts, the Private Funds are obligated to purchase or sell, at the holder's option, the underlying financial instrument. Accordingly, these transactions result in off-balance-sheet risk, as the Private Funds' satisfaction of the obligations may exceed the amount recognized in the supplemental consolidated balance sheets. The Private Funds write put options that may require them to purchase assets from the option holder and generally are net settled in cash at a specified date in the future. At September 30, 2007 and December 31, 2006, the maximum payout amounts relating to written put options were $570.3 million and $510.5 million, respectively. As of September 30, 2007 and December 31, 2006, the carrying amounts of the liability under written put options recorded within securities sold, not yet purchased, at fair value were $5.6 million and $0, respectively.

The Private Funds have entered into total return swap contracts that involve an exchange of cash flows based on a commitment to pay a variable rate of interest in exchange for a market-linked return based on a notional amount. The market-linked return may include, among other things, the total return of a security or index.

The Private Funds trade futures contracts. A futures contract is a firm commitment to buy or sell a specified quantity of a standardized amount of a deliverable grade commodity, security, currency or cash at a specified price and specified future date unless the contract is closed before the delivery date. Payments (or variation margin) are made or received by the Private Funds each day, depending on the daily fluctuations in the value of the contract, and the whole value change is recorded an as an unrealized gain or loss by the Private Funds. When the contract is closed, the Private Funds record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The Private Funds utilize forward contracts to protect their assets denominated in foreign currencies from losses due to fluctuations in foreign exchange rates. The Private Funds' exposure to credit risk associated with non-performance of forward foreign currency contracts is limited to the unrealized gains inherent in such contracts, which are recognized in unrealized losses on derivative, futures and foreign currency contracts, at fair value in the supplemental consolidated balance sheets.

***b. Holding Company and Other Operations***

We have entered into total return swap contracts that involve an exchange of cash flows based on a commitment to pay a variable rate of interest in exchange for a market-linked return based on a notional amount. The market-linked return may include,

among other things, the total return of a security or index.

**Note 9 — Inventories, Net**

*Metals Inventories*

Inventories at our Metals segment are stated at the lower of cost or market. Cost is determined using the average cost method. The production and accounting process utilized by PSC Metals to record recycled metals inventory quantities relies on significant estimates. PSC Metals relies upon perpetual inventory records that utilize estimated recoveries and yields that are based upon historical trends and periodic tests for certain unprocessed metal commodities. Over time, these estimates are reasonably good indicators of what is ultimately produced; however, actual recoveries and yields can vary depending on product quality, moisture





**Note 9 — Inventories, Net – (continued)**

content and source of the unprocessed metal. To assist in validating the reasonableness of the estimates, PSC Metals performs periodic physical inventories. Physical inventories may detect significant variations in volume, but because of variations in product density and production processes utilized to manufacture the product, physical inventories will not generally detect smaller variations. To help mitigate this risk, PSC Metals adjusts its physical inventories when the volume of a commodity is low and a physical inventory can more accurately predict the remaining volume.

The following is a table of inventory classes for the periods indicated in ($000s):

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Ferrous | $ 36,278 | $ 30,360 |
| Non-ferrous | 9,741 | 7,871 |
| Secondary | 22,636 | 20,207 |
| | $ 68,655 | $ 58,438 |

*Home Fashion Inventories*

Inventories, net, are based on first-in, first-out method (FIFO) at September 30, 2007 and December 31, 2006 and relate solely to our Home Fashion segment, consisting of the following (in $000s) consolidated:

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Raw materials and supplies | $ 20,649 | $ 32,059 |
| Goods in process | 60,899 | 83,592 |
| Finished goods | 152,317 | 108,832 |
| | $ 233,865 | $ 224,483 |

As discussed in Note 4, WPI entered into an agreement to sell the inventory at substantially all of its retail outlet stores as part of a comprehensive evaluation of the stores' long-term growth prospects and on-going value to WPI. Accordingly, WPI recorded an impairment charge of $3.7 million in the third quarter of fiscal 2007 to reduce the carrying value of its inventory to net realizable value and is included in the results of discontinued operations.

Total inventories (in $000s)

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Metals segment | $ 68,655 | $ 58,438 |
| Home Fashion segment | 233,865 | 224,483 |
| | $ 302,520 | $ 282,921 |

**Note 10 — Property, Plant and Equipment**

Property, plant and equipment consists of the following (in $000s) consolidated:

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Land | $ 48,211 | $ 63,006 |
| Buildings and improvements | 122,242 | 127,180 |
| Machinery, equipment and furniture | 222,486 | 219,673 |
| Assets leased to others | 113,827 | 123,398 |
| Construction in progress | 124,230 | 96,902 |
| | 630,996 | 630,159 |
| Less accumulated depreciation and amortization | (107,266) | (94,886) |
| Net property, plant and equipment | $ 523,730 | $ 535,273 |

**Note 10 — Property, Plant and Equipment – (continued)**

Depreciation and amortization expense related to property, plant and equipment for the three months ended September 30, 2007 and 2006 was $7.3 million and $10.3 million, respectively. Depreciation and amortization expense related to property, plant and equipment for the nine months ended September 30, 2007 and 2006 was $23.4 million and $34.4 million, respectively.

**Note 11 — Non-Controlling Interests**

Non-controlling interests consist of the following (in $000s) consolidated:

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Investment Management | $ 6,601,480 | $ 3,628,470 |
| Holding Company and other operations: | | |
| WPI | 127,136 | 178,843 |
| Atlantic Coast | 13,234 | 70,563 |
| NEGI | 24,102 | 42,815 |
| Total Holding Company and other operations | 164,472 | 292,221 |
| Total non-controlling interests in consolidated entities | $ 6,765,952 | $ 3,920,691 |

***a. Investment Management***

The Investment Funds and the Offshore Fund are consolidated into our financial statements even though we only have a minority interest in the equity and income of these funds. As a result, our supplemental consolidated financial statements reflect the assets, liabilities, revenues, expenses and cash flows of these funds on a gross basis, rather than reflecting only the value of our investments in such funds. As of September 30, 2007, the net asset value of the consolidated Private Funds on our supplemental consolidated balance sheet was $7.1 billion, while the net asset value of our investments in these consolidated funds was approximately $355.9 million. The majority ownership interests in these funds, which represent the portion of the consolidated Private Funds' net assets and net income attributable to the limited partners and shareholders in the consolidated Private Funds for the periods presented, are reflected as non-controlling interests in consolidated entities — Investment Management in the supplemental consolidated balance sheets and non-controlling interests in income of consolidated entities — Investment Management in the statements of operations.

***b. Holding Company and Other Operations***

The minority interest in Atlantic Coast was reduced primarily as a result of the settlement of the litigation relating to GBH, in February 2007. As a result, our ownership in Atlantic Coast increased from 67.6% to 96.9%. In the second quarter of fiscal 2007, we and several other investors exercised warrants to purchase shares of common stock of Atlantic Coast, resulting in an increase of the minority interest in Atlantic Coast, and a decrease in our ownership to 94.2%. This resulted in a SAB 51 charge of $6.1 million to partners' equity.

On February 15, 2007, NEGI paid a one-time cash dividend to stockholders of record as of the close of business on February 1, 2007 in the amount of $3.31 per share, or $37.0 million in the aggregate. Of this amount, $18.5 million was paid to minority holders of NEGI stock.





**Note 12 — Long-Term Debt**

Long-term debt consists of the following (in $000s) consolidated:

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Senior unsecured variable rate convertible notes due 2013 – Icahn Enterprises | $ 600,000 | $ — |
| Senior unsecured 7.125% notes due 2013 – Icahn Enterprises | 973,059 | 480,000 |
| Senior unsecured 8.125% notes due 2012 – Icahn Enterprises | 351,489 | 351,246 |
| Senior secured 7.85% notes due 2012 – ACEP | 215,000 | 215,000 |
| Borrowings under credit facility – ACEP | 40,000 | 40,000 |
| Credit agreement and capital lease obligations – Metals | 37,048 | 2,259 |
| Mortgages payable | 105,386 | 109,289 |
| Other | 12,579 | 13,425 |
| Total long-term debt | 2,334,561 | 1,211,219 |
| Less debt related to assets held for sale | (257,455) | (257,825) |

| | | |
|---|---|---|
| | $ 2,077,106 | $ 953,394 |

***Senior Unsecured Variable Rate Convertible Notes Due 2013 — Icahn Enterprises***

In April 2007, we issued an aggregate of $600.0 million of variable rate senior convertible notes due 2013, or the variable rate notes. The variable rate notes were sold in a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended, (the "Securities Act"), and issued pursuant to an indenture dated as of April 5, 2007, by and among us, as issuer, Icahn Enterprises Finance Corp., or IEF, which was formerly known as American Real Estate Finance Corp., as co-issuer, and Wilmington Trust Company, as trustee. IEF, our wholly owned subsidiary, was formed solely for the purpose of serving as a co-issuer of our debt securities in order to facilitate offerings of the debt securities. The variable rate notes bear interest at a rate of three month LIBOR minus 125 basis points, but no less than 4.0% nor higher than 5.5%, and are convertible into depositary units of Icahn Enterprises at a conversion price of $132.595 per share, subject to adjustments in certain circumstances. As of September 30, 2007, the interest rate was 4.1%. In the event that we declare a cash dividend or similar cash distribution in any calendar quarter with respect to our depositary units in an amount in excess of $0.10 per depositary unit (as adjusted for splits, reverse splits, and/or stock dividends), the indenture requires that we simultaneously make such distribution to holders of the variable rate convertible notes in accordance with a formula set forth in the indenture.

The variable rate convertible notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. In connection with the sale of the variable rate convertible notes, we and the initial buyers have entered into a registration rights agreement, pursuant to which we have agreed to file a shelf registration statement on Form S-3 with respect to resales of depositary units issuable upon conversion of the variable rate convertible notes. A registration statement on Form S-3 with respect thereto was filed on June 21, 2007. Pursuant to the registration rights agreement, the registration statement must be declared effective by the SEC on or before December 31, 2007. Otherwise, we shall pay to the holders of the convertible notes $2.0 million in the aggregate in additional interest for each 30-day period after December 31, 2007 that the registration statement has not been declared effective. All such accrued additional interest shall be paid by us on each January, April, July and October 15th until the registration statement has been declared effective.





**Note 12 — Long-Term Debt – (continued)**

***Senior Unsecured 7.125% Notes Due 2013 — Icahn Enterprises***

On February 7, 2005, we issued $480.0 million aggregate principal amount of 7.125% senior unsecured notes due 2013, or the 7.125% notes, priced at 100% of principal amount. The 7.125% notes were issued pursuant to an indenture dated February 7, 2005 among us, as issuer, IEF as co-issuer, IEH, as guarantor, and Wilmington Trust Company, as trustee (referred to herein as the 2005 Indenture). Other than IEH, no other subsidiaries guarantee payment on the notes.

On January 16, 2007, we issued an additional $500.0 million aggregate principal amount of 7.125% notes, or the additional 7.125% notes (the 7.125% notes and the additional 7.125% notes being referred to herein as the notes), priced at 98.4% of par, or at a discount of 1.6%, pursuant to the 2005 Indenture. The notes have a fixed annual interest rate of 7.125%, which is paid every six months on February 15 and August 15 and will mature on February 15, 2013. At the time we issued the additional 7.125% notes, we entered into a new registration rights agreement in which we agreed to permit noteholders to exchange the private notes for new notes which will be registered under the Securities Act. A registration statement on Form S-4 with respect thereto was filed on June 21, 2007. Pursuant to the registration rights agreement, the registration statement must be declared effective by the SEC on or before November 13, 2007. Since the registration statement was not declared effective in a timely manner, we are required to pay to the holders of the additional notes liquidated damages in an amount equal to $0.05 per week per $1,000 in principal amount of the additional notes for each week or portion thereof that the registration statement has not been declared effective for the first 90-day period following November 13, 2007, with such liquidated damages increasing by an additional $0.05 per week per $1,000 in principal amount of the additional notes with respect to each subsequent 90-day period until the registration statement has been declared effective, up to a maximum amount of liquidated damages of $0.50 per week per $1,000 in principal amount of the additional notes. All such accrued liquidated damages shall be paid by us on each February 15th and August 15th until the registration statement has been declared effective.

As described below, the 2005 Indenture restricts the ability of Icahn Enterprises and IEH, subject to certain exceptions, to, among other things: incur additional debt; pay dividends or make distributions; repurchase units; create liens; and enter into transactions with affiliates.

***Senior Unsecured 8.125% Notes Due 2012 — Icahn Enterprises***

On May 12, 2004, we and IEF co-issued senior unsecured 8.125% notes due 2012, or the 8.125% notes, in the aggregate principal amount of $353.0 million. The 8.125% notes were issued pursuant to an indenture, dated as of May 12, 2004, among us, IEF, IEH, as guarantor, and Wilmington Trust Company, as trustee. The 8.125% notes were priced at 99.266% of principal amount and have a fixed annual interest rate of 8.125%, which is paid every six months on June 1 and December 1, since December 1, 2004. The 8.125% notes will mature on June 1, 2012. Other than IEH, no other subsidiaries guarantee payment on the notes.

As described below, the indenture governing the 8.125% notes restricts the ability of us and IEH, subject to certain exceptions, to, among other things: incur additional debt; pay dividends or make distributions; repurchase units; create liens; and enter into transactions with affiliates.

***Senior Unsecured Notes Restrictions and Covenants — Icahn Enterprises***

The indentures governing our senior unsecured 7.125% and 8.125% notes restrict the payment of cash dividends or distributions, the purchase of equity interests or the purchase, redemption, defeasance or acquisition of debt subordinated to the senior unsecured notes. The indentures also restrict the incurrence of debt or the issuance of disqualified stock, as defined, with certain exceptions, provided that we may incur debt or issue disqualified stock if, immediately after such incurrence or issuance, the ratio of the aggregate principal amount of all outstanding indebtedness of us and our subsidiaries on a consolidated basis to the tangible net





**Note 12 — Long-Term Debt – (continued)**

worth of us and our subsidiaries on a consolidated basis would be less than 1.75 to 1.0. As of September 30, 2007, such ratio was less than 1.75 to 1.0.

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

The indentures governing our senior unsecured notes require that on each quarterly determination date we and the guarantor maintain a minimum ratio of cash flow to fixed charges, each as defined, of 1.5 to 1.0, for the four consecutive fiscal quarters most recently completed prior to such quarterly determination date. For the four fiscal quarters ended September 30, 2007, the ratio of cash flow to fixed charges was greater than 1.5 to 1.0.

The indentures also require, on each quarterly determination date, that the ratio of total unencumbered assets, as defined, to the principal amount of unsecured indebtedness, as defined, be greater than 1.5 to 1.0 as of the last day of the most recently completed fiscal quarter. As of September 30, 2007, such ratio was in excess of 1.5 to 1.0. Based on this ratio, as of September 30, 2007, we and IEH could have incurred up to approximately $1.2 billion of additional indebtedness. Each of the aforementioned ratios were calculated as of September 30, 2007 without the contemplation of the acquisition of our Metals segment.

***Senior Secured Revolving Credit Facility — Icahn Enterprises***

On August 21, 2006, we and IEF, as the borrowers, and certain of our subsidiaries, as guarantors, entered into a credit agreement with Bear Stearns Corporate Lending Inc., as administrative agent, and certain other lenders. Under the credit agreement, we are permitted to borrow up to $150.0 million, including a $50.0 million sublimit that may be used for letters of credit. Borrowings under the agreement, which are based on our credit rating, bear interest at LIBOR plus 100 to 200 basis points. We pay an unused line fee of 25 to 50 basis points of total line of credit. As of September 30, 2007, there were no borrowings under the facility.

Obligations under the credit agreement are guaranteed and secured by liens on substantially all of the assets of certain of our indirect wholly owned Holding Company subsidiaries. The credit agreement has a term of four years and all amounts are due and payable on August 21, 2010. The credit agreement includes covenants that, among other things, restrict the creation of liens and certain dispositions of property by Holding Company subsidiaries that are guarantors. Obligations under the credit agreement are immediately due and payable upon the occurrence of certain events of default.

***Senior Secured 7.85% Notes Due 2012 — ACEP***

The indenture governing ACEP’s 7.85% senior secured notes due 2012 restrict the payment of cash dividends or distributions by ACEP, the purchase of its equity interests, the purchase, redemption, defeasance or acquisition of debt subordinated to ACEP’s notes and investments as “restricted payments.” The indenture also prohibits the incurrence of debt or the issuance of disqualified or preferred stock, as defined, by ACEP, with certain exceptions, provided that ACEP may incur debt or issue disqualified stock if, immediately after such incurrence or issuance, the ratio of consolidated cash flow to fixed charges (each as defined) for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional indebtedness is incurred or disqualified stock or preferred stock is issued would be at least 2.0 to 1.0, determined on a pro forma basis giving effect to the debt incurrence or issuance. As of September 30, 2007, such ratio was in excess of 2.0 to 1.0. The indenture also restricts the creation of liens, the sale of assets, mergers, consolidations or sales of substantially all of ACEP’s assets, the lease or grant of a license, concession, other agreements to occupy, manage or use ACEP’s assets, the issuance of capital stock of restricted subsidiaries and certain related party transactions. The indenture governing the ACEP notes allows ACEP and its restricted subsidiaries to incur indebtedness, among other things, of up to $50.0 million under credit facilities, to obtain non-recourse financing of up to $15.0 million to finance the construction, purchase or lease of personal or real property used in its business, to permit affiliate subordinated

**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**
**NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
**September 30, 2007**

**Note 12 — Long-Term Debt – (continued)**

indebtedness (as defined), to issue additional 7.85% senior secured notes due 2012 in an aggregate principal amount not to exceed 2.0 times net cash proceeds received from equity offerings and permitted affiliate subordinated debt, and to incur additional indebtedness of up to $10.0 million.

***Senior Secured Revolving Credit Facility — ACEP***

Effective May 11, 2006, ACEP, and certain of ACEP's subsidiaries, as guarantors, entered into an amended and restated credit agreement with Wells Fargo Bank N.A., as syndication agent, Bear Stearns Corporate Lending Inc., as administrative agent, and certain other lenders. As of September 30, 2007, the interest rate on the outstanding borrowings under the credit facility was 6.63% per annum. The credit agreement amends and restates, and is on substantially the same terms as, a credit agreement entered into as of January 29, 2004. Under the amended and restated credit agreement, ACEP will be permitted to borrow up to $60.0 million. Obligations under the credit agreement are secured by liens on substantially all of the assets of ACEP and its subsidiaries. The credit agreement has a term of four years and all amounts are due and payable on May 10, 2010. As of September 30, 2007, there were $40.0 million of borrowings under the credit agreement. The borrowings were incurred to finance a portion of the purchase price of the Aquarius.

The credit agreement includes covenants that, among other things, restrict the incurrence of additional indebtedness by ACEP and its subsidiaries, the issuance of disqualified or preferred stock, as defined, the creation of liens by ACEP or its subsidiaries, the sale of assets, mergers, consolidations or sales of substantially all of ACEP's assets, the lease or grant of a license or concession, other agreements to occupy, manage or use ACEP's assets, the issuance of capital stock of restricted subsidiaries and certain related party transactions. The credit agreement also requires that, as of the last date of each fiscal quarter, ACEP's ratio of consolidated first lien debt to consolidated cash flow be not more than 1.0 to 1.0. As of September 30, 2007, such ratio was less than 1.0 to 1.0.

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

As described in Note 4, "Discontinued Operations and Assets Held for Sale," on April 22, 2007, AEP entered into an agreement to sell all of the issued and outstanding membership interests of ACEP. Pursuant to the terms of the agreement, AEP is required to cause ACEP to repay from funds provided by AEP, the principal, interest, prepayment penalty or premiums due on ACEP's 7.85% senior secured notes due 2012 and ACEP's senior secured credit facility.

***Credit Agreement — Metals***

On December 30, 2004, Philip and its subsidiaries, including PSC Metals, entered into a credit agreement with UBS Securities LLC, as lead arranger, and three other financial institutions, of up to $120.0 million which matures on December 30, 2009. Prior to our acquisition of PSC Metals on November 5, 2007, PSC Metals was a co-borrower under the credit agreement and had granted a security interest in substantially all of its assets to secure its obligations thereunder. The credit agreement provides for a revolving line of credit, subject to a borrowing base formula calculated on eligible accounts receivable and eligible scrap metal inventory. Borrowings under the credit agreement bear interest at a rate equal to the base rate (which is based on the UBS AG Bank "prime rate") plus 1.00%, 1.25% or 1.50% depending on Philip's total liquidity (greater than $50.0 million, $25.0 million to $50.0 million and less than $25.0 million, respectively). Total Liquidity is generally defined per the credit agreement as the sum of the borrowing base availability (determined monthly) and the available cash. The credit agreement will generally be used to issue letters of credit to support financial assurance needs related to insurance, environmental, bonding and vendor programs. The letters of credit bear an annual fee of 2.0%. PSC Metals had undrawn capacity of $23.4 million and $64.1 million at September 30, 2007 and December 31, 2006, respectively, no borrowings outstanding and outstanding letters of credit of $62.0 million and $55.7 million at September 30, 2007 and December 31, 2006, respectively.



**ICAHN ENTERPRISES L.P. AND SUBSIDIARIES**
**NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
**September 30, 2007**

**Note 12 — Long-Term Debt – (continued)**

As of September 30, 2007 and December 31, 2006, Philip was required to maintain the following financial covenants under the credit agreement: (i) maximum leverage, which is consolidated indebtedness to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA"), ratio of 5 to 1, (ii) maximum senior leverage, which is consolidated indebtedness less all subordinated indebtedness to consolidated EBITDA, ratio of 3 to 1 and (iii) minimum fixed charge coverage, which is

consolidated EBITDA to the sum of consolidated interest expense, capital expenditures, cash tax payments and principal payments, ratio of 1.1 to 1. Financial covenants are not tested if total liquidity is $25 million or greater. At September 30, 2007 and December 31, 2006, Philip was in compliance with the covenants under the credit agreement.

The various components of long-term debt described in this note are financial instruments. As of September 30, 2007 and December 31, 2006, the carrying value of PSC Metals' debt approximated its fair market value.

In connection with our acquisition of PSC Metals on November 5, 2007, certain proceeds of the transaction were used to release PSC Metals from all claims, guarantees and future obligations under the credit agreement. See Note 19, "Subsequent Events — Acquisition of PSC Metals," for further discussion.

***Mortgages Payable — Real Estate***

Mortgages payable, all of which are non-recourse to us, bear interest at rates between 4.97% and 7.99% and have maturities between September 1, 2008 and July 1, 2016.

***WestPoint Home Secured Revolving Credit Agreement — WPI***

On June 16, 2006, WestPoint Home, Inc., an indirect wholly owned subsidiary of WPI, entered into a $250.0 million loan and security agreement with Bank of America, N.A., as administrative agent and lender. On September 18, 2006, The CIT Group/Commercial Services, Inc., General Electric Capital Corporation and Wells Fargo Foothill, LLC were added as lenders under this credit agreement. Under the five-year agreement, borrowings are subject to a monthly borrowing base calculation and include a $75.0 million sub-limit that may be used for letters of credit. Borrowings under the agreement bear interest, at the election of WestPoint Home, either at the prime rate adjusted by an applicable margin ranging from minus 25 to plus 50 basis points or LIBOR adjusted by an applicable margin ranging from plus 125 to 200 basis points. WestPoint Home pays an unused line fee of 0.25% to 0.275%. Obligations under the agreement are secured by WestPoint Home's receivables and inventory.

The agreement contains covenants including, among others, restrictions on the incurrence of indebtedness, investments, redemption payments, distributions, acquisition of stock, securities or assets of any other entity and capital expenditures. However, WestPoint Home is not precluded from effecting any of these transactions if excess availability, after giving effect to such transaction, meets a minimum threshold.

As of September 30, 2007, there were no borrowings under the agreement, but there were outstanding letters of credit of approximately $15.1 million.

**Note 13 — Compensation Arrangements**

***a. Investment Management***

The Investment Management and GP Entities have entered into agreements with certain of their employees whereby these employees have been granted rights to participate in a portion of the management fees and incentive allocations earned by the Investment Management and GP Entities, net of certain expenses, and subject to various vesting provisions. The vesting period of these rights is generally between two to seven years, and such rights expire at the end of the contractual term of each respective employment agreement. Up to 100% of the amounts earned annually under such rights may be deferred for a period not to exceed ten years from the date of deferral, based on an annual election made by the employee for the upcoming fiscal





**Note 13 — Compensation Arrangements – (continued)**

year's respective management fee and incentive allocation rights. These amounts remain invested in the Private Funds and generally earn the rate of return of these funds, before the effects of any management fees or incentive allocations, which are waived on such deferred amounts. Accordingly, these rights are accounted for as liabilities in accordance with SFAS No. 123R and remeasured at fair value each reporting period until settlement.

Prior to the adoption of SFAS No. 123R, the Investment Management and GP Entities had accounted for such rights under APB 25, which measured the liability at intrinsic value. The adoption of SFAS No. 123R and the remeasurement of all previously outstanding rights did not have any impact on the supplemental consolidated financial statements as the intrinsic value of these awards, as further described herein, approximates their fair value.

The fair value of amounts deferred under these rights is determined at the end of each reporting period based, in part, on the (i) fair value of the underlying net assets of the Private Funds, upon which the respective management fees and incentive allocations are based and (ii) performance of the funds in which the deferred amounts are reinvested. The carrying value of such amounts represents the allocable management fees or incentive fees initially deferred and the appreciation or depreciation on any reinvested deferrals. These amounts approximate fair value because the appreciation or depreciation on the deferrals is based on the fair value of the Private Funds' investments, which are marked-to-market through earnings on a quarterly basis.

The Investment Management and GP Entities recorded compensation expense of $2.4 million and $3.5 million related to these rights for the three months ended September 30, 2007 and 2006, respectively, which is included in costs and expenses in the supplemental consolidated statements of operations. The Investment Management and GP Entities recorded compensation

expense of $19.0 million and $9.2 million for the nine months ended September 30, 2007 and 2006, respectively. Compensation expense arising from deferral arrangements is recognized in the supplemental consolidated financial statements over the vesting period. Accordingly, unvested balances of deferred management fee and incentive fee income allocations to certain employees are not reflected in the supplemental consolidated financial statements. Deferred amounts not yet recognized as compensation expense within the supplemental consolidated statements of operations were $12.2 million and $8.0 million as of September 30, 2007 and December 31, 2006, respectively. That cost is expected to be recognized over a weighted average of 4.3 years. Cash paid to settle rights that had vested and had been withdrawn for the three and nine months ended September 30, 2007 were $1.0 million and $7.7 million, respectively, and for the three and nine months ended September 30, 2006 were $0.4 million and $2.6 million, respectively.

The liabilities incurred by Icahn Management related to the rights granted to certain employees to participate in a portion of the management fees earned by Icahn Management remained with Icahn Management upon the execution of the Contribution Agreement on August 8, 2007. However, because the employees to which these rights were granted became employees of New Icahn Management on August 8, 2007. New Icahn Management recognizes the future compensation expense associated with the unvested portion of rights granted by Icahn Management, even though such liability will be settled by an affiliated entity.

***b. Holding Company and Other Operations***

On June 29, 2005, we granted 700,000 nonqualified unit options to our then chief executive officer to purchase up to 700,000 of our depositary units at an exercise price of $35 per unit which would vest over a period of eight years. On March 14, 2006, our chief executive officer resigned from that position, became a director and Vice Chairman of the Board of IEGP, and was designated as IEGP's principal executive officer. These changes in status caused the options to be cancelled in accordance with their terms.





**Note 13 — Compensation Arrangements – (continued)**

In accordance SFAS No. 123R, the cancellation required that any previously unrecognized compensation cost be recognized at the date of cancellation and accordingly we recorded a compensation charge of $6.2 million in the quarter ended December 31, 2006, or the fourth quarter of fiscal 2006, related to the previously unrecognized compensation cost.

**Note 14 — Preferred Units**

Pursuant to the terms of the preferred units, on February 27, 2007 we declared our scheduled annual preferred unit distribution payable in additional preferred units at the rate of 5% of the liquidation preference per preferred unit of $10. The distribution was paid on March 31, 2007 to holders of record as of March 15, 2007. A total of 566,830 additional preferred units were issued. As of September 30, 2007, 11,907,073 preferred units were issued and outstanding. As of September 30, 2007, the number of authorized preferred units was 12,100,000.

**Note 15 — Earnings Per Limited Partnership Unit**

Basic earnings per LP unit are based on earnings attributable to limited partners. Net earnings available for limited partners are divided by the weighted average number of limited partnership units outstanding.

Diluted earnings per LP unit are based on earnings before the preferred unit distribution and interest on the convertible notes as the numerator with the denominator based on the weighted average number of limited partnership units and equivalent limited partnership units outstanding assuming conversion. The preferred units are considered to be equivalent units.

As discussed in Note 2, "Summary of Significant Accounting Policies — Change in Accounting Principle — Method of Allocating of Gains and Losses Related to Dispositions of Common Control Acquisitions," in the third quarter of fiscal 2007 we elected to change our method of allocating gains related to dispositions of common control entities accounted for on an as-if pooling basis when acquired. This change in accounting principle does not affect earnings per limited partnership unit for the periods presented below.





**Note 15 — Earnings Per Limited Partnership Unit – (continued)**

The following table sets forth the computation of basic and diluted earnings per LP unit for the periods indicated (in 000s, except per unit data) consolidated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Attributable to limited partners: | | | | |
| Basic income (loss) from continuing operations | $17,738 | $ (803) | $ 29,320 | $ 15,566 |
| Add preferred unit distribution | — | — | — | — |
| Add convertible notes interest | — | — | — | — |
| Income (loss) before discontinued operations | 17,738 | (803) | 29,320 | 15,566 |
| Income from discontinued operations | 17,045 | 103,393 | 75,109 | 214,644 |
| Diluted earnings | $34,783 | $102,590 | $104,429 | $230,210 |
| Weighted average LP units outstanding | 66,830 | 61,857 | 63,533 | 61,857 |
| Weighted average LP units and equivalent partnership units outstanding | 66,830 | 61,857 | 63,533 | 61,857 |
| Basic earnings per LP unit: | | | | |
| Income (loss) from continuing operations | $ 0.27 | $ (0.01) | $ 0.47 | $ 0.25 |
| Income from discontinued operations | 0.26 | 1.67 | 1.18 | 3.47 |
| Basic earnings: | $ 0.53 | $ 1.66 | $ 1.65 | $ 3.72 |
| Diluted earnings per LP unit: | | | | |
| Income from continuing operations | $ 0.27 | $ (0.01) | $ 0.47 | $ 0.25 |
| Income from discontinued operations | 0.26 | 1.67 | 1.18 | 3.47 |
| Diluted earnings: | $ 0.53 | $ 1.66 | $ 1.65 | $ 3.72 |

For purposes of calculating earnings per LP unit, the income relating to our share of ImClone's earnings per share is based on the earnings per share reported by ImClone for the three and nine months ended September 30, 2006.

As their effects would have been anti-dilutive, the following preferred unit distribution and interest on our convertible notes have been excluded from the calculation of diluted earnings per LP unit for the periods indicated (in 000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Preferred unit distribution | $ 1,459 | $ 1,389 | $ 4,307 | $ 4,087 |
| Convertible notes interest | $ 5,253 | $ — | $ 17,258 | $ — |





**Note 15 — Earnings Per Limited Partnership Unit – (continued)**

As their effect would have been anti-dilutive, the following equivalent LP units have been excluded from the weighted average LP units and equivalent partnership units outstanding for the periods indicated (in 000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Weighted average equivalent LP unit – Preferred LP units | 1,138 | 2,496 | 1,176 | 2,687 |
| Weighted average equivalent LP unit – Convertible notes | 4,525 | — | 2,967 | — |
| | 5,663 | 2,496 | 4,143 | 2,687 |

**Note 16 — Segment Reporting**

Through the quarter ended June 30, 2006, or the second quarter of fiscal 2006, we maintained the following six reportable segments: (1) Oil and Gas; (2) Gaming; (3) Rental Real Estate; (4) Property Development; (5) Associated Resort Activities and (6) Home Fashion. In November 2006, we divested our Oil and Gas segment and our Atlantic City gaming properties. On April 22, 2007, we entered into an agreement to sell our Nevada gaming operations, which comprised our remaining gaming operations. As a result, our former Oil and Gas segment and our former Gaming segment are now classified as discontinued operations and thus are not considered reportable segments of our continuing operations, as described in Note 4, "Discontinued Operations and Assets Held for Sale."

The three related operating lines of our Real Estate segment are all individually immaterial and have been aggregated for purposes of reporting financial information related to its operations.

We now maintain the following four reportable segments: (1) Investment Management; (2) Metals; (3) Real Estate and (4) Home Fashion. Our Investment Management segment provides investment advisory and certain management services to the Private Funds, but does not provide such services to any other entities, individuals or accounts. Our Metals segment consists of PSC Metals. PSC Metals collects industrial and obsolete scrap metal, processes it into reusable forms and supplies the recycled metals to its customers including electric-arc furnace mills, integrated steel mills, foundries, secondary smelters and metals brokers. Our Real Estate segment includes rental real estate that primarily consists of fee and leasehold properties in 16 states as of

September 30, 2007 and 19 states as of December 31, 2006, property development that is primarily focused on the construction and sale of single-family houses and residential developments and the operation of resort properties associated with our residential developments. Our Home Fashion segment, through our subsidiary, WPI, markets a broad range of manufactured and sourced bed, bath and basic bedding products.

We assess and measure segment operating results based on segment earnings as disclosed below. Segment earnings from operations are not necessarily indicative of cash available to fund cash requirements, nor synonymous with cash flow from operations. As discussed above, the terms of financings for the Home Fashion and Real Estate segments impose restrictions on their ability to transfer funds to us, including restrictions on dividends, distributions, loans and other transactions.

In the table below the Investment Management segment is represented by the first four columns. The first column, entitled Investment Management and GP Entities, represents the results of operations of the investment management segment without the impact of eliminations arising from the consolidation of the Private Funds. This includes the gross amount of management fees, incentive allocations and returns on investments in the Private Funds that are attributable to Icahn Enterprises only. The second column represents the total consolidated income and expenses of the Private Funds for all investors, including Icahn Enterprises, before





**Note 16 — Segment Reporting – (continued)**

eliminations. The third column represents the eliminations required in order to arrive at our consolidated U.S. GAAP reported income for the segment.

The following tables set forth consolidated operating results for our segments to arrive at our consolidated income from continuing operations (in $000s):

**For the Three Months Ended September 30, 2007**

| | Investment Management | | | | Other Operations | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income | Metals | Real Estate | Home Fashion | Holding Company | U.S. GAAP Reported Income |
| Revenues: | | | | | | | | | |
| Management fees | $ 29,685 | $ — | $ (25,567) | $ 4,118 | $ — | $ — | $ — | $ — | $ 4,118 |
| Incentive allocations | (25,787) | — | 25,787 | — | — | — | — | — | — |
| Net gain (loss) from investment activities | (5,367) | (133,652) | 5,367 | (133,652) | — | — | — | 14,156 | (119,496) |
| Interest, dividends and other income | 98 | 51,023 | — | 51,121 | 147 | 1,966 | 1,049 | 39,571 | 93,854 |
| Other income, net | — | — | — | — | — | — | — | 22,495 | 22,495 |
| Other segment revenues | — | — | — | — | 198,903 | 30,356 | 183,360 | — | 412,619 |
| | (1,371) | (82,629) | 5,587 | (78,413) | 199,050 | 32,322 | 184,409 | 76,222 | 413,590 |
| Costs and expenses | 7,177 | 9,135 | — | 16,312 | 189,814 | 25,366 | 220,171 | 13,025 | 464,688 |
| Interest expense | — | 4,141 | — | 4,141 | 214 | 1,624 | 378 | 34,250 | 40,607 |
| Income (loss) from continuing operations before income taxes and non-controlling interests | (8,548) | (95,905) | 5,587 | (98,866) | 9,022 | 5,332 | (36,140) | 28,947 | (91,705) |
| Income tax (expense) benefit | (1,571) | — | — | (1,571) | (180) | (670) | 119 | (7,650) | (9,952) |
| Non-controlling interests in (income) loss of consolidated entities | — | 90,318 | 3,958 | 94,276 | — | — | 12,772 | (91) | 106,957 |
| Income (loss) from continuing operations | $ (10,119) | $ (5,587) | $ 9,545 | $ (6,161) | $ 8,842 | $ 4,662 | $ (23,249) | $ 21,206 | $ 5,300 |

**Note 16 — Segment Reporting – (continued)**

**For the Three Months Ended September 30, 2006**

| | Investment Management | | | | Other Operations | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income | Metals | Real Estate | Home Fashion | Holding Company | U.S. GAAP Reported Income |
| Revenues: | | | | | | | | | |
| Management fees | $ 20,474 | $ — | $ (20,474) | $ — | $ — | $ — | $ — | $ — | $ — |
| Incentive allocations | 38,921 | — | (38,921) | — | — | — | — | — | — |
| Net gain from investment activities | 5,199 | 209,288 | (5,199) | 209,288 | — | — | — | 22,169 | 231,457 |
| Interest, dividends and other income | 95 | 18,816 | — | 18,911 | 437 | 856 | 985 | 9,295 | 30,484 |
| Other income, net | — | — | — | — | — | — | — | 1,584 | 1,584 |
| Other segment revenues | — | — | — | — | 179,173 | 32,518 | 223,066 | — | 434,757 |
| | 64,689 | 228,104 | (64,594) | 228,199 | 179,610 | 33,374 | 224,051 | 33,048 | 698,282 |
| Costs and expenses | 8,256 | 8,337 | — | 16,593 | 170,824 | 27,147 | 246,045 | 4,113 | 464,722 |
| Interest expense | — | 2,178 | — | 2,178 | 37 | 1,854 | 289 | 20,097 | 24,455 |
| Income (loss) from continuing operations before income taxes and non-controlling interests | 56,433 | 217,589 | (64,594) | 209,428 | 8,749 | 4,373 | (22,283) | 8,838 | 209,105 |
| Income tax (expense) benefit | (398) | — | — | (398) | 520 | (587) | 28 | (124) | (561) |
| Non-controlling interests in (income) loss of consolidated entities | — | (152,995) | — | (152,995) | — | — | 8,432 | — | (144,563) |
| Income (loss) from continuing operations | $ 56,035 | $ 64,594 | $ (64,594) | $ 56,035 | $ 9,269 | $ 3,786 | $ (13,823) | $ 8,714 | $ 63,981 |





**Note 16 — Segment Reporting – (continued)**

**For the Nine Months Ended September 30, 2007**

| | Investment Management | | | | Other Operations | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income | Metals | Real Estate | Home Fashion | Holding Company | U.S. GAAP Reported Income |
| Revenues: | | | | | | | | | |
| Management fees | $ 95,529 | $ — | $ (88,035) | $ 7,494 | $ — | $ — | $ — | $ — | $ 7,494 |
| Incentive allocations | 94,722 | — | (94,722) | — | — | — | — | — | — |
| Net gain from investment activities | 37,529 | 554,223 | (37,529) | 554,223 | — | — | — | 75,647 | 629,870 |
| Interest, dividends and other income | 405 | 132,640 | — | 133,045 | 172 | 4,896 | 4,885 | 105,079 | 248,077 |
| Other income, net | — | — | — | — | — | — | — | 28,478 | 28,478 |
| Other segment revenues | — | — | — | — | 622,282 | 83,617 | 531,109 | — | 1,237,008 |
| | 228,185 | 686,863 | (220,286) | 694,762 | 622,454 | 88,513 | 535,994 | 209,204 | 2,150,927 |
| Costs and expenses | 37,557 | 31,691 | — | 69,248 | 594,253 | 73,416 | 656,158 | 24,564 | 1,417,639 |
| Interest expense | — | 13,686 | — | 13,686 | 532 | 4,953 | 1,400 | 92,336 | 112,907 |
| Income (loss) from continuing operations before income taxes and non-controlling interests | 190,628 | 641,486 | (220,286) | 611,828 | 27,669 | 10,144 | (121,564) | 92,304 | 620,381 |
| Income tax expense | (3,175) | — | — | (3,175) | (540) | (351) | (128) | (9,613) | (13,807) |
| Non-controlling interests in (income) loss of consolidated entities | — | (421,200) | 3,958 | (417,242) | — | — | 44,074 | (430) | (373,598) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Income (loss) from continuing operations | $ 187,453 | $ 220,286 | $ (216,328) | $ 191,411 | $ 27,129 | $ 9,793 | $ (77,618) | $ 82,261 | $ 232,976 |





**Note 16 — Segment Reporting – (continued)**

**For the Nine Months Ended September 30, 2006**

| | Investment Management | | | | Other Operations | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income | Metals | Real Estate | Home Fashion | Holding Company | U.S. GAAP Reported Income |
| Revenues: | | | | | | | | | |
| Management fees | $ 54,401 | $ | $ (54,401) | $ — | $ — | $ — | $ — | $ — | $ — |
| Incentive allocations | 104,608 | | (104,608) | — | — | — | — | — | — |
| Net gain from investment activities | 14,753 | 571,774 | (14,753) | 571,774 | — | — | — | 84,830 | 656,604 |
| Interest, dividends and other income | 221 | 44,894 | — | 45,115 | 718 | 1,286 | 3,370 | 29,142 | 79,631 |
| Other income, net | — | — | — | — | — | — | — | 13,095 | 13,095 |
| Other segment revenues | — | — | — | — | 556,143 | 101,316 | 672,350 | — | 1,329,809 |
| | 173,983 | 616,668 | (173,762) | 616,889 | 556,861 | 102,602 | 675,720 | 127,067 | 2,079,139 |
| Costs and expenses | 25,031 | 13,785 | — | 38,816 | 521,360 | 78,235 | 777,517 | 19,093 | 1,435,021 |
| Interest expense | — | 6,784 | — | 6,784 | 126 | 4,013 | 338 | 59,418 | 70,679 |
| Income (loss) from continuing operations before income taxes and non-controlling interests | 148,952 | 596,099 | (173,762) | 571,289 | 35,375 | 20,354 | (102,135) | 48,556 | 573,439 |
| Income tax (expense) benefit | (1,076) | — | — | (1,076) | 2,101 | (114) | (128) | (402) | 381 |
| Non-controlling interests in (income) loss of consolidated entities | — | (422,337) | — | (422,337) | — | — | 47,876 | — | (374,461) |
| Income (loss) from continuing operations | $ 147,876 | $ 173,762 | $ (173,762) | $ 147,876 | $ 37,476 | $ 20,240 | $ (54,387) | $ 48,154 | $ 199,359 |

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Assets: | | |
| Investment Management | $ 8,536,474 | $ 4,815,156 |
| Metals | 302,771 | 220,067 |
| Real Estate | 402,112 | 382,220 |
| Home Fashion | 688,983 | 784,981 |
| Subtotal | 9,930,340 | 6,202,424 |
| Assets held for sale | 646,278 | 620,974 |
| Reconciling items[(i)] | 3,190,238 | 2,456,572 |
| Total assets | $ 13,766,856 | $ 9,279,970 |

(i) Reconciling items relate principally to cash and investments of Icahn Enterprises and IEH in the Holding Company.





**Note 17 — Income Taxes**

We recorded the following income tax expense (benefit) attributable to continuing operations for the periods indicated as follows (in $000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Current | $ 9,149 | $ (606) | $ 12,894 | $ 2,692 |
| Deferred | 803 | 1,167 | 913 | (3,073) |
| | $ 9,952 | $ 561 | $ 13,807 | $ (381) |

We recorded income tax provisions of $13.8 million and $(0.4) million on pre-tax income of $620.4 million and $573.4 million for the nine months ended September 30, 2007 and 2006, respectively. Our effective income tax rate was 2.2% and (0.1)% for the respective periods. We recorded income tax provisions of $10.0 million and $0.6 million on pre-tax loss of $91.7 million and pre-tax income of $209.1 million for the three months ended September 30, 2007 and 2006, respectively. Our effective tax rate was (10.9)% and 0.3% for the respective periods. The difference between the effective tax rate and the statutory federal rate of 35% is due principally to income or losses from partnership entities in which taxes are the responsibility of the partners, as well as changes in valuation allowances.

We adopted the provisions of FIN 48, on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of FIN 48 did not have a material impact on our supplemental consolidated financial statements.

As of the date of adoption, our unrecognized tax benefits totaled $6.3 million, all of which, if recognized, would affect the annual effective tax rate. During the nine months ended September 30, 2007, the amount of unrecognized tax benefits decreased by $3.1 million due to the expiration of statutes of limitations.

We recognize interest accrued related to uncertain tax positions in interest expense. Penalties are recognized as a component of income tax expense. The amount of accrued interest and penalties on uncertain tax positions was $0.6 million and $1.8 million as September 30, 2007 and January 1, 2007, respectively. The decrease in the accrued interest during the nine months ended September 30, 2007 is a result of the decrease in the unrecognized tax benefit recorded during the period.

We or certain of our subsidiaries file income tax returns in the U.S. federal jurisdiction, various state jurisdictions and various non-U.S. jurisdictions. We are no longer subject to U.S. federal, state and non-U.S. income tax examinations for fiscal years prior to 2003.

**Note 18 — Commitments and Contingencies**

We are from time to time parties to various legal proceedings arising out of our businesses. We believe however, that other than the proceedings described in Part I, Item 3 of our 2006 Annual Report on Form 10-K as supplemented in Part II, Item I of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 filed with the SEC on November 9, 2007, including that relating to WPI and Lear discussed below, there are no proceedings pending or threatened against us which, if determined adversely, would have a material adverse effect on our business, financial condition, results of operations or liquidity.

***WPI Litigation***

*Federal Proceedings*

In November and December 2005, the U.S. District Court for the Southern District of New York, or the District Court, rendered a decision in *Contrarian Funds LLC v. WestPoint Stevens, Inc. et al.*, and issued





**Note 18 — Commitments and Contingencies – (continued)**

orders reversing certain provisions of the Bankruptcy Court order (the "Sale Order"), pursuant to which we acquired our ownership of a majority of the common stock of WPI. WPI acquired substantially all of the assets of WestPoint Stevens, Inc. The District Court remanded to the Bankruptcy Court for further proceedings.

On April 13, 2006, the Bankruptcy Court entered a remand order (the "Remand Order"), which provided, among other things, that all of the shares of common stock and rights to acquire shares of common stock of WPI issued to us and the other first lien lenders or held in escrow pursuant to the Sale Order constituted "replacement collateral." The Bankruptcy Court held that the 5,250,000 shares of common stock that we acquired for cash were not included in the replacement collateral. The Bankruptcy Court also held that, in the event of a sale of the collateral, including the sale of the shares we received upon exercise of certain subscription rights (the "Exercise Shares"), all proceeds would be distributed, *pro rata,* among all first lien lenders, including us, until the first lien debt was satisfied, in full. The parties filed cross-appeals of the Remand Order.

On October 9, 2007, the District Court entered an Order (the "October 9th Order") on the appeal and cross-appeal. The District Court affirmed the Remand Order but held that, as to the Exercise Shares, any sale proceeds would be divided between us and the first lien lenders (including us), generally based upon the ratio of the amount we paid to exercise the rights to the total value of the

Exercise Shares on the date they were acquired. We are holders of approximately 39.99% of the outstanding first lien debt and approximately 51.21% of the outstanding second lien debt.

Each of the parties has filed a notice of appeal with the United States Court of Appeals for the Second Circuit. As part of that appeal, the parties have the right to raise issues relating to the District Court's November 2005 Opinion, and the Orders entered thereon, as well as issues relating to the October 9th Order.

*Delaware Proceedings*

On October 3, 2007, the Court of Chancery of the State of Delaware in and for New Castle County ("the Chancery Court"), issued a Limited Status Quo Order ("the Order"), in *Beal Bank, S.S.B., et. al. v. WestPoint International, Inc. et. al.,* in connection with the complaint filed on January 19, 2007, as amended, by Beal Bank, S.S.B. and certain creditors of WestPoint Stevens, Inc., collectively, the Plaintiffs. The Order required that WPI and subsidiaries (collectively referred to herein as "WPI") seek a further court order, obtain consent, or give notice before engaging in certain actions. On October 15, 2007, the Chancery Court issued a Modified Limited Status Quo Order (the "Modified Order"), modifying certain provisions of the prior order to permit WPI and subsidiaries to conduct ordinary course of business activities without further notice, consent, or order, including (i) ordinary course of business sales and purchases provided any particular transaction does not exceed $20.0 million and (ii) transfers of excess inventory, unused equipment and/or unused real property to an unrelated third party provided the sale price for any particular real property transaction does not exceed $30.0 million.

We continue to vigorously defend against all claims asserted in the Federal and Delaware proceedings and believe that we have valid defenses. However, we cannot predict the outcome of these proceedings or the ultimate impact on our investment in WPI and its subsidiaries or the business prospects of WPI and its subsidiaries.





**Note 18 — Commitments and Contingencies – (continued)**

***Lear***

We were named as a defendant in various actions filed in connection with our proposed merger agreement with Lear. The Lear shareholders rejected the merger and the merger agreement has terminated. We remain a party to an action filed in the Court of Chancery of the State of Delaware challenging the payment to us of a break-up fee as provided in the merger agreement. We intend to vigorously defend the Delaware action but we cannot predict the outcome of the action.

***Metals***

PSC Metals is subject to federal, state, local and foreign environmental laws and regulations concerning discharges to the air, soil, surface and subsurface waters and the generation, handling, storage, transportation, treatment and disposal of waste materials and hazardous substances. PSC Metals is also subject to other federal, state, local and foreign laws and regulations including those that require PSC Metals to remove or mitigate the effects of the disposal or release of certain materials at various sites.

It is impossible to predict precisely what effect these laws and regulations will have on PSC Metals in the future. Compliance with environmental laws and regulations may result in, among other things, capital expenditures, costs and liabilities. Management believes, based on past experience and its best assessment of future events, that these environmental liabilities and costs will be assessed and paid over an extended period of time. PSC Metals believes that it will be able to fund such costs in the ordinary course of business.

Certain of PSC Metals' facilities are environmentally impaired in part as a result of operating practices at the sites prior to their acquisition by PSC Metals and as a result of PSC Metals operations. PSC Metals has established procedures to periodically evaluate these sites, giving consideration to the nature and extent of the contamination. PSC Metals has provided for the remediation of these sites based upon management's judgment and prior experience. PSC Metals has estimated the liability to remediate these sites to be $24.0 million and $19.9 million at September 30, 2007 and December 31, 2006, respectively.

PSC Metals has been named as a potentially responsible or liable party under U.S. federal and state superfund laws in connection with various sites. It is alleged that PSC Metals and its subsidiaries or their predecessors transported waste to the sites, disposed of waste at the sites, or operated the sites in question. PSC Metals has reviewed the nature and extent of the allegations, the number, connection and financial ability of other named and unnamed potentially responsible parties and the nature and estimated cost of the likely remedy. Based on its review, PSC Metals has accrued its estimate of its liability to remediate these sites to be $0 at September 30, 2007 and December 31, 2006, respectively. If it is determined that more expensive remediation approaches are required in the future, PSC Metals could incur additional obligations, which could be material.

Estimates of PSC Metals' liability for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions and are inherently difficult to make, and the ultimate outcome may differ from current estimates. As additional information becomes available, estimates are adjusted. It is possible that technological, regulatory or enforcement developments, the results of environmental studies or other factors could alter estimates and necessitate the recording of additional liabilities, which could be material. Moreover, because PSC Metals has disposed of waste materials at numerous third-party disposal facilities, it is possible that PSC Metals will be identified as a potentially responsible party at additional sites. The

impact of such future events cannot be estimated at the current time.





**Note 19 — Subsequent Events**

***Investment Management Operations***

Subsequent to September 30, 2007, through November 7, 2007, the Onshore Fund received $466.0 million in subscriptions from Icahn Enterprises for which no management fees or incentive allocations are applicable. Including these amounts, Icahn Enterprises has invested a total of $700.0 million in the Private Funds.

***Declaration of Distribution on Depositary Units***

On November 2, 2007, the Board of Directors approved a quarterly distribution of $0.15 per unit on our depositary units payable in the fourth quarter of fiscal 2007. The distribution will be paid on December 3, 2007 to depositary unitholders of record at the close of business on November 19, 2007. Under the terms of the indenture dated April 5, 2007 governing our senior convertible notes due 2013, we will also be making a $0.05 distribution to holders of these notes in accordance with the formula set forth in the indenture.

***Acquisition of PSC Metals, Inc.***

On November 5, 2007, we acquired, through a subsidiary, all of the issued and outstanding capital stock of PSC Metals, from Philip. PSC Metals is engaged in transporting, recycling and processing metals. The consideration for the transaction was $335 million in cash.

As part of the transaction, our wholly owned subsidiary purchased 100% of the issued and outstanding capital stock of PSC Metals, whereby PSC Metals became our indirect wholly owned subsidiary. Prior to the acquisition, PSC Metals was a co-borrower with Philip and other Philip subsidiaries under a credit agreement (the "Credit Agreement") with UBS Securities LLC, as lead arranger, and had granted a security interest in substantially all of its assets to secure its obligations thereunder. Approximately $34.6 million of the proceeds from the transaction was paid to release PSC Metals from all claims, guarantees and future obligations under the Credit Agreement. In addition, Philip used a portion of the proceeds to collateralize PSC Metals' letters of credit of approximately $6.3 million. PSC Metals is currently under negotiations to enter into a $100.0 million asset-based borrowing agreement. Subsequent to the consummation of the borrowing agreement, PSC Metals will fund its letters of credit from its borrowing base and funds used to collateralize the letters of credit by Philip will be released.

Mr. Icahn indirectly owns a 95.6% interest and we indirectly own the remaining 4.4% interest in Philip. The transaction was approved by a special committee of independent members of our board of directors. The special committee was advised by its own legal counsel and independent financial adviser with respect to the transaction. The special committee received an opinion from its financial adviser as to the fairness to us, from a financial point of view, of the consideration paid by us.

***Atlantic Coast Entertainment Holdings, Inc. Merger***

On November 15, 2007, ACE HI Merger Corp. ("Merger Corp"), our indirect wholly owned subsidiary and the owner of approximately 94.2% of the outstanding shares of Atlantic Coast common stock, completed a short-form merger transaction (the "Merger"), under Section 253 of the Delaware General Corporation Law, ("Delaware Law"), pursuant to which Merger Corp merged with and into Atlantic Coast and Atlantic Coast became our wholly owned subsidiary. Pursuant to the Merger, the holders of Atlantic Coast common stock (other than Merger Corp) are entitled to receive $21.19 per share in cash in exchange for their shares. Alternatively, by following the procedures set forth under Delaware Law, any of these stockholders who do not wish to accept the $21.19 per share cash consideration are entitled to receive payment in cash of the "fair value" of these shares as determined by an appraisal proceeding by the Delaware Court of Chancery.

Merger Corp will mail Notices of Merger and Appraisal Rights, Letters of Transmittal and other documents necessary for the exchange of stock certificates to stockholders within the time provided by Delaware Law. The Notice of Merger and Appraisal Rights will also provide information for stockholders who choose to exercise their appraisal rights under Delaware Law.





**Note 19 — Subsequent Events – (continued)**

On November 16, 2007, Atlantic Coast filed a Form 15 with the SEC, thereby terminating its reporting obligations under the '34 Act and its status as a public company.

***NEGI Liquidation***

On November 12, 2007, the board of directors of NEGI determined that it is in the best interests of NEGI's shareholders to liquidate all of NEGI's assets and approved the dissolution of NEGI and a plan of dissolution and liquidation, (the "Plan"), subject to required shareholder approval. NEGI will announce the timing of the shareholder meeting at which approval will be requested and set a record date for the shares entitled to vote at such meeting after the SEC has completed its review of the related proxy materials that NEGI intends to file.

Following shareholder approval of NEGI's dissolution pursuant to the Plan, NEGI expects to carry out an orderly disposition of NEGI's assets and liabilities and then declare a cash distribution to its shareholders. NEGI will then file a Form 15 with the SEC, terminating its reporting obligations under the '34 Act and its status as a public company.

**Exhibit 99.3**

**Management's Discussion and Analysis of Supplemental Financial Condition and Results of Operations.**

Management's discussion and analysis of supplemental financial condition and results of operations is comprised of the following sections:

(1) Overview
- Introduction
- Acquisitions
- Divestitures
- Other Significant Events

(2) Results of Operations
- Overview
- Consolidated Financial Results
- Investment Management
- Holding Company and Other Operations
  - Metals
  - Real Estate
  - Home Fashion
  - Holding Company
- Discontinued Operations

(3) Liquidity and Capital Resources
- Consolidated Financial Results
- Investment Management
- Holding Company and Other Operations
  - Metals
  - Real Estate
  - Home Fashion
- Discontinued Operations

(4) Critical Accounting Policies and Estimates

(5) Certain Trends and Uncertainties

*The following discussion is intended to assist you in understanding our present business and the results of operations together with our present financial condition. This section should be read in conjunction with our Supplemental Consolidated Financial Statements as of September 30, 2007 and for the three and nine month periods ended September 30, 2007 and 2006 and the accompanying notes, as well as our Supplemental Consolidated Financial Statements as of December 31, 2006 and for the three-year periods then ended and the accompanying notes, including the basis of presentation described therein, which are included elsewhere in this Current Report on Form 8-K.*



**Overview**

***Introduction***

We are a master limited partnership formed in Delaware on February 17, 1987. On September 17, 2007 we changed our name from American Real Estate Partners, L.P. to Icahn Enterprises L.P., or Icahn Enterprises. We own a 99% limited partnership interest in Icahn Enterprises Holdings L.P., or IEH, formerly known as American Real Estate Holdings Limited Partnership. IEH and its subsidiaries hold our investments and substantially all of our operations are conducted through IEH and its subsidiaries. Icahn Enterprises G.P. Inc., or IEGP, formerly known as American Property Investors, Inc., owns a 1% general partnership interest in both us and IEH, representing an aggregate 1.99% general partnership interest in us and IEH. IEGP is owned and controlled by Mr. Carl C. Icahn. As of September 30, 2007, affiliates of Mr. Icahn beneficially owned approximately 91.2% of our outstanding depositary units and approximately 86.5% of our outstanding preferred units.

We are a diversified holding company owning subsidiaries engaged in the following operating businesses: Investment Management (effective August 8, 2007), Metals (effective November 5, 2007), Real Estate and Home Fashion. We also operate

discontinued operations including our former Gaming segment. In addition to our operating businesses, we discuss the Holding Company. The Holding Company includes the unconsolidated results of Icahn Enterprises and IEH, and investment activity and expenses associated with the activities of the holding company.

In accordance with accounting principles generally accepted in the United States, or U.S. GAAP, assets transferred between entities under common control are accounted for at historical cost similar to a pooling of interests, and the financial statements of previously separate companies for all periods under common control prior to the acquisition are restated on a consolidated basis.

***Business Strategy***

Our business strategy includes the following:

*Enhance Value of Existing Businesses.* We continually evaluate our operating businesses with a view to maximizing their value to us. In each of our businesses, we place senior management with the expertise to run these businesses and give them operating objectives that they must achieve. We will advise management on major strategic and capital initiatives. We may make additional investments in business segments to improve the performance of their operations.

*Invest Capital to Grow Existing Operations or Add New Operating Platforms.* Our management team has extensive experience in identifying, acquiring and developing undervalued businesses or assets. We may look to make acquisitions of assets or operations that complement our existing businesses. We also may look to add new operating platforms by acquiring businesses or assets directly or establishing an ownership position through the purchase of debt or equity securities of troubled entities and may then negotiate for the ownership or effective control of their assets.

*Enhance Returns on Assets.* We continually look for opportunities to enhance returns on both our liquid and operating assets. We may seek to unlock value by selling all or a part of a business segment.

***Acquisitions***

*Acquisition of PSC Metals, Inc.*

On November 5, 2007, we acquired, through a subsidiary, all of the issued and outstanding capital stock of PSC Metals, Inc., or PSC Metals, from Philip Services Corporation, or Philip, for $335 million in cash. PSC Metals is principally engaged in the business of collecting and processing ferrous (iron-bearing metals) and non-ferrous metals, as well as the marketing of secondary products. PSC Metals collects industrial and obsolete scrap metal, processes it into reusable forms, and supplies the recycled metals to its customers including electric-arc furnace mills, integrated steel mills, foundries, secondary smelters and metals brokers. PSC Metals' ferrous products include shredded, sheared and bundled scrap metal and other purchased scrap metal such as turnings (steel machining fragments), cast furnace iron and broken furnace iron. PSC Metals also processes non-ferrous metals including aluminum, copper, brass, stainless steel and nickel-bearing metals.



Non-ferrous products are a significant raw material in the production of aluminum and copper alloys used in manufacturing. PSC Metals also operates a secondary products business that includes the supply of secondary plate and structural grade pipe that is sold into niche markets for counterweights, piling and foundations, construction materials and infrastructure end-markets.

PSC Metals is headquartered in Mayfield Heights, Ohio, and operates 23 yards, three mill service operations and one pipe storage center. PSC Metals' facilities are strategically located in high volume scrap markets throughout the upper Midwestern and Southeastern United States, placing PSC Metals in proximity to both suppliers and consumers of scrap metals. As of September 30, 2007, PSC Metals employed 1,055 persons, including 244 employees with collective bargaining agreements. For the nine months ended September 30, 2007, PSC Metals reported revenue of approximately $622 million and net income of approximately $27 million.

Carl C. Icahn indirectly owns a 95.6% interest and we indirectly own the remaining 4.4% interest in Philip. The transaction was approved by a special committee of independent members of our board of directors. The special committee was advised by its own legal counsel and independent financial adviser with respect to the transaction. The special committee received an opinion from its financial adviser as to the fairness to us, from a financial point of view, of the consideration paid by us.

As a result of Mr. Icahn's and our ownership interests in Philip, the former parent of PSC Metals, PSC Metals is considered a company under common control. Accordingly, the accompanying supplemental consolidated financial statements and footnotes include the assets and operations of PSC Metals for all periods presented.

*Acquisition of Partnership Interests*

On August 8, 2007, we acquired the general partnership interests in the General Partners (as defined below) and Icahn Capital Management L.P., or New Icahn Management. These entities provide investment advisory and certain management services to the Private Funds but do not provide such services to any other entities, individuals or accounts. We entered into the Contribution Agreement with CCI Offshore Corp., CCI Onshore Corp., Icahn Management LP, or Icahn Management, and Carl C. Icahn. CCI Onshore, CCI Offshore and Icahn Management are collectively referred to herein as the Contributors. Pursuant to the Contribution Agreement, we acquired general partnership interests in the General Partners, acting as general partners of Icahn Partners LP, or the Onshore Fund, and the Offshore Master Funds (as defined below) managed and controlled by Mr. Icahn. As referred to herein, the General Partners consist of Icahn Onshore LP, or the Onshore GP, and Icahn Offshore LP, or the Offshore GP. In addition, as referred to herein, the Offshore Master Funds consist of (i) Icahn Partners Master Fund LP, or Offshore Master Fund I, (ii) Icahn Partners Master Fund II L.P., or Offshore Master Fund II, and (iii) Icahn Partners Master Fund III L.P., or Offshore Master Fund III. The Onshore Fund and the Offshore Master Funds are collectively referred to herein as the Investment Funds.

The Offshore GP also acts as general partner of certain funds formed as Cayman Islands exempted limited partnerships that invest in the Offshore Master Funds. These funds, together with other funds that also invest in the Offshore Master Funds, are collectively referred to herein as the Feeder Funds. The Feeder Funds and the Investment Funds are collectively referred to herein as the Private Funds.

We also acquired the general partnership interest in New Icahn Management, a newly formed management company that provides certain management and administrative services to the Private Funds. Prior to the acquisition on August 8, 2007, Icahn Management performed such services. As referred to herein, the term Investment Management and GP Entities includes Icahn Management (for the period prior to the acquisition on August 8, 2007) or New Icahn Management (for the period subsequent to the acquisition on August 8, 2007) and, in either case, the General Partners. The Investment Management and GP Entities provide investment advisory and certain management services to the Private Funds. The Investment Management and GP Entities do not provide investment advisory or other management services to any other entities, individuals or accounts. Interests in the Private Funds are offered only to certain sophisticated and accredited investors on the basis of exemptions from the registration requirements of the federal securities laws and are not publicly available.



The total initial consideration paid for the acquisition was $810 million of our depositary units based on the volume-weighted average price of our depositary units on the New York Stock Exchange. In addition, we have agreed to make certain earn-out payments to the Contributors over a five-year period payable in additional depositary units based on our after-tax earnings from the General Partners and New Icahn Management subsequent to the acquisition, which includes both management fees and performance-based or incentive allocations paid by the Private Funds to New Icahn Management and the General Partners. There is a potential maximum aggregate earn-out (including any catch-up) of $1.121 billion which is subject to achieving total after-tax earnings during the five-year period of at least $3.906 billion.

Pursuant to the Contribution Agreement, CCI Offshore contributed to us 100% of its general partnership interests in the Offshore GP, referred to herein as the Offshore Partnership Interests. In addition, CCI Onshore contributed to us 100% of its general partnership interests in Onshore GP, referred to herein as the Onshore Partnership Interests.

Immediately prior to the execution and delivery of the Contribution Agreement, Icahn Management and New Icahn Management entered into an agreement pursuant to which Icahn Management contributed substantially all of its assets and liabilities, other than certain rights in respect of deferred management fees, to New Icahn Management in exchange for 100% of the general partnership interests in New Icahn Management. Such contribution included the assignment of certain management agreements with the Private Funds. Pursuant to the Contribution Agreement, Icahn Management contributed to us 100% of its general partnership interests in New Icahn Management, referred to herein as the New Icahn Management Partnership Interests. The Onshore Partnership Interests, the Offshore Partnership Interests and the New Icahn Management Partnership Interests are collectively referred to herein as the Partnership Interests.

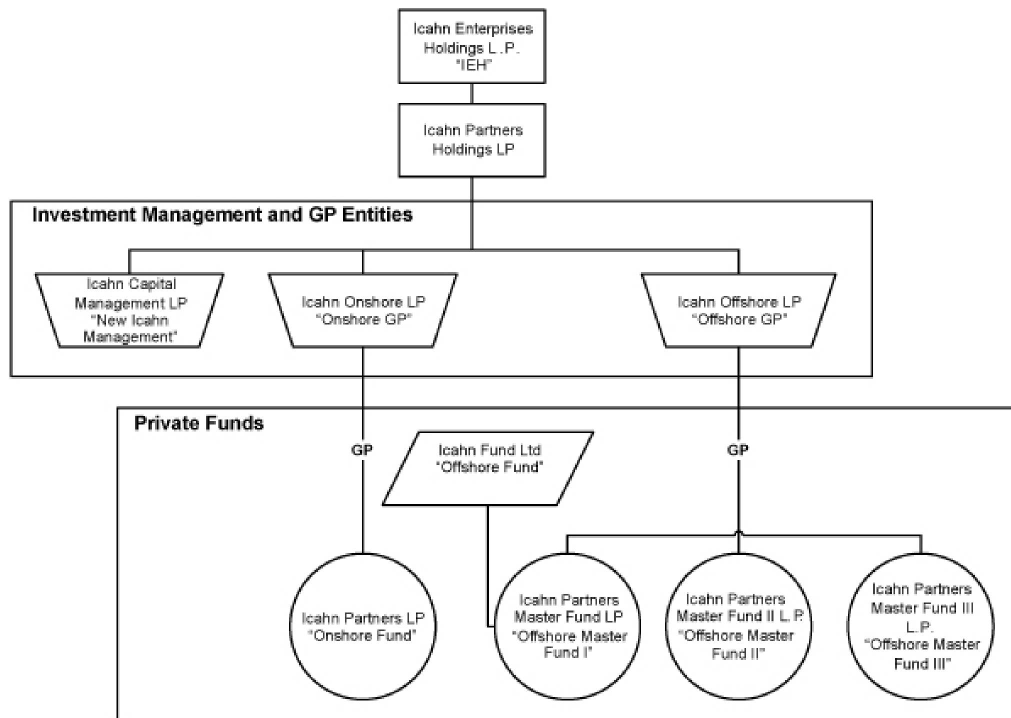
We, along with the Private Funds, also entered into a covered affiliate agreement, simultaneously with the closing of the transactions contemplated by the Contribution Agreement, pursuant to which we (and certain of our subsidiaries) agreed, in general, to be bound by certain restrictions on our investments in any assets that the General Partners deem suitable for the Private Funds, other than government and agency bonds, cash equivalents and investments in non-public companies. We and our subsidiaries will not be restricted from making investments in the securities of certain companies in which Mr. Icahn or companies he controlled had an interest in as of the date of the initial launch of the Private Funds, and companies in which we had an interest as of the date of acquisition on August 8, 2007. We and our subsidiaries, either alone or acting together with a group, will not be restricted from (i) acquiring all or any portion of the assets of any public company in connection with a negotiated transaction or series of related negotiated transactions or (ii) engaging in a negotiated merger transaction with a public company and, pursuant thereto, conducting and completing a tender offer for securities of the company. The terms of the covered affiliate agreement may be amended, modified or waived with our consent and the consent of each of the Private Funds, provided, however, that a majority of the members of an investor committee maintained for certain of the Private Funds may (with our consent) amend, modify or waive any provision of the covered affiliate agreement with respect to any particular transaction or series of related transactions.

We have also entered into an employment agreement with Mr. Icahn pursuant to which, over a five-year term, Mr. Icahn will serve as the Chairman and Chief Executive Officer of New Icahn Management, in addition to his current role as Chairman of Icahn Enterprises. Mr. Icahn also serves as the Chief Executive Officer of the General Partners. During the employment term, we will pay Mr. Icahn an annual base salary of $900,000 and an annual incentive bonus based on a bonus formula with two components. The first component is based on the annual return on assets under management by the Investment Management and GP Entities. The second component of the annual bonus payable by us is tied to the growth in our annual net income (other than income or losses resulting from the operations of the Investment Management and GP Entities).

Fifty percent of all bonus amounts payable by us and New Icahn Management shall be subject to mandatory deferral and treated as though invested in the Private Funds and as though subject to a 2% annual management fee (but no incentive allocation). Such deferred amounts shall be subject to vesting in equal annual installments over a three-year period commencing from the last day of the year giving rise to the bonus. Amounts deferred generally are not subject to acceleration and unvested deferred amounts shall be forfeited if Mr. Icahn ceases to be employed under his employment agreement, provided that all deferred

amounts shall vest in full and be payable in a lump sum payment thereafter if the employment of Mr. Icahn is terminated by us without Cause, Mr. Icahn terminates his employment for Good Reason (as such terms are defined in the employment agreement), or upon Mr. Icahn's death or disability during the employment term. In addition, upon Mr. Icahn's completion of service through the end of the employment term, Mr. Icahn will also vest in full in any mandatory deferrals. Vested deferred amounts (and all deferred returns, earnings and profits thereon) shall be paid to Mr. Icahn within 60 days following the vesting date. Returns on amounts subject to deferral shall also be subject to management fees charged by New Icahn Management.

The diagram below depicts the Investment Management and GP Entities organizational structure immediately following the above-described acquisition(1):




---

(1) This diagram depicts consolidated entities only and does not include certain unconsolidated Feeder Funds.

***Divestitures***

On April 22, 2007, we entered into an agreement to sell our remaining gaming operations. During the fourth quarter of fiscal 2006, we divested our Oil and Gas segment unit and our Atlantic City gaming properties. These segments are discussed as part of our discontinued operations.

***Other Significant Events***

*Terminated Acquisition of Lear Corporation*

On February 9, 2007, we, through a wholly owned subsidiary, entered into an agreement and plan of merger (as amended on July 9, 2007) (referred to as the merger agreement) pursuant to which we would acquire Lear Corporation or Lear, a publicly traded company that provides automotive interior systems worldwide, for an aggregate consideration of approximately $5.2 billion, including the assumption by the surviving



entity of certain outstanding indebtedness of Lear and refinancing of Lear's existing term loan and credit facility. The consummation of the transaction was subject to a shareholder vote.

On July 16, 2007, at Lear's 2007 Annual Meeting of Stockholders, the merger did not receive the affirmative vote of the holders of a majority of the outstanding shares of Lear's common stock. As a result, the merger agreement terminated in accordance with its terms. As required by the merger agreement, in connection with the termination, Lear (i) paid to our subsidiary $12.5 million in cash, (ii) issued to the subsidiary 335,570 shares of Lear's common stock and (iii) increased from 24% to 27% the share ownership limitation under the limited waiver of Section 203 of the Delaware General Corporation Law, or Delaware Law, granted by Lear to us along with affiliates of and funds managed by Carl C. Icahn. In addition, if (1) Lear stockholders enter into a

definitive agreement with respect to an Acquisition Proposal, as defined in the merger agreement, within 12 months after the termination of the merger agreement and such transaction is completed and (2) such Acquisition Proposal has received approval, if required by applicable Law (as defined in the merger agreement), by the affirmative vote or consent of the holders of a majority of the outstanding shares of Lear common stock within such 12-month period, Lear will be required to pay to our subsidiary an amount in cash equal to the Superior Fee, as defined in the merger agreement, less $12.5 million.

In connection with the termination of the merger agreement, the commitment letter, dated as of February 9, 2007, or the commitment letter, by and among our subsidiary, Bank of America, N.A. and Banc of America Securities LLC, also terminated pursuant to its terms. The commitment letter provided for certain credit facilities intended to refinance and replace Lear's existing credit facilities and to fund the transactions contemplated by the merger agreement. See Note 18, "Commitments and Contingencies — Lear Corporation" in our supplemental consolidated financial statements for the nine months ended September 30, 2007 for a discussion of a pending legal proceeding challenging the payment of the break-up fee to us in connection with the termination.

*Settlement of GBH Bankruptcy Proceedings*

On January 30, 2007, the Eighth Modified Chapter 11 Plan of Liquidation, or the Plan, of GB Holdings, Inc., or GBH, was approved. On February 22, 2007, in accordance with the Plan, we acquired (1) all of the Atlantic Coast common stock owned by GBH for a cash payment of approximately $52.0 million and in satisfaction of all claims arising under the Loan and Security Agreement, dated as of July 25, 2005, between GBH and us and (2) all of the warrants to acquire common stock of Atlantic Coast Entertainment Holdings, Inc., or Atlantic Coast, and the Atlantic Coast common stock owned by RSH for a cash payment of $3.7 million. In accordance with the Plan, GBH used the $52.0 million to pay amounts owed to its creditors, including the holders of GBH's 11% notes and holders of administrative claims and to establish an approximate $330,000 fund to be distributed pro rata to holders of equity interests in GBH other than us and other Icahn affiliates. In addition, we and other Icahn affiliates received releases of all direct and derivative claims that could be asserted by GBH, its creditors and stockholders, including RSH, and $50 million of the amount placed in escrow at the closing of the sale of our Atlantic City gaming properties was released to us. We recorded a gain of $18.5 million in the first quarter of fiscal 2007 in connection with the settlement of these claims. All claims relating to GBH asserted by its creditors and RSH have now been resolved. In the second quarter of fiscal 2007, we and several other investors exercised warrants to purchase shares of common stock of Atlantic Coast, resulting in an increase of the minority interest in Atlantic Coast and decrease in our ownership to 94.2%.

*Atlantic Coast Entertainment Holdings, Inc. Merger*

On November 15, 2007, ACE HI Merger Corp., or Merger Corp, our indirect wholly owned subsidiary and the owner of approximately 94.2% of the outstanding shares of Atlantic Coast common stock, completed a short-form merger transaction, or the Merger, under Section 253 of Delaware Law, pursuant to which Merger Corp merged with and into Atlantic Coast and Atlantic Coast became our wholly owned subsidiary. Pursuant to the Merger, the holders of Atlantic Coast common stock (other than Merger Corp) are entitled to receive $21.19 per share in cash in exchange for their shares. Alternatively, by following the procedures set forth under Delaware Law, any of these stockholders who do not wish to accept the $21.19 per share cash consideration are entitled to receive payment in cash of the "fair value" of these shares as determined by an appraisal proceeding by the Delaware Court of Chancery.



Merger Corp will mail Notices of Merger and Appraisal Rights, Letters of Transmittal and other documents necessary for the exchange of stock certificates to stockholders within the time provided by Delaware Law. The Notice of Merger and Appraisal Rights will also provide information for stockholders who choose to exercise their appraisal rights under Delaware Law.

On November 16, 2007 Atlantic Coast filed a Form 15 with the Securities and Exchange Commission, or the SEC, thereby terminating its reporting obligations under the Securities Exchange Act of 1934, as amended, or the '34 Act, and its status as a public company.

*NEGI Liquidation*

On November 12, 2007, the board of directors of National Energy Group, Inc., or NEGI, determined that it is in the best interests of NEGI's shareholders to liquidate all of NEGI's assets and approved the dissolution of NEGI and a plan of dissolution and liquidation, or the Plan, subject to required shareholder approval. NEGI will announce the timing of the shareholder meeting at which approval will be requested and set a record date for the shares entitled to vote at such meeting after the SEC has completed its review of the related proxy materials that NEGI intends to file.

Following shareholder approval of NEGI's dissolution pursuant to the Plan, NEGI expects to carry out an orderly disposition of NEGI's assets and liabilities and then declare a cash distribution to its shareholders. NEGI will then file a Form 15 with the SEC, terminating its reporting obligations under the '34 Act and its status as a public company.

*Declaration of Distribution on Depositary Units*

On February 27, 2007, the Board of Directors approved payment of a quarterly cash distribution of $0.10 per unit on its depositary units payable in the first quarter of fiscal 2007 consistent with the distribution policy established in 2005. The distribution was paid on March 29, 2007 to depositary unitholders of record at the close of business on March 14, 2007.

On May 4, 2007, the Board of Directors approved a $0.05 increase in our quarterly distribution policy and payment of a quarterly cash distribution of $0.15 per unit on our depositary units payable in the second quarter of 2007. The distribution was paid on June 1, 2007 to depositary unitholders of record at the close of business on May 22, 2007. Under the terms of the

indenture dated April 5, 2007 governing our variable rate notes as previously defined, we also made a $0.05 distribution to holders of these notes in accordance with the formula set forth in the indenture.

On August 3, 2007, the Board of Directors approved payment of a quarterly cash distribution of $0.15 per unit on our depositary units payable in the third quarter of 2007 consistent with the distribution policy established in fiscal 2005. The distribution was paid on September 7, 2007 to depositary unitholders of record at the close of business on August 27, 2007. Under the terms of the indenture dated April 5, 2007 governing our variable rate notes, we also made a $0.05 distribution to holders of these notes in accordance with the formula set forth in the indenture.

On November 2, 2007, the Board of Directors approved a quarterly distribution of $0.15 per unit on our depositary units payable in the fourth quarter of 2007. The distribution will be paid on December 3, 2007 to depositary unitholders of record at the close of business on November 19, 2007. Under the terms of the indenture dated April 5, 2007 governing our variable rate notes due 2013, we will also be making a $0.05 distribution to holders of these notes in accordance with the formula set forth in the indenture.

**Results of Operations**

***Overview***

Key factors affecting our financial results and operations for the three months ended September 30, 2007 were:

- The acquisition of the Partnership Interests on August 8, 2007 for an initial consideration of 8,632,679 of our depositary units valued at $810 million;
- An increase in the Investment Management segment's assets under management, or AUM, of $743 million compared to June 30, 2007;



- A loss from our Investment Management segment of approximately $6.2 million due to negative returns of the Private Funds during the period caused by broad, volatile economic and market conditions; and
- The continued restructuring efforts of WestPoint International, Inc., or WPI, including an agreement to sell its inventory at substantially all of WPI's retail stores. WPI recorded an impairment charge of approximately $13.6 million related to this restructuring effort.

Key factors affecting our financial results for the nine months ended September 30, 2007 were:

- The acquisition of the Partnership Interests on August 8, 2007 for an initial consideration of 8,632,679 of our depositary units valued at $810 million;
- An increase in the Investment Management segment's AUM of $3.1 billion compared to December 31, 2006;
- The issuance of $500 million of additional 7.125% senior unsecured notes in January 2007;
- The issuance of $600 million of variable rate senior convertible notes in April 2007;
- The sale of our position in common stock of SandRidge Energy, Inc. for total cash consideration of $243.2 million on April 4, 2007; and
- The settlement of litigation related to GBH in February 2007.

Other key factors include the following:

- Subsequent to September 30, 2007, we acquired PSC Metals for cash consideration of $335 million. PSC Metals is considered a company under common control. Accordingly, the accompanying supplemental consolidated financial statements and footnotes include the assets and operations of PSC Metals for all periods presented.

A summary of the significant events that occurred in 2006 is as follows:

- The sale of our Oil and Gas operating unit and our Atlantic City gaming properties in November 2006, resulting in a gain of approximately $663.7 million;
- Enhancement of our liquidity: our total Holding Company cash and investments as of December 31, 2006 increased to approximately $2.6 billion, as compared to $1.3 billion as of December 31, 2005, resulting primarily from the proceeds from the sale of our Oil and Gas and Atlantic City gaming properties;
- Execution of a credit agreement providing for additional borrowings by Icahn Enterprises of up to $150.0 million. As of September 30, 2007 there were no borrowings under the facility;
- The acquisition of the Aquarius Casino Resort in Laughlin, Nevada in May 2006; and
- Increase in our investment in WPI through the purchase of $200.0 million of preferred stock, the proceeds of which, in part, WPI used to acquire a manufacturing facility in Bahrain.

Key factors affecting the financial results for the year ended December 31, 2006 versus 2005 were:

- Reclassifying the financial results of our former Oil and Gas operating unit and Atlantic City gaming properties to discontinued operations as a result of the sale of those businesses in the fourth quarter of 2006. These sales resulted in a gain of $663.7 million. Gains on sales of assets from the sales and disposition of real estate were $12.7 million and $21.8 million for 2006 and 2005, respectively;
- Increased income from continuing operations of $175.1 million from our Investment Management segment primarily due to the performance of the Private Funds and increased AUM;
- Increased income from continuing operations of $27.3 million from our Metals segment, primarily due to higher metals prices and higher recycled volumes;



- Increased income from continuing operations of $10.0 million from our Real Estate segment, attributable primarily to $36.1 million of sales at our New Seabury, Massachusetts property;
- Increased loss from continuing operations of $64.5 million from our Home Fashion segment, of which $44.0 million relates to restructuring costs consisting primarily of impairment charges in connection with the closing of plants, the effect of which on net earnings was offset in part by the $56.4 million increase in the minority interests' share in WPI's losses;
- Net realized and unrealized gains on investments of $91.3 million in 2006 compared to net realized and unrealized losses on investments of $21.3 million in 2005 in our Holding Company and other operations; and
- Recording $56.4 million of income tax benefits in 2006 as a result of the reversal of deferred tax valuation allowances for our Metals segment, our former Oil and Gas operating unit and Atlantic City gaming properties.

Key factors affecting the financial results for the year ended December 31, 2005 versus 2004 were:

- Income from continuing operations decreased by $101.6 million, principally due to a decrease in earnings from the Metals segment of $75.7 million due to lower volumes and margins on ferrous metals and an increase in loss from the Holding Company segment attributable to net losses on securities of $21.3 million in 2005 versus gains of $16.5 million in 2004. Additionally, Holding Company segment interest expense increased by $43.5 million due to higher debt levels. This loss was offset by an increase in income from continuing operations of the Investment Management segment of $73.2 million. The Investment Management segment revenues in 2005 comprise 12 months of financial results compared to two months of financial results in 2004. The Private Funds were launched on November 1, 2004; and
- Income from discontinued operations decreased $80.8 million resulting from reduced gains on sales of properties and impairment charges of $52.4 million in connection with the bankruptcy of GBH.

**Consolidated Financial Results**

***Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006***

Total revenues for the third quarter of 2007 decreased by approximately $284.7 million, or 40.8%, as compared to the third quarter of 2006. The decrease was primarily due to lower Investment Management revenues of approximately $306.6 million in the third quarter of 2007 compared to the third quarter of 2006 resulting from the negative performance of the Private Funds during the 2007 period. Performance was affected by volatile market conditions. Included in this variance is a reduction of Home Fashion segment revenues of approximately $39.7 million, or 17.8%, caused by WPI's continuing efforts to reduce revenues from less profitable programs and a weaker retail sales environment. This reduction was partially offset by an increase in interest and other income of approximately $31.2 million and an increase in Metals segment revenues of $19.7 million. Interest and other income increased due to higher cash balances from the issuance of $500 million of additional 7.125% senior unsecured notes in January 2007 and $600 million of variable rate senior convertible notes in April 2007. The increase in Metals segment revenues was primarily attributable to an increase in ferrous revenues generated by both the increase in average selling price of ferrous scrap and the increase in volume of shipped ferrous production.

Total expenses for the third quarter of 2007 increased by $16.1 million, or 3.3%, as compared to the third quarter of 2006. The increase was primarily due to a $19.0 million, or 11.1%, increase in Metal segment expenses, an $8.9 million, or 216.7%, increase in Holding Company expenses and a $14.2 million, or 63.7%, increase in interest expense. These increases were partially offset by a decrease in Home Fashion segment expenses of $25.8 million. The $19.0 million increase in Metals segment expenses is due to higher metal prices and volume. Holding Company expenses increased $8.9 million attributable to legal expenses related to the acquisition of the Partnership Interests on August 8, 2007. The $14.2 million increase in interest expense for the third quarter of 2007 includes interest on the $500 million of additional 7.125% senior unsecured notes issued in January 2007 as well as $600 million of variable senior convertible notes issued in April 2007.



Income from continuing operations decreased by $58.7 million, or 91.7%, for the third quarter of 2007 as compared to the third quarter of 2006. The decrease was primarily due to an overall reduction in earnings from all of our segments, except for our Metals segment which was essentially unchanged, and was primarily due to weaker economic and market conditions in the third

quarter of 2007 compared to third quarter of 2006.

***Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006***

Total revenues for the first nine months of 2007 increased by approximately $71.8 million, or 3.5%, as compared to the first nine months of 2006. Included in this overall increase is increased Investment Management segment revenues of approximately $77.9 million, resulting from the positive performance and higher AUM of the Private Funds during the first six months of 2007, offset in part by poor investment performance in the third quarter as a result of adverse market conditions, an increase in the Holding Company's interest and other income of approximately $80.5 million due to higher cash balances from the issuance of $500 million of additional 7.125% senior unsecured notes in January 2007 and $600 million of variable rate senior convertible notes in April 2007 and an increase in Metals segment revenues of $66.1 million. The increase in Metals segment revenues was primarily due to the increase in ferrous revenues generated by both an increase in average selling price of ferrous scrap and an increased volume of shipped ferrous production.

These increases were partially offset by a decrease in Home Fashion segment revenues of approximately $141.2 million, or 21.0%, caused by WPI's continuing efforts to reduce revenues from less profitable programs and a weaker retail sales environment, and a reduction in Real Estate segment revenues of approximately $17.7 million, representing a 17.5% decline, primarily caused by the current residential slowdown of real estate development sales and decreased rental renewal rates at certain commercial properties.

Total expenses for the first nine months of 2007 increased $24.8 million, or 1.7%, as compared to the first nine months of 2006 as a decrease in Home Fashion segment expenses of $121.4 million, or 15.6%, was offset by increases in the expenses of Investment Management of $37.3 million, or 81.9%; the Metals segment of $72.9 million, or 14.0%, and interest expense of $35.3 million, or 55.3%. The $121.3 million decrease in Home Fashion expenses is due to lower revenues and cost reductions. Expenses in our Metals segment increased $72.9 million during the period due to higher metals prices and higher volume. The $35.3 million increase in interest expense for the first nine months of 2007 was caused by additional interest from the issuance of $500 million of additional 7.125% senior unsecured notes in January 2007 as well as $600 million of variable senior convertible notes in April 2007.

Income from continuing operations increased by $33.6 million, or 16.9%, for the first nine months of 2007 compared to the first nine months of 2006. The increase results primarily from increased Investment Management segment earnings of $43.5 million resulting from the positive performance and higher AUM, offset in part by the negative performance of the Private Funds during the third quarter of 2007 caused by broad volatile economic and market conditions. The overall increase in income from continuing operations was partially offset by a decrease in earnings in the Home Fashion, Real Estate and Metals segments in the first nine months of 2007 compared to the first nine months of 2006. The decrease in Home Fashion earnings for the first nine months of 2007 was primarily attributable to WPI's continuing efforts to reduce revenues from less profitable programs and a weaker retail sales environment. The decrease in Real Estate earnings for the first nine months of 2007 was primarily due to the slowdown in residential real estate sales and decreased rental renewal rates at certain commercial properties. The decrease in Metals' segment earnings was due to increased general and administrative expenses due primarily to costs incurred to comply with Section 404 of the Sarbanes-Oxley Act, or SOX. PSC Metals will be required to comply with SOX subsequent to our acquisition of PSC Metals on November 5, 2007.

***Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005***

Total revenues for 2006 increased by $1.5 billion, or 97%, as compared to 2005. The increase was primarily due to higher Investment Management segment revenues of $751.4 million compared to 2005 resulting from the positive performance of the Private Funds during the period. This increase also reflects the inclusion of WPI, comprising our Home Fashion segment, which we acquired in August 2005, for the entire year in 2006. Increases in revenues were also recorded in our Metals segment ($109.1 million), our Real Estate segment ($34.2 million) and net gains on investment activities from our Holding Company and other operations ($112.6 million).



Total expenses for 2006 increased $768.8 million, or 62.5%, as compared to 2005. The increase was primarily due to the inclusion of the Home Fashion segment, which we acquired in August 2005, for the entire year in 2006. Of the $768.8 million increase in 2006 compared to 2005, $572.1 was due to the inclusion of our Home Fashion segment. Expenses in our Metals segment increased by $97.3 million due to higher metals prices and an increase in volumes.

Income from continuing operations for 2006 increased $256.9 million, or 491.3%, as compared to 2005. The increase was primarily due to higher income from the Investment Management segment of $175.1 million, primarily due to positive performance of the Private Funds and higher AUM compared to 2005. The Holding Company contributed $108.5 million to this increase primarily from an increase in the net gains from investment activities compared to 2005. The Metals segment contributed $27.3 million to the increase due to increased metals volumes and increases in metals prices. The overall increase in 2006 was partially offset by losses incurred by the Home Fashion segment compared to 2005.

***Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004***

Total revenues for 2005 increased by $672.3 million, or 78.9%, as compared to 2004. The increase was primarily due to higher Investment Management segment revenues of $290.8 million resulting from the performance of the Private Funds and higher AUM compared to 2004. The increase also reflects the inclusion of our Investment Management segment, which commenced operations on November 1, 2004, for the entire year in 2006. The increase in total revenues also includes the Home Fashion

segment revenues of $441.8 million, which we acquired in August 2005. The increase in revenues was partially offset by a decrease in our Metals segment revenues of $59.2 million due to lower volumes and lower prices of ferrous metals.

Total expenses for 2005 increased $560.6 million, or 83.8%, as compared to 2004. The increase was primarily due to the inclusion of the Home Fashion segment, which we acquired in August 2005.

Income from continuing operations for 2005 decreased $101.6 million, or 66.0%, as compared to 2004. The decrease was primarily due to a decrease in earnings from the Metals segment of $75.7 million due to lower volumes and margins on ferrous metals and higher Holding Company interest expense of $43.5 million resulting from the issuance of additional debt in February 2005 of $480.0 million principal amount of 7.125% senior notes due 2013. The decrease was partially offset by an increase in income from continuing operations of the Investment Management segment of $73.2 million. The Investment Management segment revenues in 2005 comprise 12 months of financial results compared to two months of financial results in 2004. The Private Funds were launched on November 1, 2004.

**Investment Management**

***Overview***

The Investment Management and GP Entities provide investment advisory and certain management services to the Private Funds. The Investment Management and GP Entities do not provide investment advisory or other management services to any other entities, individuals or accounts, and interests in the Private Funds are offered only to certain sophisticated and accredited investors on the basis of exemptions from the registration requirements of the federal securities laws and are not publicly available.

The Private Funds pursue a value-oriented activist investment philosophy. Although Mr. Icahn has been a long-time activist investor, since 1987, Mr. Icahn has not managed a pool of capital raised from outside investors until the Private Funds were launched on November 1, 2004. The Private Funds invest across a variety of industries and types of securities, including long and short equities, long and short bonds, bank debt and other corporate obligations, risk arbitrage and capital structure arbitrage and other special situations. The Private Funds invest a material portion of their capital in publicly traded equity and debt securities of companies that the General Partners believe to be undervalued by the marketplace. The Private Funds sometimes take significant positions in the companies in which they invest.

The Investment Management and GP Entities generate income from amounts earned pursuant to contractual arrangements with the Private Funds. Such amounts typically include an annual management fee of 2.5% of the net asset value of fee-paying capital in the Private Funds before a performance-based, or incentive, allocation of 25% of the net profits earned by the Private Funds subject to a “high water mark” (whereby the



Investment Management and GP Entities do not earn incentive allocations during a particular year even though the fund had a positive return in such year until losses in prior periods are recovered). The Investment Management and GP Entities may modify or waive such amounts in certain circumstances where (a) an investor has reduced fees based on the amount invested and related lock-up periods or (b) investments are made by Mr. Icahn or his affiliates. The Investment Management and GP Entities and their affiliates may also earn income through their principal investments in the Private Funds. All of the management fees earned from consolidated entities by New Icahn Management (and, prior to the acquisition of the Partnership Interests on August 8, 2007, by Icahn Management) and the incentive allocations earned by the Onshore GP and the Offshore GP from the Onshore Fund and the Offshore Master Funds, respectively, are eliminated in consolidation; however, the Investment Management and GP Entities’ share of the net income from the Private Funds includes the amount of these eliminated fees. Any management fees earned from unconsolidated Private Funds are recorded and reflected separately on the supplemental consolidated statements of operations.

Our results are primarily driven by the combination of the Private Funds’ AUM and the investment performance of the Private Funds. As AUM increases, management fee revenues generally increase in tandem because New Icahn Management charges management fees based on the net asset value of fee-paying capital in the Private Funds, generally at the beginning of each quarter. Incentive allocations are determined based on the aggregate amount of net profits earned by the Private Funds. Incentive allocations are influenced by the investment performance of the Private Funds, which is a principal determinant of the long-term success of the investment management operations because it enables AUM to be increased through retention of fund profits and by making it possible to attract new investment capital and minimize redemptions by Private Fund investors.

**AUM and Fund Performance**

***Three and Nine Month Periods Ended September 30, 2007 and 2006***

The table below reflects changes to AUM for the three and nine months ended September 30, 2007 and 2006. The end of period balances represent total AUM, including deferred management fees and incentive allocations and our own investments in the funds as well as investments of other affiliated parties who have not been charged management fees or incentive allocations for the periods presented (in $000s).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Balance, beginning of period | $6,361,407 | $3,153,985 | $4,019,993 | $ 2,646,652 |
| Net in-flows | 848,411 | 81,597 | 2,468,035 | 219,760 |
| Appreciation (depreciation) | (105,453) | 212,202 | 616,337 | 581,372 |

| | | | | |
|---|---|---|---|---|
| Balance, end of period | $7,104,365 | $3,447,784 | $7,104,365 | $ 3,447,784 |
| Fee-Paying AUM | $5,138,328 | $2,790,580 | $5,138,328 | $ 2,790,580 |

In addition, investors are contractually committed to invest $286.2 million in the Private Funds, of which $145.1 million is fee-paying, and $141.1 million is from affiliated parties and not subject to management fees or incentive allocations.



The following table sets forth performance information for the Private Funds that were in existence for the comparative periods presented. These gross returns represent a weighted average composite of the average gross returns, net of expenses for the Private Funds.

| | Gross Return[1] for the Three Months Ended September 30, | | Gross Return[1] for the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Private Funds | -1.5 % | 6.7 % | 13.8 % | 21.6 % |

(1) These preliminary returns are indicative of a typical investor who has been invested since inception of the funds. The performance information is presented gross of management fees but net of expenses. Performance for 2007 is estimated and unaudited. Past performance is not necessarily indicative of future results.

Aggregate performance for the nine months ended September 30, 2007 was impacted, especially during the first six months of 2007, by strong U.S. equity and credit markets, as well as robust corporate profits. During the middle of the third quarter of 2007, global equity markets experienced significant volatility as a result of disruptions in the credit markets. Significant declines in the U.S. sub-prime market began to impact the broader mortgage market as well as corporate and asset-backed credit markets.

Our profits for 2007 were largely driven by our equity positions in biotechnology and energy as well as our credit sector shorts. Profits were somewhat mitigated by energy market hedges and a long equity position in real estate. In the third quarter of 2007, the aggregate gross performance of -1.5% was impacted by volatile market conditions as well as equity positions related to consumer, real estate and financial sectors that represented losses for the quarter. This has been our only negative quarter since inception.

Since inception, the Private Funds' gross returns are 95.2%, representing an annualized rate of return of 25.8% through September 30, 2007. These returns have been the result of bottom-up security selection, largely driven by our core activist equity positions.

***Years Ended December 31, 2006, 2005 and the Period from November 1, 2004 (Inception) Through December 31, 2004***

The table below reflects changes to AUM for the years ended December 31, 2006 and 2005 and from November 1, 2004 (inception) through December 31, 2004. The end of period balances represent total AUM, including deferred management fees and incentive allocations and our own investments in the funds as well as investments of other affiliated parties who have not been charged management fees or incentive allocations for the periods presented (in $000s).

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Balance, beginning of period | $2,646,652 | $1,166,578 | $ — |
| Net in-flows | 332,173 | 1,150,158 | 1,106,340 |
| Appreciation | 1,041,168 | 329,916 | 60,238 |
| Balance, end of period | $4,019,993 | $2,646,652 | $ 1,166,578 |
| Fee-paying AUM | $3,193,415 | $2,136,354 | $ 821,765 |



The following table sets forth performance information for the Private Funds that were in existence for the comparative periods presented. These gross returns represent a weighted average composite of the average gross returns, net of expenses for the Private Funds.

| | Gross Return [1] for the Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004[2] |
| Private Funds | 37.8% | 17.9% | 5.6% |

(1) These returns are indicative of a typical investor who has been invested since inception of the funds. The performance information is presented gross of management fees but net of expenses. Past performance is not necessarily indicative of future results.

(2) Performance for 2004 is for the period from November 1, 2004 (inception) through December 31, 2004.

Our aggregate gross performance of 37.8% for 2006 was driven by a few core activist positions as well as strong U.S. equity and credit markets. Investments in five positions – Time Warner, Kerr McGee, Lear Corporation, Cigna and KT&G – were the main drivers of our performance, contributing over 62% of our total profits. Profits were somewhat mitigated by hedge positions in energy and shorts against a few long hotel and retail positions. Volatility was reduced as a result, as is our intent with these short positions.

Gross performance for 2005 of 17.9% was lower than in 2006 as we were in the process of investing the Private Funds. In addition, equity market returns were less robust in 2005 compared to 2006. Returns for the Private Funds were largely driven by our investments in Kerr McGee, Fairmont Hotels and Temple Inland. (We had a large position in Time Warner during 2005, however, which slightly detracted from performance). Our investment in Blockbuster detracted from our overall performance.

Since inception, the Private Funds' gross returns are 71.5%, representing an annualized rate of return of 28.3% through December 31, 2006. These returns have been the result of bottom-up security selection, largely driven by our core activist equity positions.

**Operating Results**

We consolidate certain of the Private Funds into our results. Accordingly, in accordance with U.S. GAAP, all management fees, incentive allocations and earnings on investments in the Private Funds are eliminated in consolidation. These eliminations had no impact on our net income, however, our allocated share of the net income from the Private Funds includes the amount of these eliminated fees.

The tables below provide a reconciliation of the unconsolidated revenues and expenses of the Investment Management and GP Entities to the consolidated U.S. GAAP revenues and expenses. The first column represents the results of operations of the Investment Management and GP Entities without the impact of consolidating the Private Funds or the eliminations arising from the consolidation of these funds. This includes the gross amount of management fees, incentive allocations and returns on investments in the Private Funds that is attributable to Icahn Enterprises only. The second column represents the total consolidated income and expenses of the Private Funds for all investors, including Icahn Enterprises, before eliminations. The third column represents the eliminations required in order to arrive at our consolidated U.S. GAAP reported income for the sector.



Summarized income statement information on a deconsolidated basis and on a U.S. GAAP basis for the three and nine months ended September 30, 2007 and 2006 are as follows (in $000s):

| | For the Three Months Ended September 30, 2007 | | | | For the Three Months Ended September 30, 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income |
| Revenues: | | | | | | | | |
| Management fees | $ 29,685 | $ — | $ (25,567 ) | $ 4,118 | $ 20,474 | $ — | $ (20,474 ) | $ — |
| Incentive allocations | (25,787) | — | 25,787 | — | 38,921 | — | (38,921) | — |
| Net gain (loss) from investment activities | (5,367) | (133,652) | 5,367 | (133,652) | 5,199 | 209,288 | (5,199) | 209,288 |
| Interest, dividends and other income | 98 | 51,023 | — | 51,121 | 95 | 18,816 | — | 18,911 |
| | (1,371) | (82,629) | 5,587 | (78,413) | 64,689 | 228,104 | (64,594) | 228,199 |
| Costs and expenses | 7,177 | 9,135 | — | 16,312 | 8,256 | 8,337 | — | 16,593 |
| Interest expense | — | 4,141 | — | 4,141 | — | 2,178 | — | 2,178 |
| Income (loss) from continuing operations before income taxes and non-controlling interests | (8,548) | (95,905) | 5,587 | (98,866) | 56,433 | 217,589 | (64,594) | 209,428 |
| Income tax expense | (1,571) | — | — | (1,571) | (398) | — | — | (398) |
| Non-controlling interests in (income) loss of consolidated entities | — | 90,318 | 3,958 | 94,276 | — | (152,995) | — | (152,995) |
| Income (loss) from continuing operations | $ (10,119) | $ (5,587) | $ 9,545 | $ (6,161) | $ 56,035 | $ 64,594 | $ (64,594) | $ 56,035 |



| | For the Nine Months Ended September 30, 2007 | | | | For the Nine Months Ended September 30, 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income |
| Revenues: | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Management fees | $ 95,529 | $ — | $(88,035 ) | $ 7,494 | $ 54,401 | $ — | $(54,401 ) | $ — |
| Incentive allocations | 94,722 | — | (94,722) | — | 104,608 | — | (104,608) | — |
| Net gain from investment activities | 37,529 | 554,223 | (37,529) | 554,223 | 14,753 | 571,774 | (14,753) | 571,774 |
| Interest, dividends and other income | 405 | 132,640 | — | 133,045 | 221 | 44,894 | — | 45,115 |
| | 228,185 | 686,863 | (220,286 ) | 694,762 | 173,983 | 616,668 | (173,762) | 616,889 |
| Costs and expenses | 37,557 | 31,691 | — | 69,248 | 25,031 | 13,785 | — | 38,816 |
| Interest expense | — | 13,686 | — | 13,686 | — | 6,784 | — | 6,784 |
| Income from continuing operations before income taxes and non-controlling interests | 190,628 | 641,486 | (220,286) | 611,828 | 148,952 | 596,099 | (173,762) | 571,289 |
| Income tax expense | (3,175) | — | — | (3,175) | (1,076) | — | — | (1,076) |
| Non-controlling interests in income of consolidated entities | — | (421,200) | 3,958 | (417,242) | — | (422,337) | — | (422,337) |
| Income from continuing operations | $ 187,453 | $ 220,286 | $(216,328) | $ 191,411 | $ 147,876 | $ 173,762 | $(173,762) | $ 147,876 |

***Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006***

*Revenues*

Management fees increased by $9.2 million, or 45%, to $29.7 million for the three months ended September 30, 2007 from $20.5 million for the comparable period in 2006. The increase was attributable to increases in fee-paying AUM as noted above.

Incentive allocations decreased by $64.7 million, or 166%, to a loss of $25.8 million for the three months ended September 30, 2007, compared to income of $38.9 million for the comparable period in 2006. This decrease relates to the negative performance of the Private Funds during the period as a result of the economic and market factors discussed above. The General Partners' incentive allocations earned from the Private Funds are accrued on a quarterly basis and are allocated to the Onshore GP and the Offshore GP, respectively, at the end of the Private Funds' fiscal year (or sooner on redemptions). As a result of the decline in performance, $27.2 million of such accruals were reversed in the third quarter of 2007 as a result of losses in such period. These reversals were partially offset by incentive allocations of $1.4 million which were earned in certain Private Funds.

The net loss of $5.4 million incurred by the Investment Management and GP Entities from their investments in affiliates during the third quarter of 2007 represents the decline in the value, both realized and unrealized, of their investments from the Private Funds. This decrease relates to the negative performance of the Private Funds during the period relating to the economic and market factors discussed above.

Net realized and unrealized losses incurred by the Private Funds on investments and derivative contracts were $133.7 million for the three months ended September 30, 2007, as compared to net realized and unrealized gains on investment activities of $209.3 million for the comparable period in 2006. This decrease relates to the negative performance of the funds during the three months ended September 30, 2007 as a result of the economic and market factors discussed above.



Interest, dividends and other income increased by $32.2 million, or 171%, to $51.1 million for the three months ended September 30, 2007, compared to $18.9 million for the comparable period in 2006. The increase was attributable to increases in AUM and the amounts invested in interest and dividend-paying investments.

*Costs and Expenses*

Investment Management and GP Entities' costs and expenses decreased by $1.1 million, or 13%, to $7.2 million for the three months ended September 30, 2007, compared to $8.3 million for the comparable period in 2006. This decrease is attributable to lower shareholder action expenses and a decrease in compensation expense for the period.

Private Funds' costs and expenses increased by $2.8 million, or 26%, to $13.3 million for the three months ended September 30, 2007, compared to $10.5 million for the comparable period in 2006. This increase is attributable to interest and dividend expense relating to securities sold, not yet purchased and an increase in fees paid to our administrator, which are based on AUM.

*Non-Controlling Interests*

Non-controlling interests in loss (income) of the Private Funds were $94.3 million for the three months ended September 30, 2007, as compared to $(153.0) million for the comparable period in 2006. This decrease relates to the negative performance of the funds during the comparable period in 2007 relating to the economic and market factors discussed above.

***Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006***

*Revenues*

Management fees increased by $41.1 million, or 76%, to $95.5 million for the nine months ended September 30, 2007 from

$54.4 million for the comparable period in 2006. The increase was attributable to increased AUM due to both net capital inflows and capital appreciation.

Incentive allocations decreased by $9.9 million, or 9%, to $94.7 million for the nine months ended September 30, 2007, compared to $104.6 million for the comparable period in 2006. This decrease relates to the decline in performance of the Private Funds during third quarter of 2007 which was partially offset by increasing AUM.

The gain in investment activities of $37.5 million earned by the Investment Management and GP Entities during the nine months ended September 30, 2007 reflects the increase in the General Partners' investment in the Private Funds as a result of earned incentive allocations and the return on the General Partners' investment.

Net realized and unrealized gains of the Private Funds on investment activities were $554.2 million for the nine months ended September 30, 2007, compared to $571.8 million for the comparable period in 2006. This decrease relates to the decline in performance of the Private Funds during the nine months ended September 30, 2007 relating to the economic and market factors discussed above but partially offset by increased AUM and stronger investment performance during the first six months of 2007.

Interest, dividends and other income increased by $87.9 million, or 195%, to $133.0 million for the nine months ended September 30, 2007, compared to $45.1 million for the comparable period in 2006. The increase was attributable to increases in AUM and the amounts invested in interest and dividend-paying investments.

*Costs and Expenses*

Investment Management and GP Entities' costs and expenses increased by $12.6 million, or 50%, to $37.6 million for the nine months ended September 30, 2007, compared to $25.0 million for the comparable period in 2006. This increase is primarily a result of compensation awards relating to earned incentive and the return thereon.

Private Funds' costs and expenses increased by $24.8 million, or 121%, to $45.4 million for the nine months ended September 30, 2007, compared to $20.6 million for the comparable period in 2006. This



increase is primarily attributable to interest and dividend expense relating to securities sold, not yet purchased and an increase in fees paid to our administrator which are based on AUM.

*Non-Controlling Interests*

Non-controlling interests in income of consolidated subsidiaries were $417.2 million for the nine months ended September 30, 2007, as compared to $422.3 million for the comparable period in 2006. This decline was due to the decline in performance of the Private Funds during the nine months ended September 30, 2007 as discussed above, partially offset by increased AUM and stronger investment performance during the first six months of 2007.

Summarized income statement information on a deconsolidated basis and on a U.S. GAAP basis for the years ended December 31, 2006, 2005 and November 1, 2004 (inception) is as follows ($000s):

| | For the Year Ended December 31, 2006 | | | |
|---|---|---|---|---|
| | **Investment Management and GP Entities** | **Consolidated Private Funds** | **Eliminations** | **Total U.S. GAAP Reported Income** |
| Revenues: | | | | |
| Management fees | $ 82,415 | $ — | $ (82,415) | $ — |
| Incentive allocations | 190,478 | — | (190,478) | — |
| Net gain from investment activities | 25,822 | 1,030,740 | (25,822) | 1,030,740 |
| Interest, dividends and other income | 345 | 73,218 | — | 73,563 |
| | 299,060 | 1,103,958 | (298,715) | 1,104,303 |
| Costs and expenses | 37,629 | 32,205 | — | 69,834 |
| Interest expense | — | 9,901 | — | 9,901 |
| Income from continuing operations before income taxes and non-controlling interests | 261,431 | 1,061,852 | (298,715) | 1,024,568 |
| Income tax expense | (1,763) | — | — | (1,763) |
| Non-controlling interests in income of consolidated entities | — | (763,137) | — | (763,137) |
| Income from continuing operations | $ 259,668 | $ 298,715 | $(298,715) | $ 259,668 |



| For the Year Ended December 31, 2005 | | | |
|---|---|---|---|
| **Investment Management and GP Entities** | **Consolidated Private Funds** | **Eliminations** | **Total U.S. GAAP Reported Income** |

| | | | | |
|---|---|---|---|---|
| Revenues: | | | | |
| Management fees | $ 44,201 | $ — | $ (44,201) | $ — |
| Incentive allocations | 57,302 | — | (57,302) | — |
| Net gain from investment activities | 1,887 | 305,440 | (1,887) | 305,440 |
| Interest, dividends and other income | 168 | 47,268 | — | 47,436 |
| | 103,558 | 352,708 | (103,390) | 352,876 |
| Costs and expenses | 18,093 | 7,914 | — | 26,007 |
| Interest expense | — | 43 | — | 43 |
| Income from continuing operations before income taxes and non-controlling interests | 85,465 | 344,751 | (103,390) | 326,826 |
| Income tax expense | (890) | — | — | (890) |
| Non-controlling interests in income of consolidated entities | — | (241,361) | — | (241,361) |
| Income from continuing operations | $ 84,575 | $ 103,390 | $(103,390) | $ 84,575 |

| | November 1, 2004 Through December 31, 2004 | | | |
|---|---|---|---|---|
| | Investment Management and GP Entities | Consolidated Private Funds | Eliminations | Total U.S. GAAP Reported Income |
| Revenues: | | | | |
| Management fees | $ 3,198 | $ — | $ (3,198) | $ — |
| Incentive allocations | 9,661 | — | (9,661) | — |
| Net gain from investment activities | 57 | 59,254 | (57) | 59,254 |
| Interest, dividends and other income | — | 2,846 | — | 2,846 |
| | 12,916 | 62,100 | (12,916) | 62,100 |
| Costs and expenses | 1,441 | 463 | — | 1,904 |
| Interest expense | — | 72 | — | 72 |
| Income from continuing operations before income taxes and non-controlling interests | 11,475 | 61,565 | (12,916) | 60,124 |
| Income tax expense | (81) | — | — | (81) |
| Non-controlling interests in income of consolidated entities | — | (48,649) | — | (48,649) |
| Income from continuing operations | $ 11,394 | $ 12,916 | $ (12,916) | $ 11,394 |

***Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005***

***Revenues***

Management fees increased by $38.2 million, or 86.5%, to $82.4 million for the 12 months ended December 31, 2006, from $44.2 million for the comparable period in 2005. The increase was attributable to increases in fee-paying AUM as noted above.

Incentive allocations increased by $133.2 million, or 232%, to $190.5 million for the 12 months ended December 31, 2006, compared to $57.3 million for the comparable period in 2005. This increase relates to the positive performance of the Private Funds during the period as a result of the economic and market factors discussed above, as well as an increase in fee-paying AUM. The General Partners' incentive allocations earned from the Private Funds are accrued on a quarterly basis and are allocated to the Onshore GP and the Offshore GP, respectively, at the end of the Private Funds' fiscal year (or sooner on redemptions).



The net gain of $25.8 million, an increase of $23.9 million, or 1,268%, for 2006 compared to the comparable prior year period, earned by the Investment Management and GP Entities from their investments in affiliates represents the increase in the value, both realized and unrealized, of their investments in the Private Funds. This increase relates to the positive performance of the Private Funds during the period relating to the economic and market factors discussed above.

Net realized and unrealized gains earned by the Private Funds on investments and derivative contracts were $1.0 billion for the 12 months ended December 31, 2006, as compared to net realized and unrealized gains on investment activities of $305.4 million for the comparable period in 2005. This increase relates to the positive performance of the Private Funds during the 12 months ended December 31, 2006 as a result of the economic and market factors discussed above.

Interest, dividends and other income increased by $26.1 million, or 55.1%, to $73.2 million for the 12 months ended December 31, 2006, compared to $47.4 million for the comparable period in 2005. The increase was attributable to increases in AUM and the amounts invested in interest and dividend-paying investments.

***Costs and Expenses***

Investment Management and GP Entities' costs and expenses increased by $19.5 million, or 108.0%, to $37.6 million for the 12 months ended December 31, 2006, compared to $18.1 million for the comparable period in 2005. This increase was primarily due to increased compensation expense, much of which is determined by the performance of the Private Funds.

Private Funds' total costs and expenses increased by $24.3 million, or 307.6%, to $32.2 million for the 12 months ended December 31, 2006, compared to $7.9 million for the comparable period in 2005. This increase is attributable to interest and dividend expense relating to securities sold, not yet purchased and an increase in fees paid to our administrator, which are based

on AUM.

***Non-Controlling Interests***

Non-controlling interests in income of the Private Funds were $763.1 million for the 12 months ended December 31, 2007, as compared to $241.4 million for the comparable period in 2005. This increase relates to the positive performance of the Private Funds during 2006 relating to the economic and market factors discussed above.

***Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004***

The Private Funds were launched on November 1, 2004. Because management, discussion and analysis comparing the 12 months ended December 31, 2005 and the two months ended December 31, 2004 for the Private Funds would not be meaningful, no such management, discussion or analysis is presented comparing these two periods.

***Holding Company and Other Operations***

***Metals***

Our Metals segment is conducted through our indirect, wholly owned subsidiary, PSC Metals. PSC Metals is principally engaged in the business of collecting and processing ferrous (iron-bearing metals) and non-ferrous metals, as well as the marketing of secondary products. PSC Metals collects industrial and obsolete scrap metal, processes it into reusable forms and supplies the recycled metals to its customers including electric-arc furnace mills, integrated steel mills, foundries, secondary smelters and metals brokers. PSC Metals' ferrous products include shredded, sheared and bundled scrap metal and other purchased scrap metal such as turnings (steel machining fragments), cast furnace iron and broken furnace iron. PSC Metals also processes non-ferrous metals including aluminum, copper, brass, stainless steel and nickel-bearing metals. Non-ferrous products are a significant raw material in the production of aluminum and copper alloys used in manufacturing. PSC Metals also operates a secondary products business that includes the supply of secondary plate and structural grade pipe that is sold into niche markets for counterweights, piling and foundations, construction materials and infrastructure end-markets.



The following table summarizes the key operating data for Metals segment activities for the three and nine months ended September 30, 2007 and 2006 (in $000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Net sales | $ 198,903 | $ 179,173 | $ 622,282 | $ 556,143 |
| Costs of sales | 184,368 | 168,412 | 578,274 | 509,743 |
| Gross profit | 14,535 | 10,761 | 44,008 | 46,400 |
| Selling, general and administrative expenses | 5,446 | 2,412 | 15,979 | 11,617 |
| Income from continuing operations before interest, income taxes, and non-controlling interests in income of consolidated entities | $ 9,089 | $ 8,349 | $ 28,029 | $ 34,783 |
| Ferrous tons sold | 414 | 385 | 1,268 | 1,220 |
| Non-ferrous pounds sold | 30,203 | 30,467 | 86,810 | 87,650 |

***Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006***

Net sales for the three months ended September 30, 2007 were $198.9 million, an increase of $19.7 million, or 11%, as compared to $179.2 million for the three months ended September 30, 2006. The increase was primarily attributed to an increase in ferrous revenues generated by both the increase in average selling price of ferrous scrap and the increased volume of shipped ferrous production. In the third quarter of 2007, ferrous average pricing increased $26 per gross ton (11% increase) to approximately $270 per gross ton, while ferrous shipments increased by 29,200 ferrous gross tons (8% increase) compared to the third quarter of 2006. The increase in selling prices for ferrous scrap is reflected in the data published by the American Metal Market, or AMM. According to AMM, the average price in the third quarter of 2007 for shredded scrap was approximately $275 per gross ton, an increase of $24 (9% increase) compared to the average selling price in the third quarter of 2006.

Gross profit for the three months ended September 30, 2007 was $14.5 million, an increase of $3.8 million (35%) compared to the comparable period in 2006. As a percentage of net sales, the cost of sales was 93% and 94% in 2007 and 2006, respectively.

Selling, general and administrative expenses were $5.4 million in the third quarter of 2007 compared to $2.4 million in the third quarter of 2006. The $3.0 million increase is due, in part, to the impact of PSC Metals recording the value of shares and promissory notes received in the settlement of the Keystone Consolidated Industries, Inc. bankruptcy valued at $1.6 million in the comparable 2006 period. Keystone filed for bankruptcy court protection in February 2004 and, consequently, PSC Metals recorded a bad debt expense of $3.2 million. In addition, PSC Metals incurred additional costs to identify and begin implementing compliance requirements associated with Section 404 of SOX, and the costs in developing inventory zeroing practices and procedures.

***Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006***

Net sales for the nine months ended September 30, 2007 increased $66.1 million, or 11.9%, as compared to $556.1 million for the nine months ended September 30, 2006. The increase is primarily due to the increase in ferrous revenues generated by both an increase in average selling price of ferrous scrap and an increased volume of shipped ferrous production. For the first nine months

of 2007, average pricing increased approximately $32 per gross ton (13% increase) to approximately $279 per gross ton, while ferrous shipments increased by 47,300 gross tons (4% increase) compared to the first nine months of 2006. According to AMM, the average price in the first nine months of 2007 for shredded scrap was approximately $284 per gross ton, an increase of $36 (14% increase) compared to the average selling price in the comparable period of 2006.

Gross profit for the nine months ended September 30, 2007 was $44.0 million, a decrease of $2.4 million (5%) compared to the comparable period in 2006. As a percentage of net sales, the cost of sales was 93% and 92% in 2007 and 2006, respectively.



Selling, general and administrative expenses were $16.0 million in the first nine months of 2007 compared to $11.6 million in the comparable period of 2006. The $4.4 million increase is due, in part, to the impact of PSC Metals recording the value of shares and promissory notes received in the settlement of the Keystone Consolidated Industries, Inc. bankruptcy valued at $1.6 million in the comparable 2006 period, as noted above. In addition, PSC Metals incurred additional costs to identify and begin implementing compliance requirements associated with Section 404 of SOX and the costs in developing inventory zeroing practices and procedures.

Summarized statements of operations and performance data for PSC Metals for the years ended December 31, 2006, 2005 and 2004 are as follows (in $000s):

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Net sales | $ 710,054 | $ 600,989 | $ 660,172 |
| Cost of sales | 652,090 | 555,311 | 563,909 |
| Gross profit | 57,964 | 45,678 | 96,263 |
| Selling, general and administrative expenses | 15,028 | 14,525 | 18,196 |
| Income from continuing operations before interest, income taxes, and non-controlling interests in income of consolidated entities | $ 42,936 | $ 31,153 | $ 78,067 |
| Ferrous tons sold | 1,560 | 1,551 | 1,772 |
| Non-ferrous pounds sold | 114,086 | 89,960 | 84,289 |

***Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005***

Net sales for the year ended December 31, 2006 increased $109.1 million, or 18.1%, as compared to the year ended December 31, 2005. The increase was primarily attributed to an increase in non-ferrous sales generated by increased average selling prices and an increase in shipped volume. In 2006, the average selling price of non-ferrous products increased $0.49 per pound (71% increase) to $1.19 per pound, while non-ferrous shipments increased by 24.1 million pounds (27% increase) compared to 2006. In 2006, PSC Metals' non-ferrous operations benefited from higher prices for copper, aluminum and stainless steel. The increase in non-ferrous prices was evident in data published by the London Market Exchange, or LME, and COMEX. According to LME data (high grade, spot bid) average aluminum prices were 35% higher in 2006 compared to 2005. According to COMEX data (high grade cathode, spot price, close) average prices for copper were 84% higher in 2006 compared to 2005. We believe the non-ferrous prices were significantly higher than historical average prices due, in part, to increases in industrial production and demand from industrializing countries such as China.

Gross profit in 2006 was $58.0 million, an increase of $12.3 million (27% increase) compared to 2005. As a percentage of net sales, cost of sales was 92% for both years. The primary improvement in the gross profit was due to the strength of the non-ferrous markets which generated an increase of $7.4 million in non-ferrous contribution. The improvements in the average ferrous pricing was offset by increased competition which required higher average buying prices for ferrous scrap supply. The increased competition for available scrap supply increasingly requires the downstream integration into PSC Metals' supply chain of collection yards for low-cost material. Also offsetting the ferrous margin was the lost contribution from the PSC Metals' joint venture with Royal Green which expired in April 2006 resulting in a $1.0 million reduction from 2005, and reduced contribution of $1.2 million from 2005 during the installation and start-up of our new shredder in PSC Metals' Canton, Ohio operation completed in September 2006.

Selling, general and administrative expenses in 2006 of $15.0 million were relatively consistent to the $14.5 million in 2005. The 2006 expenses included $0.7 million for the costs of a marketing campaign from April through September. In addition, PSC Metals' incurred $1.2 million in 2006 due to staff bonus incentives associated with a company-wide incentive plan. There were no bonuses accrued or paid in 2005. Largely offsetting the bonus incentive payments was the additional recovery of $1.2 million associated with the bankruptcy settlement of Keystone Consolidated Industries, Inc.



***Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004***

Net sales for the year ended December 31, 2005 decreased $59.2 million, or 9%, as compared to the year ended December 31, 2004. The decrease was attributable to a decrease in ferrous sales as a result of lower average selling prices and lower shipped

volume. In 2005, the average selling price for ferrous production tons decreased $13 per ton (5% decrease) to approximately $227 per gross ton, while ferrous shipments decreased by 221,300 gross tons (12% decrease) compared to 2004. In 2005, PSC Metals' ferrous operations were negatively affected by the pricing reduction from 2004 levels. PSC Metals and the scrap industry benefited in 2004 from consistently rising prices through the calendar year as a key product such as shred recorded a composite price record high of $300 per gross ton in November 2004. In 2005, the market corrected from the levels reached in late 2004. The decrease in selling prices for ferrous scrap is reflected in the data published by the AMM. According to AMM, the average price in 2005 for shredded scrap was approximately $226 per gross ton, a decrease of $16 (7% decrease) compared to the average selling price in 2004. Sales volumes during 2005 decreased due to lower domestic demand for ferrous scrap which led to lower flow of scrap into PSC Metals' yards.

Gross profit in 2005 was $45.7 million, a decrease of $50.6 million (52.5% decrease) compared to 2004. As a percentage of net sales, the cost of sales was 92% and 85% in 2006 and 2005 respectively. The primary reduction to the gross profit is due to a reduction in the ferrous contribution of $46.2 million caused by downward market direction for most of 2005 as compared to upward trending in 2004. This downward pricing cycle from the historically high levels in 2004 resulted in a reduced spread between the average selling price and the average buying price of unprocessed ferrous scrap which reduced the gross profit. PSC Metals also managed the Burns Harbor facility through a strike in late 2005 that resulted in a cost of approximately $0.6 million. The strike was principally due to strain in the labor relationship that arose in the 2003 reorganization of PSC Metals where the defined benefit pension plan was frozen.

Selling, general and administrative expenses were $14.5 million in 2005 compared to $18.2 million in 2004. The decrease in overhead compared to 2004 is due to the impact of recording a bad debt in 2004 for the bankruptcy filing of Keystone for $3.2 million. In 2005, PSC Metals recorded the benefit of a $0.6 million cash settlement.

***Real Estate***

Our Real Estate segment is comprised of rental real estate, property development and associated resort activities associated with property development. The three related operating lines of our real estate segment are all individually immaterial and have been aggregated for purposes of our operating results below, as well as the accompanying supplemental consolidated balance sheets and statements of operations. The following table summarizes the key operating data for real estate activities for the three and nine month periods ended September 30, 2007 and 2006 (in $000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Rental real estate | $ 3,343 | $ 3,393 | $ 10,205 | $ 10,061 |
| Property development | 17,321 | 19,914 | 50,202 | 69,149 |
| Resort activities | 9,692 | 9,211 | 23,210 | 22,106 |
| Total revenues | 30,356 | 32,518 | 83,617 | 101,316 |
| Expenses: | | | | |
| Rental real estate | 1,594 | 1,228 | 4,502 | 3,017 |
| Property development | 15,578 | 17,887 | 46,263 | 53,837 |
| Resort activities | 8,194 | 8,032 | 22,651 | 21,381 |
| Total expenses | 25,366 | 27,147 | 73,416 | 78,235 |
| Income from continuing operations before interest, income taxes and non-controlling interests in income of consolidated entities | $ 4,990 | $ 5,371 | $ 10,201 | $ 23,081 |



***Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006***

Total revenues decreased to $30.4 million, or by 6.6%, in the three months ended September 30, 2007 from $32.5 million in the comparable period in fiscal 2006. The decrease was primarily attributable to a decrease in property development sales activity. For the three months ended September 30, 2007, we sold 12 units for approximately $17.3 million at an average price of $1.4 million with a profit margin of 15.8%, reflecting a greater sales mix of higher priced units in Westchester, NY and New Seabury, MA compared to the comparable period in the prior year. For the three months ended September 30, 2006, we sold 39 units for approximately $19.9 million at an average price of $0.51 million with a profit margin of 10.2%, which included a greater sales mix of lower priced condominium units in Naples, FL.

Total expenses decreased to $25.4 million, or by 6.6%, for the three months ended September 30, 2007 from $27.1 million in the comparable period in fiscal 2006. The decrease was primarily attributable to a decrease in property development sales activity. Contributing to the overall decrease for the three months ended September 30, 2007 was a reversal of a prior hurricane loss provision of $0.43 million related to our rental properties. The decrease was partially offset by a $1.0 million litigation loss reserve related to our development properties and a $0.73 million asset impairment charge related to our rental properties, which was primarily due to a decrease in rental renewal rates at certain commercial properties.

***Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006***

Total revenues decreased to $83.6 million, or by 17.5%, in the nine months ended September 30, 2007 from $101.3 million in the nine months ended September 30, 2006. The decrease was primarily attributable to a decrease in property development sales activity. For the nine months ended September 30, 2007, we sold 68 units for approximately $50.2 million at an average price of

$0.74 million with a profit margin of 13.5%. For the nine months ended September 30, 2006, we sold 92 units for approximately $69.2 million at an average price of $0.75 million with a profit margin of 22.1%. For the nine months ended September 30, 2006, our New Seabury, MA property sales and margins were stronger principally due to closings from its grand opening in fiscal 2005.

Total expenses decreased to $73.4 million, or by 6.2%, in the nine months ended September 30, 2007 from $78.2 million in the nine months ended September 30, 2006. The decrease was primarily due to a decrease in property development sales activity. Included in total expenses for the nine months ended September 30, 2007 was a $1.8 million and $0.73 million asset impairment charge related to our property development and rental real estate properties, respectively. The impairment charge of $1.8 million related to certain condominium land in our Oak Harbor, FL subdivision caused by the current slowdown. The $0.73 million impairment charge was primarily due to decreased rental renewal rates at certain of our commercial properties. Additionally, there is a $1.0 million litigation charge related to our development properties as well as a reversal of a prior hurricane loss provision of $0.43 million related to our rental properties.

Based on current residential sales conditions and the pending completion of our Westchester, NY and Naples, FL properties, we expect sales to continue in a downward trend for the balance of fiscal 2007 and into the fiscal year ending December 31, 2008, or fiscal 2008.

We may incur additional asset impairment charges if sales price assumptions and unit absorptions are not achieved.

Certain properties are reclassified as discontinued operations when subject to a contract or letter of intent.



The following table summarizes the key operating data for real estate activities for the years ended December 31, 2006, 2005 and 2004 (in $000s):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Revenues: | | | |
| Rental real estate | $ 13,528 | $ 13,000 | $ 15,597 |
| Property development | 90,955 | 58,270 | 27,073 |
| Resort operations | 28,127 | 27,122 | 17,453 |
| Total revenues | 132,610 | 98,392 | 60,123 |
| Expenes | | | |
| Rental real estate | 4,622 | 4,065 | 8,023 |
| Property development | 73,041 | 48,679 | 22,949 |
| Resort operations | 28,162 | 28,852 | 18,194 |
| Total expenses | 105,825 | 81,596 | 49,166 |
| Income from continuing operations before interest, income taxes and non-controlling interests in income of consolidated entities | $ 26,785 | $ 16,796 | $ 10,957 |

As of December 31, 2006, our three related operating lines of our Real Estate segment are all individually immaterial and have been aggregated.

***Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005***

Total revenues increased to $132.6 million, or by 34.8%, in 2006 from $98.4 million compared to the comparable prior year period. The increase was primarily attributable to an increase in property development sales activity.

In 2006, we sold 128 units for $91.0 million at an average price of $710,586 with a profit margin of 19.7%, reflecting a greater sales mix of higher priced units in New Seabury, MA. In 2005, we sold 104 units for $58.3 million at an average price of $560,288 with a profit margin of 16.5%, which included a greater sales mix of lower priced condominium units in Naples, FL.

Total expenses increased to $105.8 million, or by 29.7%, in 2006 from $81.6 million in the prior year. The increase was primarily attributable to an increase in property development sales activity.

The primary driver of our increased revenues and income from continuing operations was the approval of our New Seabury property for residential development. However, due to the current residential/vacation home sales slowdown, property development sales and profits are expected to decline in 2007 from levels achieved in 2006.

***Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004***

Total revenues increased to $98.4 million, or by 63.7%, in 2005 from $60.1 million compared to comparable prior year period. The increase was primarily due to an increase in property development sales activity and resort operations due to the acquisition of the Grand Harbor and Oak Harbor, FL development and resort properties in July, 2004.

In 2005, we sold 104 units for $58.3 million at an average price of $560,288 with a profit margin of 16.5%. In 2004, we sold 38 units for $27.1 million at an average price of $712,447 with a profit margin of 15.2%.

Total expenses increased to $81.6 million, or by 65.9%, in 2005 from $49.2 million compared to the comparable prior year period. The increase was primarily due to an increase in property development sales activity and resort operations due to the acquisition of the Grand Harbor and Oak Harbor, FL development and resort properties in July, 2004. Rental expenses decreased due to hurricane related losses in 2004.

***Home Fashion***

On August 8, 2005, WPI, our indirect subsidiary, completed the acquisition of substantially all of the assets of WestPoint Stevens, Inc,. The acquisition was completed pursuant to an agreement dated June 23, 2005, which was subsequently approved by the U.S. Bankruptcy Court.

WPI, through its indirect wholly owned subsidiary, WestPoint Home, Inc., is engaged in the business of manufacturing, sourcing, marketing and distributing bed and bath home fashion products, including among others, sheets, pillowcases, comforters, blankets, bedspreads, pillows, mattress pads, towels and related products. WPI recognizes revenue primarily through the sale of home fashion products to a variety of retail and institutional customers. In addition, WPI receives a small portion of its revenues through the licensing of its trademarks.

Ongoing litigation may result in our ownership of WPI being reduced to less than 50%. See Note 18, "Commitments and Contingencies," of the supplemental consolidated financial statements as of, and for the period ended, September 30, 2007.

Summarized statements of operations, net of discontinued operations, for WPI for the periods indicated are as follows (in $000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net Sales | $ 183,360 | $ 223,066 | $ 531,109 | $ 672,350 |
| Expenses: | | | | |
| Costs of sales | 177,912 | 211,047 | 529,996 | 643,504 |
| Selling, general and administrative expenses | 28,218 | 31,650 | 87,427 | 100,327 |
| Restructuring and impairment charges | 14,041 | 3,348 | 38,735 | 33,686 |
| Loss from continuing operations before interest, income taxes and non-controlling interests | $ (36,811) | $ (22,979) | $(125,049) | $ (105,167) |

***Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006***

For the third quarter of 2007, gross earnings were primarily affected by reduced revenue due to a weaker home textile retail environment and lower manufacturing plant utilizations at some of our U.S. bedding and towel plants scheduled for closure. Factory underutilization charges at the bedding operations are expected to diminish in the fourth quarter of 2007 and into 2008 in connection with the closure of certain U.S. operations. WPI will continue to realign its manufacturing operations to optimize its cost structure, pursuing offshore sourcing arrangements that employ a combination of owned and operated facilities, joint ventures and third-party supply contracts.

During the third quarter of 2007, WPI continued to successfully implement its strategic plans to shift manufacturing capacity from the United States to lower-cost countries. WPI's bedding operation in Bahrain is producing product as planned, with significantly lower production costs than its U.S. operations. Additionally, the expansion of WPI's joint venture bath manufacturing operation in Pakistan is proceeding to build its output volume of finished goods. WPI anticipates improvements in gross earnings through both lower costs of production and declining factory underutilization charges in the fourth quarter of 2007 and into 2008.

Net sales for the three months ended September 30, 2007 were $183.4 million, a decline of 17.8% compared to $223.1 million in the comparable period in 2006. Bed products' net sales for the three months ended September 30, 2007 were $124.5 million, a decrease of $25.0 million from the comparable period in 2006. Bath products net sales were $56.3 million for the three months ended September 30, 2007, a decrease of $15.5 million from the comparable period in 2006, and other net sales were $2.6 million, an increase of $0.8 million from the three months ended September 30, 2006.

In accordance with SFAS No. 142, indefinite-lived intangible assets are not amortized, but are subject to impairment testing annually or when indicators of impairment are present. The identifiable intangible assets consist of trademarks acquired by WPI. These include Martex, Vellux, Grand Patrician, WestPoint and Utica.



As of September 30, 2007, WPI believes that the decline in sales of branded home fashion products is of a long-term nature resulting in an impairment in the carrying value of WPI's trademarks. As of September 30, 2007, WPI estimates an impairment of $3.0 million, reducing the fair value of the trademarks to $20.4 million. In accordance with its annual assessments, WPI will continue to review the value of this intangible asset during the fourth quarter of 2007.

Total depreciation expense for the three months ended September 30, 2007 was $2.6 million, of which $1.9 million was included in cost of sales and $0.7 million was included in selling, general and administrative expenses. Total depreciation expense for the three months ended September 30, 2006 was $6.0 million, of which $4.8 million was included in cost of sales and $1.2 million was included in selling, general and administrative expenses. Depreciation expenses were reduced primarily as the result of plant closures subsequent to the first quarter of 2006.

Gross earnings (net sales less cost of sales) for the three months ended September 30, 2007 were $5.4 million, or 3.0% of net sales, compared with $12.0 million, or 5.4% of net sales, during the comparable period in 2006. Gross earnings during the three months ended September 30, 2007 were negatively impacted by lower sales across all product lines as the result of a continued weaker retail environment for home textile products, competitive pricing and higher production costs from underutilization of plants scheduled to be closed in 2007.

Selling, general and administrative expenses for the three months ended September 30, 2007 were $28.2 million as compared to $31.7 million for the comparable period in 2006, reflecting WPI's continuing efforts to reduce its selling, warehousing, shipping and general and administrative expenses since it was acquired by us in August 2005.

Total expenses for the three months ended September 30, 2007 include $2.6 million related to non-cash fixed asset impairment and $3.9 million of machinery parts impairment charges related to certain plants in the United States, which are planned to be closed in 2007, and $4.6 million of restructuring charges (of which $1.0 million related to severance costs and $3.6 million related to continuing costs of closed plants). Additionally, WPI reduced the carrying value of the trademarks and recorded intangible asset impairment charges of $3.0 million. Total expenses for the three months ended September 30, 2006 included $3.3 million of restructuring charges (of which $0.2 million related to severance costs and $3.1 million related to continuing costs of closed plants).

We continue our restructuring efforts and, accordingly, expect that restructuring charges and operating losses will continue to be incurred throughout 2007. If our restructuring efforts are unsuccessful, we may be required to record additional impairment charges related to the carrying value of long-lived assets.

WPI recorded charges related to asset impairment associated with the closing of certain plants in the United States. On October 18, 2007, WPI entered into an agreement to sell the inventory at substantially all of its 30 retail outlet stores. The net impact of these closings during the three months ended September 30, 2007 was $15.1 million of related charges and impairments, which has been included as part of discontinued operations.

***Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006***

The nine months ended September 30, 2007 represented a challenging combination of efforts to reduce revenue from less profitable businesses, a weaker home textile retail environment, repositioning WPI's manufacturing operations and realigning selling, general and administrative expenditures. Net sales were $531.1 million, a decrease of 21.0% compared to $672.4 million for the first nine months in 2006. The decrease, which affected all lines of business, was primarily attributable to our continuing efforts to reduce revenues from less profitable programs coupled with a continued weaker retail sales environment. Bed products net sales for the first nine months of 2007 were $338.5 million, a decrease of $81.8 million from $420.3 million. Bath products net sales were $190.5 million, a decrease of $56.2 million compared to $246.7 million, and other net sales were $2.1 million, a decrease of $3.3 million compared to $5.4 million for the first nine months of 2006.

Total depreciation expense for the nine months ended September 30, 2007 was $11.7 million, of which $9.1 million was included in cost of sales and $2.6 million was included in selling, general and administrative



expenses. Total depreciation expense for the nine months ended September 30, 2006 was $25.4 million, of which $21.1 million was included in cost of sales and $4.3 million was included in selling, general and administrative expenses. The reduction in depreciation expenses was primarily due to plant closures made subsequent to the first quarter of 2006.

Gross earnings (net sales less cost of sales) for the nine months ended September 30, 2007 were $1.1 million, or 0.2% of net sales, compared with $28.8 million, or 4.3% of net sales, during the nine months ended September 30, 2006. Gross earnings were affected by competitive pricing and a continued weaker retail environment, and lower manufacturing plant utilizations at some of our U.S. plants. WPI will continue to realign its manufacturing operations to optimize its cost structure, pursuing offshore sourcing arrangements that employ a combination of owned and operated facilities, joint ventures and third-party supply contracts.

Selling, general and administrative expenses for the nine months ended September 30, 2007 were $87.4 million as compared to $100.3 million for the nine months ended September 30, 2006, reflecting WPI's continuing efforts to reduce its selling, warehousing, shipping and general and administrative expenses since it was acquired by us in August 2005. WPI is continuing to lower its selling, general and administrative expenditures by consolidating its locations, reducing headcount and applying more stringent oversight of expense areas where potential savings may be realized, including the headcount reductions taken during the second quarter of fiscal 2007.

Total expenses for the nine months ended September 30, 2007 include $18.0 million of non-cash fixed asset impairment and $3.9 million of machinery parts impairment charges related to certain plants in the United States, which are anticipated to be closed in fiscal 2007, and $13.9 million of restructuring charges (of which $4.8 million related to severance costs and $9.1 million related to continuing costs of closed plants). Additionally, WPI reduced the carrying value of the trademarks and recorded intangible asset impairment charge of $3.0 million. Total expenses for the nine months ended September 30, 2006 included $26.5 million of non-cash fixed asset impairment charges related to plant closures during the comparable period in fiscal 2006 and $7.1 million of restructuring charges (of which $1.5 million related to severance costs and $5.6 million related to continuing costs of closed plants).

We continue our restructuring efforts and, accordingly, expect that restructuring charges and operating losses will continue to be incurred throughout fiscal 2007. If our restructuring efforts are unsuccessful, we may be required to record additional impairment charges related to the carrying value of long-lived assets.

***Year Ended December 31, 2006 Compared to the Period from August 8, 2005 (Acquisition Date) to December 31, 2005***

Summarized statement of operations for the year ended December 31, 2006 and the period from August 8, 2005 (acquisition date) to December 31, 2005 is as follows (in $000s):

| | Year Ended December 31, 2006 | Period August 8, 2005 to December 31, 2005 |
|---|---|---|
| Net sales | $ 890,840 | $ 441,771 |
| Costs and expenses: | | |
| Cost of sales | 857,947 | 401,576 |
| Selling, general and administrative | 130,622 | 58,881 |
| Restructuring and impairment charges | 45,647 | 1,658 |
| Total costs and expenses | 1,034,216 | 462,115 |
| Loss from continuing operations before interest, income taxes and non-controlling interests in income of consolidated entities | $ (143,376) | $ (20,344) |

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

- adverse competitive conditions for U.S. mills compared to mills located overseas;
- growth of low priced imports from Asia and Latin America resulting from lifting of import quotas;



- retailers of consumer goods have become fewer and more powerful over time; and
- long-term increases in pricing and decreases in availability of raw materials.

Net sales for the year ended December 31, 2006 were $890.8 million. Bed products net sales were $572.6 million, bath products net sales were $311.8 million and other net sales were $6.4 million. Net sales for the period August 8, 2005 (acquisition date) to December 31, 2005 were $441.8 million. Bed products net sales were $294.9 million, bath products net sales were $144.0 million and other net sales were $2.9 million.

Total depreciation expense for 2006 was $30.7 million, of which $25.5 million was included in cost of sales and $5.2 million was included in selling, general and administrative expenses. Total depreciation expense for the period from August 8, 2005 (acquisition date) to December 31, 2005 was $19.0 million, of which $16.0 million was included in cost of sales and $3.0 million was included in selling, general and administrative expenses.

Gross earnings (net sales less cost of sales) for 2006 were $32.9 million, and reflect gross margins of 3.7%. Gross earnings (net sales less cost of sales) during 2006 were negatively impacted by the carrying costs of certain U.S. based manufacturing facilities that were closed in 2006 or are scheduled to be closed during 2007. Gross earnings before selling, general and administrative expenses for the period August 8, 2005 (acquisition date) to December 31, 2005 were $40.2 million, and reflect gross margins of 9.1%.

Selling, general and administrative expenses were $130.6 million for 2006, and as a percent of net sales represent 14.7%. Selling, general and administrative expenses were $58.9 million for the period from August 8, 2005 (acquisition date) to December 31, 2005, and as a percent of net sales represent 13.3%.

Total expenses for 2006 included $33.3 million of non-cash impairment charges related to the fixed assets of plants that have been or will be closed and $12.3 million of restructuring charges (of which $3.4 million related to severance costs and $8.9 million related to continuing costs of closed plants). Total expenses for the period from August 8, 2005 (acquisition date) to December 31, 2005 included $1.7 million of restructuring charges (of which $0.1 million related to severance costs and $1.6 million related to continuing costs relating to closed plants).

We expect to continue our restructuring efforts and, accordingly, expect that restructuring charges and operating losses will continue to be incurred throughout 2007. If our restructuring efforts are unsuccessful, we may be required to record additional impairment charges related to the carrying value of long-lived assets. Additionally, as part of the restructuring efforts, we expect to record impairment charges as additional plants are closed.

**Holding Company**

***Activities***

The Holding Company engages in various investment activities. The activities include those associated with investing its available liquidity, investing to earn returns from increases or decreases in the market price of securities, and investing with the prospect of acquiring operating businesses that we control.

***Expenses***

Holding Company expenses, excluding interest expense, are principally related to payroll, legal and other professional fees and general expenses of the Holding Company.

***Three Months Ended September 30, 2007 Compared to the Three Months Ended September 30, 2006***

Expenses increased 216.7%, to $13.0 million, for the three months ended September 30, 2007 as compared to $4.1 million for the comparable period in fiscal 2006. The increase is primarily attributable to legal expenses related to the acquisition of the Partnership Interests on August 8, 2007.

***Nine Months Ended September 30, 2007 Compared to the Nine Months Ended September 30, 2006***

Expenses increased 28.7%, to $24.6 million, for the nine months ended September 30, 2007 as compared to $19.1 million for the comparable period in fiscal 2006. The increase is primarily attributable to legal expenses related to the acquisition of the Partnership Interests on August 8, 2007.



***Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005***

Expenses increased 50.6% to $25.8 million, as compared to $17.1 million in the comparable prior year period due largely to the impact of a compensation charge related to the cancellation of unit options of $6.2 million and increased legal and other professional fees of $3.2 million and $2.8 million, respectively.

***Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004***

Expenses increased 262% to $17.1 million, as compared to $4.7 million in the comparable prior year period due largely to higher direct acquisition costs of $4.3 million and other legal and professional fees of $3.3 million.

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

**Holding Company and Other Operations**

***Interest and Other Income and Interest Expense***

***Three Months Ended September 30, 2007 Compared to the Three Months Ended September 30, 2006***

Interest and other income increased 268.1%, to $42.7 million, for the three months ended September 30, 2007 as compared to $11.6 million in the comparable period in 2006. The increase was primarily due to the substantial increase in the Holding Company's cash position from the sales of our Oil and Gas operations and Atlantic City gaming operations in the fourth quarter of 2006 and the proceeds from the issuance of additional 7.125% senior notes in January 2007 and variable rate convertible notes in April 2007.

Interest expense increased 63.7%, to $36.5 million, for the three months ended September 30, 2007 as compared to $22.3 million in the comparable period in 2006. The increase is primarily attributable to interest incurred on the $500.0 million additional 7.125% senior notes issued in January 2007 and the $600.0 million of variable rate notes issued in April 2007.

***Nine Months Ended September 30, 2007 Compared to the Nine Months Ended September 30, 2006***

Interest and other income increased 233.3% to $115.0 million during the first nine months of 2007 as compared to $34.5 million in the first nine months of 2006. This increase was primarily due to the increase in the Holding Company's cash position from the sale of our Oil and Gas operations and Atlantic City gaming operations in the fourth quarter of 2006 and the proceeds from the issuance of additional 7.125% senior notes in January 2007 and variable rate notes in April 2007.

Interest expense increased 55.2%, to $99.2 million, during the first nine months of 2007 as compared to $63.9 million in the first nine months of 2006. This increase is a result of interest incurred on the $500.0 million additional 7.125% senior notes issued in January 2007 and the $600.0 million of variable rate notes issued in April 2007.

***Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005***

Interest and other income increased 30.5% to $55.6 million during 2006 as compared to $42.6 million in comparable prior year period. This was primarily due to the substantial increase in the Holding Company's cash position from the sale of our Oil and Gas operations and ACE in the fourth quarter of 2006.

Interest expense increased 17.8% to $85.5 million, during 2006 as compared to $72.6 million in the comparable prior year period. This increase reflects increased borrowings in 2006 as a result of margin expense of $7.9 million, borrowing under the ACEP revolving credit facility, which was increased to $60.0 million in May 2006 and a $32.5 million mortgage obtained in June 2006.

*Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004*

Interest income for 2005 and 2004 was $42.6 million and $45.6 million, respectively.

Interest expense increased 135.7% to $72.6 million, during 2005 as compared to $30.8 million in the comparable prior year period. This increase reflects increased borrowings in 2005 as a result of the $480.0 million senior notes in February 2005 and a full year's interest on the $353.0 million senior notes issued in May 2004.

**Holding Company**

*Net Gain From Investment Activities*

*Three Months Ended September 30, 2007 Compared to the Three Months Ended September 30, 2006*

Net gain from investment activities decreased 36.1% to $14.2 million for the three months ended September 30, 2007 as compared to $22.2 million during the comparable period in 2006. The decrease was primarily due to the sale of certain investment positions in 2007.

*Nine Months Ended September 30, 2007 Compared to the Nine Months Ended September 30, 2006*

Net gain from investment activities decreased 10.8% to $75.6 million during the first three quarters of 2007 as compared to $84.8 million during the first three quarters of 2006. The decrease was primarily due to the sale of certain investment positions in 2007.

*Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005*

Net gain from investment activities increased 529.5% to $91.3 million during 2006 as compared to a net loss of $21.3 million in the comparable prior year period. The increase is primarily due to the sale of certain securities in 2006 which resulted in higher net gains in 2006 compared to 2005.

*Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004*

Net gain from investment activities decreased 228.5% to a net loss of $21.3 during 2005 as compared to a net gain of $16.5 million in the comparable prior year period. The decrease is primarily due to the sale of certain securities in 2004 which resulted in a higher net gain in 2004 compared to 2005.

**Effective Income Tax Rate**

For the three months ended September 30, 2007, we recorded an income tax provision of $10.0 million on a pre-tax loss of $91.7 million as compared to an income tax provision of $0.6 million on pre tax income of $209.1 million in the comparable period in 2006. Our effective tax rate was (10.9%) for the three months ended September 30, 2007 as compared to 0.3% in 2006. For the nine months ended September 30, 2007, we recorded a $13.8 million tax provision (effective tax rate of 2.2%) as compared to a tax benefit of $0.4 million in the comparable 2006 period.

For the year ended December 31, 2006, we recorded an income tax benefit of $0.7 million on pre-tax income of $1.0 billion. For the year ended December 31, 2005, we recorded an income tax provision of $11.2 million on pre-tax income of $295.4 million. Our effective income tax rate was (0.1)% and 3.8% for the respective periods. The difference between the effective tax rate and statutory federal rate of 35% is principally due to changes in the valuation allowance and partnership income not subject to taxation, as such taxes are the responsibility of the partners.

For the year ended December 31, 2004, we recorded an income tax benefit of $18.9 million on pre-tax income of $183.7 million. Our effective income tax rate was (10.3%) for the periods. The difference between the effective tax rate and statutory federal rate of 35% is principally due to changes in the valuation allowance in our Metals segment and partnership income not subject to taxation, as such taxes are the responsibility of the partners.

**Holding Company and Other Operations**

*Non-Controlling Interests*

Non-controlling interests is primarily as a result of the impact of the minority interests' share of the losses incurred by WPI.



*Discontinued Operations*

*The Sands and Related Assets*

On November 17, 2006, our indirect majority owned subsidiary, Atlantic Coast, ACE Gaming LLC, a New Jersey limited liability company and a wholly owned subsidiary of Atlantic Coast which owns The Sands Hotel and Casino in Atlantic City, IEH and certain other entities owned by or affiliated with IEH completed the sale to Pinnacle Entertainment, Inc., of the outstanding membership interests in ACE and 100% of the equity interests in certain subsidiaries of IEH which own parcels of real estate adjacent to The Sands, including 7.7 acres of land known as the Traymore site. We own, through subsidiaries, approximately 67.6% of Atlantic Coast, which owns 100% of ACE. The aggregate price was approximately $274.8 million, of which approximately $200.6 million was paid to Atlantic Coast and approximately $74.2 million was paid to affiliates of IEH for

subsidiaries that owned the Traymore site and the adjacent properties. $51.8 million of the amount paid to Atlantic Coast was deposited into an escrow account to fund indemnification obligations, of which $50 million related to claims of creditors and stockholders of GBH, a holder of stock in Atlantic Coast. On February 22, 2007, we resolved all outstanding litigation involving GBH, resulting in a release of all claims against us. After the settlement, our ownership of Atlantic Coast increased from 67.6% to 96.9% and $50.0 million of the amount placed into escrow was released to us. In the second quarter of 2007, we and several other investors exercised warrants to purchase shares of common stock of Atlantic Coast, resulting in an increase of the minority interest in Atlantic Coast, and a decrease in our ownership to 94.2%. See Note 19, "Commitment and Contingencies," of the supplemental consolidated financial statements as of, and for the years ended, December 31, 2006, 2005 and 2004 for more information.

*Oil and Gas Operations*

On November 21, 2006, our indirect wholly owned subsidiary, AREP O & G Holdings LLC, completed the sale of all of the issued and outstanding membership interests of NEG Oil & Gas LLC to SandRidge for consideration consisting of $1.025 billion in cash, 12,842,000 shares of SandRidge's common stock, valued at $18 per share on the date of closing, and the repayment by SandRidge of $300.0 million of debt of NEG Oil & Gas. On April 4, 2007, we sold our entire position in SandRidge for cash consideration of approximately $243.2 million.

On November 21, 2006, pursuant to an agreement dated October 25, 2006 among IEH, NEG Oil & Gas and NEGI, NEGI sold its membership interest in NEG Holding LLC to NEG Oil & Gas in consideration of approximately $261.1 million paid in cash. Of that amount, $149.6 million was used to repay the NEGI 10.75% senior notes due 2007, including principal and accrued interest, all of which was held by us.

On November 12, 2007, the board of directors of NEGI determined that it is in the best interests of NEGI's shareholders to liquidate all of NEGI's assets and approved the dissolution of NEGI and a plan of dissolution and liquidation, or the Plan, subject to required shareholder approval. NEGI will announce the timing of the shareholder meeting at which approval will be requested and set a record date for the shares entitled to vote at such meeting after the SEC has completed its review of the related proxy materials that NEGI intends to file.

Following shareholder approval of NEGI's dissolution pursuant to the Plan, NEGI expects to carry out an orderly disposition of NEGI's assets and liabilities and then declare a cash distribution to its shareholders. NEGI will then file a Form 15 with the SEC, terminating its reporting obligations under the '34 Act and its status as a public company.

*American Casino & Entertainment Properties LLC*

On April 22, 2007, American Entertainment Properties Corp., or AEP, a wholly owned indirect subsidiary of Icahn Enterprises, entered into a Membership Interest Purchase Agreement with W2007/ACEP Holdings, LLC, an affiliate of Whitehall Street Real Estate Funds, a series of real estate investment funds affiliated with Goldman Sachs & Co., to sell all of the issued and outstanding membership interests of ACEP, which comprises our gaming operations, for $1.3 billion, plus or minus certain adjustments such as working capital, as more fully described in the agreement. Pursuant to the terms of the agreement, AEP is required to cause ACEP to repay from funds provided by AEP, the principal, interest, prepayment penalty or premium due under the terms of ACEP's 7.85% senior secured notes due 2012 and ACEP's senior secured credit facility. With this



transaction, we anticipate realizing a gain of approximately $554 million on our investments in ACEP, after income taxes. ACEP's casino assets are comprised of the Stratosphere Casino Hotel & Tower, the Arizona Charlie's Decatur, the Arizona Charlie's Boulder and the Aquarius Casino Resort. The transaction is subject to the approval of the Nevada Gaming Commission and the Nevada State Gaming Control Board, as well as customary conditions. The parties expect to close the transaction by the end of the first quarter of fiscal 2008; however, there can be no assurance that we will be able to consummate the transaction.

*Real Estate*

Operating properties are reclassified to held for sale when subject to a contract or letter of intent. The operations of such properties are classified as discontinued operations. Upon entry into a contact or letter of intent to sale a property, the operating results and cash flows associated with the properties are reclassified to discontinued operations and historical financial statements are reclassified to conform to the current classification. In addition, during the nine months ended September 30, 2007, five properties were reclassified to held for sale.

*Home Fashion*

We will close substantially all of our WPI retail stores based on a comprehensive evaluation of the stores' long-term growth prospects and their on-going value to the business. On October 18, 2007, we entered into an agreement to sell the inventory at substantially all of our retail stores. The reclassification of approximately $15.1 million of losses to discontinued operations, inclusive of asset impairment and restructuring charges of $13.6 million, during the third quarter of fiscal 2007 was based upon an estimate of the overall outcome of this decision. In accordance with SFAS No. 144, we have reported the retail outlet stores business as discontinued operations for all periods presented.

*Results of Discontinued Operations*

The financial position and results of these operations are presented as assets and liabilities of discontinued operations held for sale in the supplemental consolidated balance sheets and discontinued operations in the supplemental consolidated statements of operations, respectively, for all periods presented in accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144), *"Accounting for the Impairment or Disposal of Long-Lived Assets."* For further discussion, see Note 5, "Discontinued

Operations and Assets Held for Sale," to our supplemental consolidated financial statements as of, and for the years ended December 31, 2006, 2005 and 2004.



Summarized financial information for discontinued operations for the three and nine month periods ended September 30, 2007 and 2006 is set forth below (in $000s):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | | | | |
| Oil and Gas | $ — | $ 135,578 | $ — | $ 330,476 |
| Gaming | 109,367 | 141,297 | 336,393 | 402,795 |
| Home Fashion | 16,010 | 17,390 | 44,654 | 48,744 |
| Real Estate | 997 | 1,857 | 3,804 | 5,606 |
| Total revenues | $ 126,374 | $ 296,122 | $ 384,851 | $ 787,621 |
| Income (loss) from discontinued operations: | | | | |
| Oil and Gas | $ — | $ 89,343 | $ — | $ 200,859 |
| Gaming | 23,410 | (1,033) | 77,956 | 33,445 |
| Home Fashion | (15,129) | (1,368) | (18,908) | (5,478) |
| Real Estate | 913 | 1,403 | 3,228 | 3,984 |
| Total income from discontinued operations before interest and taxes | 9,194 | 88,345 | 62,276 | 232,810 |
| Interest expense | (4,649) | (10,426) | (16,086) | (31,663) |
| Interest and other income | 660 | 2,261 | 19,994 | 7,332 |
| Income tax (expense)/benefit | (433) | 31,243 | (15,665) | 13,390 |
| Income from discontinued operations | 4,772 | 111,423 | 50,519 | 221,869 |
| Non-controlling interest in (income) loss of consolidated entities | 4,959 | (10,833) | 4,428 | (9,326) |
| Gain on sales of discontinued operations, net of income taxes | 7,660 | 4,901 | 21,686 | 6,460 |
| | $ 17,391 | $ 105,491 | $ 76,633 | $ 219,003 |

Summarized financial information for discontinued operations for the years ended December 31, 2006, 2005 and 2004 is set forth below (in 000s):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Revenues | | | |
| Oil and Gas | $ 353,539 | $ 198,854 | $ 137,988 |
| Gaming | 524,077 | 490,321 | 470,836 |
| Real Estate | 7,108 | 8,847 | 22,191 |
| Home Fashion – retail stores | 66,816 | 30,910 | — |
| Total revenues | $ 951,540 | $ 728,932 | $ 631,015 |
| Income from discontinued operations | | | |
| Oil and Gas | $ 183,281 | $ 37,521 | $ 33,053 |
| Gaming | 45,624 | 60,179 | 51,331 |
| Real Estate | 5,300 | 5,170 | 12,213 |
| Home Fashion – retail stores | (7,261) | (2,085) | — |
| Total income from discontinued operations before income taxes, interest and other income | 226,944 | 100,785 | 96,597 |
| Interest expense | (47,597) | (32,851) | (37,242) |
| Interest and other income | 13,004 | 7,539 | 7,656 |
| Impairment loss on GBH bankruptcy | — | (52,366) | (15,600) |
| Income from discontinued operations before income taxes and non-controlling interests in income of consolidated entities | 192,381 | 23,107 | 51,411 |
| Income tax expense | (17,119) | (19,711) | (18,312) |
| Income from discontinued operations | 175,262 | 3,396 | 33,099 |
| Non-controlling interests in income of consolidated entities | (53,165) | 4,356 | 2,074 |
| Gain on sales of discontinued operations, net of income tax expense of $22,637 in 2006 | 676,444 | 21,849 | 75,197 |
| | $ 798,541 | $ 29,601 | $ 110,370 |

**Liquidity and Capital Resources**

***Consolidated Financial Results***

We are a holding company. In addition to cash and cash equivalents, U.S. government and agency obligations, marketable equity and debt securities and other short-term investments, our assets consist primarily of investments in our subsidiaries. The sale of our Oil and Gas segment and Atlantic City gaming properties resulted in significant increases in our liquid assets. As we continue to make investments in our operating businesses or make investments in new businesses, we expect to reduce the liquid assets at Icahn Enterprises and IEH to fund those businesses and investments. Consequently, our cash flow and our ability to meet our debt service obligations and make distributions with respect to depositary units and preferred units likely will depend on the cash flow of our subsidiaries and the payment of funds to us by our subsidiaries in the form of loans, dividends, distributions or otherwise.

The operating results of our subsidiaries may not be sufficient to make distributions to us. In addition, our subsidiaries are not obligated to make funds available to us, and distributions and intercompany transfers from our subsidiaries to us may be restricted by applicable law or covenants contained in debt agreements and other agreements to which our subsidiaries may be subject or enter into in the future. The terms of any borrowings of our subsidiaries or other entities in which we own equity may restrict dividends, distributions or loans to us. For example, the notes issued by our indirect wholly owned subsidiary, ACEP, contain restrictions on dividends and distributions and loans to us, as well as on other transactions with us. ACEP and WPI each also have financing agreements that have the effect of restricting dividends, distributions and other transactions with us. These agreements may preclude our receiving payments from these subsidiaries which account for a significant portion of our revenues and cash flows. We may enter into similar agreements for other segments or subsidiaries. To the degree any distributions and transfers are impaired or prohibited, our ability to make payments on our debt will be limited.

During the nine-month period ended September 30, 2007, we consummated the following transactions that provided aggregate proceeds of approximately $1.3 billion:

- On January 16, 2007, we issued $500.0 million aggregate principal amount of additional 7.125% senior notes due 2013. The additional 7.125% senior notes were issued pursuant to an indenture dated February 7, 2005, between us, as issuer, and Icahn Enterprises Finance Corp., or IEF, which was formerly known as American Real Estate Finance Corp., as co-issuer, IEH, as guarantor, and Wilmington Trust Company, as trustee. The additional 7.125% senior notes have a fixed annual interest rate of 7.125%, which will be paid every six months on February 15 and August 15 and will mature on February 15, 2013.
- In April 2007, we issued $600.0 million aggregate principal amount of variable rate senior convertible notes due 2013. The notes bear interest of LIBOR minus 125 basis points, but no less than 4% nor higher than 5.5%, and are convertible into depositary units of Icahn Enterprises at a conversion price of $132.595 per share, subject to adjustments in certain circumstances.
- On April 4, 2007, our subsidiaries signed agreements to sell their entire position in the common stock of SandRidge to a consortium of investors in a series of private transactions. The per share selling price was $18, and total cash consideration received at closing was approximately $243.2 million.

On April 22, 2007, AEP, a wholly owned indirect subsidiary of Icahn Enterprises, entered into an agreement to sell all of the issued and outstanding membership interests of ACEP, which comprises the remainder of Icahn Enterprises' gaming operations, for $1.3 billion, plus or minus certain adjustments such as working capital, more fully described in the agreement. Pursuant to the terms of the agreement, AEP is required to cause ACEP to repay, from funds provided by AEP, the principal, interest, prepayment penalty or premium due under the terms of ACEP's 7.85% senior secured notes due 2012 and ACEP's senior secured credit facility. With this transaction, Icahn Enterprises anticipates realizing a gain of approximately $554 million on its investments in ACEP, after income taxes. ACEP's casino assets are comprised of the Stratosphere Casino Hotel & Tower, the Arizona Charlie's Decatur, the Arizona Charlie's Boulder and the Aquarius Casino Resort. The transaction is subject to the approval of the Nevada Gaming Commission and the Nevada State Gaming



Control Board, as well as customary conditions. The parties expect to close the transaction by the end of the first quarter of fiscal 2008; however, there can be no assurance that we will be able to consummate the transaction.

As of September 30, 2007, the Holding Company had a cash and cash equivalents balance of $2.6 billion, short-term investments of $286.6 million (of which $59.5 million was invested in short-term fixed-income securities) and total debt of $1.9 billion.

In addition, we also have the ability to draw down on our credit facility. In August 2006, we entered into a credit agreement with a consortium of banks pursuant to which we will be permitted to borrow up to $150.0 million. As of September 30, 2007, there were no borrowings under the facility. See "Borrowings" below for additional information concerning credit facilities for our subsidiaries.

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

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

***Cash Flows***

Cash used in operating activities for the first nine months of fiscal 2007 was approximately $2.3 billion compared to cash provided by operating activities of approximately $76.1 million for the comparable prior year period due primarily to activity within our Investment Management segment. Cash used in continuing operations from our Investment Management segment was approximately $2.3 billion for the first nine months of fiscal year 2007 compared to approximately $0.2 billion for the comparable prior year period. The net cash used in continuing operations for our Investment Management segment primarily relates to net purchases and sales proceeds from securities transactions. Purchases of securities during the first nine months of fiscal 2007 were approximately $6.9 billion compared to $3.4 billion for the comparable prior year period, while proceeds from sales of securities were approximately $4.8 billion and $3.6 billion for the first nine months of fiscal 2007 and 2006, respectively. The net cash used in continuing operations for our Holding Company and other operations was $91.0 million for the first nine months of fiscal 2007 as compared to cash provided by continuing operations of $57.6 million for the comparable prior year period, primarily due to the change in cash resulting from activities on trading securities year over year.

Net cash used in operating activities from continuing operations was $250.9 million for the year ended December 31, 2006 as compared to $856.2 million in 2005. The decrease primarily relates to activity from our Investment Management segment. Cash used in continuing operations from Investment Management activities was $363.3 million for the year ended December 31, 2006 as compared to $892.2 million in 2005. Proceeds from sales of securities within our Investment Management segment increased approximately $3.9 billion and proceeds from securities sold, not yet purchased increased approximately $0.5 billion during 2006 compared to fiscal 2005. These variances were offset by an increase in purchases of securities by $1.1 billion and increases in investment gains of $0.7 billion. Additionally, changes in operating assets and liabilities further offset these increases by approximately $2.2 billion in total. Net cash provided by operating activities from our Holding Company and other operations was approximately $112.3 million in 2006 compared to net cash used in operating activities of approximately $36.0 million in 2005 primarily due to changes in working capital and investment gains.

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



***Borrowings***

Long-term debt consists of the following (in $000s):

| | September 30, 2007 | December 31, 2006 | December 31, 2005 |
|---|---|---|---|
| Senior unsecured variable rate convertible notes due 2013 – Icahn Enterprises | $ 600,000 | $ — | $ — |
| Senior unsecured 7.125% notes due 2013 – Icahn Enterprises | 973,059 | 480,000 | 480,000 |
| Senior unsecured 8.125% notes due 2012 – Icahn Enterprises, net of discount | 351,489 | 351,246 | 350,922 |
| Senior secured 7.85% notes due 2012 – ACEP | 215,000 | 215,000 | 215,000 |
| Borrowings under credit facilities – ACEP | 40,000 | 40,000 | — |
| Borrowings under credit facilities – NEG Oil & Gas(1) | — | — | 300,000 |
| Revolving line of credit and capital lease obligations- Metals segment | 37,048 | 2,259 | 3,466 |
| Mortgages payable | 105,386 | 109,289 | 81,512 |
| Other | 12,579 | 13,425 | 8,387 |
| Total long-term debt | 2,334,561 | 1,211,219 | 1,439,287 |
| Less: debt related to assets held for sale | (257,455) | (257,825) | (521,052) |
| | $ 2,077,106 | $ 953,394 | $ 918,235 |

(1) On November 21, 2006, we sold all of the issued and outstanding membership interest in NEG Oil & Gas to SandRidge, consideration for which included the assumption by SandRidge of $300.0 million of debt of NEG Oil & Gas.

***Senior Unsecured Variable Rate Convertible Notes Due 2013 — Icahn Enterprises***

In April 2007, we issued an aggregate of $600.0 million aggregate principle amount of variable rate senior convertible notes due 2013, or the variable rate notes. The variable rate notes were sold in a private placement pursuant to Section 4(2) of the Securities Act and issued pursuant to an indenture dated as of April 5, 2007, by and among us, as issuer, IEF, as co-issuer, and Wilmington Trust Company, as trustee. The variable rate notes bear interest at a rate of three month LIBOR minus 125 basis points, but no less than 4.0% nor higher than 5.5%, and are convertible into depositary units of Icahn Enterprises at a conversion

price of $132.595 per share, subject to adjustments in certain circumstances. As of September 30, 2007, the interest rate was 4.1%. In the event that we declare a cash dividend or similar cash distribution in any calendar quarter with respect to our depositary units in an amount in excess of $0.10 per depositary unit (as adjusted for splits, reverse splits, and/or stock dividends), the indenture requires that we simultaneously make such distribution to holders of the variable rate convertible notes in accordance with a formula set forth in the indenture.

The variable rate notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. In connection with the sale of the variable rate notes, we and the initial buyers have entered into a registration rights agreement, pursuant to which we have agreed to file a shelf registration statement on Form S-3 with respect to resales of depositary units issuable upon conversion of the variable rate notes. A preliminary registration statement on Form S-3 with respect thereto was filed on June 21, 2007. Pursuant to the registration rights agreement entered into in connection with the issuance of these variable rate notes, the registration statement of must be declared effective by the SEC on or before December 31, 2007. Otherwise, we shall pay to the holders of the convertible notes $2,000,000 in the aggregate in additional interest for each 30-day period after December 31, 2007 that the registration statement has not been declared effective. All such accrued additional interest shall be paid by us on each January, April, July and October 15th until the registration statement has been declared effective.



***Senior Unsecured 7.125% Notes Due 2013 — Icahn Enterprises***

On February 7, 2005, Icahn Enterprises and IEF closed on their offering of senior notes due 2013. IEF, a wholly owned subsidiary, was formed solely for the purpose of serving as a co-issuer of debt securities. IEF does not have any operations or assets and does not have any revenues. The notes, in the aggregate principal amount of $480.0 million, were priced at 100% of principal amount. The notes have a fixed annual interest rate of 7.125%, which will be paid every six months on February 15 and August 15. The notes will mature on February 15, 2013. IEH is a guarantor of the debt. No other subsidiaries guarantee payment on the notes.

On January 16, 2007, we issued an additional $500.0 million aggregate principal amount of 7.125% notes, or the additional 7.125% notes (the 7.125% notes and the additional 7.125% notes being referred to herein as the notes), priced at 98.4% of par, or at a discount of 1.6%, pursuant to the 2005 Indenture. See Note 12, "Long-Term Debt." The notes have a fixed annual interest rate of 7.125%, which will be paid every six months on February 15 and August 15 and will mature on February 15, 2013. At the time we issued the additional 7.125% notes, we entered into a new registration rights agreement in which we agreed to permit noteholders to exchange the private notes for new notes which will be registered under the Securities Act of 1933, as amended, or the Securities Act. A preliminary registration statement on Form S-4 with respect thereto was filed on June 21, 2007. Pursuant to the registration rights agreement entered into in connection with the issuance of additional 7.125% Notes, the registration statement must be declared effective by the SEC on or before November 13, 2007. Since the registration statement was not declared effective in a timely manner, we are required to pay to the holders of the additional notes liquidated damages in an amount equal to $0.05 per week per $1,000 in principal amount of the additional notes for each week or portion thereof that the registration statement has not been declared effective for the first 90-day period following November 13, 2007, with such liquidated damages increasing by an additional $0.05 per week per $1,000 in principal amount of the additional notes with respect to each subsequent 90-day period until the registration statement has been declared effective, up to a maximum amount of liquidated damages of $0.50 per week per $1,000 in principal amount of the additional notes. All such accrued liquidated damages shall be paid by us on each February 15th and August 15th until the registration statement has been declared effective.

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

***Senior Unsecured 8.125% Notes Due 2012 – Icahn Enterprises***

On May 12, 2004, Icahn Enterprises and IEF closed on their offering of senior notes due 2012. The notes, in the aggregate principal amount of $353 million, were priced at 99.266% of principal amount. The notes have a fixed annual interest rate of 8.125%, which will be paid every six months on June 1 and December 1, commencing December 1, 2004. The notes will mature on June 1, 2012. IEH is a guarantor of the debt. No other subsidiaries guarantee payment on the notes.

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

***Senior Unsecured Notes Restrictions and Covenants***

Both issuances of our senior unsecured notes restrict the payment of cash dividends or distributions, the purchase of equity interests or the purchase, redemption, defeasance or acquisition of debt subordinated to the senior unsecured notes. The notes also restrict the incurrence of debt or the issuance of disqualified stock, as defined, with certain exceptions, provided that we may incur debt or issue disqualified stock if, immediately after such incurrence or issuance, the ratio of the aggregate principal amount of all outstanding indebtedness of Icahn Enterprises and its subsidiaries on a consolidated basis to the tangible net worth of Icahn Enterprises and its subsidiaries on a consolidated basis would havebeen less than 1.75 to 1.0. As of September 30, 2007, such ratio was less than 1.75 to 1.0. Based on this ratio, we and IEH could have incurred up to approximately $1.6 billion of additional indebtedness.

In addition, the notes require that on each quarterly determination date we and the guarantor of the notes (currently only IEH) maintain a minimum ratio of cash flow to fixed charges each as defined, of 1.5 to 1.0,



for the four consecutive fiscal quarters most recently completed prior to such quarterly determination date. For the four quarters ended September 30, 2007, the ratio of cash flow to fixed charges was greater than 1.5 to 1.0.

The notes also require, on each quarterly determination date, that the ratio of total unencumbered assets, as defined, to the principal amount of unsecured indebtedness, as defined, be greater than 1.5 to 1.0 as of the last day of the most recently completed fiscal quarter. As of September 30, 2007, such ratio was in excess of 1.5 to 1.0.

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

As of September 30, 2007, we were in compliance with each of the covenants contained in our senior unsecured notes. Each of the aforementioned ratios were calculated without the contemplation of the acquisition of our Investment Management and Metals segments. We expect to be in compliance with each of the debt covenants for the period of at least 12 months from September 30, 2007 after taking into account our Investment Management and Metals segments.

***Icahn Enterprises Senior Secured Revolving Credit Facility***

On August 21, 2006, we and IEF as the Borrowers, and certain of our subsidiaries, as Guarantors, entered into a credit agreement with Bear Stearns Corporate Lending Inc., as Administrative Agent, and certain other lender parties. Under the credit agreement, we will be permitted to borrow up to $150.0 million, including a $50.0 million sub-limit that may be used for letters of credit. Borrowings under the agreement, which are based on our credit rating, bear interest at LIBOR plus 1.0% to 2.0%. We pay an unused line fee of 0.25% to 0.5%. As of September 30, 2007, there were no borrowings under the facility.

Obligations under the credit agreement are guaranteed by and secured by liens on substantially all of the assets of certain of our indirect wholly-owned holding company subsidiaries. The credit agreement has a term of four years and all amounts will be due and payable on August 21, 2010. The credit agreement includes covenants that, among other things, restrict the creation of liens and certain dispositions of property by our wholly-owned holding company subsidiaries that are guarantors. Obligations under the credit agreement are immediately due and payable upon the occurrence of certain events of default.

***Senior Secured 7.85% Notes Due 2012 — ACEP***

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

ACEP's 7.85% senior secured notes due 2012 restrict the payment of cash dividends or distributions by ACEP, the purchase of its equity interests, the purchase, redemption, defeasance or acquisition of debt subordinated to ACEP's notes and investments as "restricted payments." ACEP's notes also prohibit the incurrence of debt or the issuance of disqualified or preferred stock, as defined, by ACEP, with certain exceptions, provided that ACEP may incur debt or issue disqualified stock if, immediately after such incurrence or issuance, the ratio of consolidated cash flow to fixed charges (each as defined) for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional indebtedness is incurred or disqualified stock or preferred stock is issued would have been at least 2.0 to 1.0, determined on a pro forma basis giving effect to the debt incurrence or issuance. As of September 30, 2007 such ratio was in excess of 2.0 to 1.0. The ACEP notes also restrict the creation of liens, the sale of assets, mergers, consolidations or sales of substantially all of its assets, the lease or grant of a license, concession, other agreements to occupy, manage or use ACEP's assets, the issuance of capital stock of restricted subsidiaries and certain related party transactions. The ACEP notes allow it to incur indebtedness, among other things, of up to $50.0 million under credit facilities, non-recourse financing of up to $15.0 million to finance the construction, purchase or lease of personal or real property used in its business, permitted affiliate subordinated indebtedness (as defined), the issuance of additional 7.85% senior securednotes due 2012 in an aggregate principal amount not to exceed 2.0 times net cash proceeds received from equity offerings and permitted affiliate subordinated debt, and additional indebtedness of up to $10.0 million.



***ACEP Senior Secured Revolving Credit Facility***

Effective May 11, 2006, ACEP, and certain of ACEP's subsidiaries, as Guarantors, entered into an amended and restated credit agreement with Wells Fargo Bank N.A., as syndication agent, Bear Stearns Corporate Lending Inc., as administrative agent, and certain other lender parties. As of September 30, 2007, the interest rate on the outstanding borrowings under the credit facility was 6.63% per annum. The credit agreement amends and restates, and is on substantially the same terms as, a credit agreement entered into as of January 29, 2004. Under the credit agreement, ACEP will be permitted to borrow up to $60.0 million. Obligations under the credit agreement are secured by liens on substantially all of the assets of ACEP and its subsidiaries. The credit agreement has a term of four years and all amounts will be due and payable on May 10, 2010. As of September 30, 2007, there were $40.0 million of borrowings under the credit agreement. The borrowings were incurred to finance a portion of the purchase price of the Aquarius.

The credit agreement includes covenants that, among other things, restrict the incurrence of additional indebtedness by ACEP and its subsidiaries, the issuance of disqualified or preferred stock, as defined, the creation of liens by ACEP or its subsidiaries, the sale of assets, mergers, consolidations or sales of substantially all of ACEP's assets, the lease or grant of a license or concession, other agreements to occupy, manage or use ACEP's assets, the issuance of capital stock of restricted subsidiaries and certain related party transactions. The credit agreement also requires that, as of the last date of each fiscal quarter, ACEP's ratio of consolidated first lien debt to consolidated cash flow not be more than 1.0 to 1.0. As of December 31, 2006, such ratio was less than 1.0 to 1.0. As of September 30, 2007, ACEP was in compliance with each of the covenants.

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

On April 22, 2007, AEP entered into an agreement to sell all of the issued and outstanding membership interests of ACEP. Pursuant to the terms of the agreement, AEP is required to cause ACEP to repay from funds provided by AEP, the principal, interest, prepayment penalty or premiums due on ACEP's 7.85% senior secured notes due 2012 and ACEP's senior secured credit facility.

***Credit Agreement — Metals segment***

On December 30, 2004, Philip and its subsidiaries, including PSC Metals, entered into a credit agreement with UBS Securities LLC, as lead arranger, and three other financial institutions, of up to $120.0 million which matures on December 30, 2009. Prior to our acquisition of PSC Metals on November 5, 2007, PSC Metals was a co-borrower under the credit agreement and had granted a security interest in substantially all of its assets to secure its obligations thereunder. The credit agreement provides for a revolving line of credit, subject to a borrowing base formula calculated on eligible accounts receivable and eligible scrap metal inventory. Borrowings under the credit agreement bear interest at a rate equal to the base rate (which is based on the UBS AG Bank "prime rate") plus 1.00%, 1.25% or 1.50% depending on Philip's total liquidity (greater than $50.0 million, $25.0 million to $50.0 million and less than $25.0 million, respectively). Total Liquidity is generally defined per the credit agreement as the sum of the borrowing base availability (determined monthly) and the available cash. The credit agreement will generally be used to issue letters of credit to support financial assurance needs related to insurance, environmental, bonding and vendor programs. The letters of credit bear an annual fee of 2.0%. PSC Metals had undrawn capacity of $23.4 million and $64.1 million at September 30, 2007 and December 31, 2006, respectively, no borrowings outstanding and outstanding letters of credit of $62.0 million and $55.7 million at September 30, 2007 and December 31, 2006, respectively.

As of September 30, 2007 and December 31, 2006, Philip was required to maintain the following financial covenants under the credit agreement: (i) maximum leverage, which is consolidated indebtedness to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA"), ratio of 5 to 1, (ii) maximum senior leverage, which is consolidated indebtedness less all subordinated indebtedness to consolidated EBITDA, ratio of 3 to 1 and (iii) minimum fixed charge coverage, which is consolidated EBITDA to the sum of consolidated interest expense, capital expenditures, cash tax payments and principal payments, ratio of 1.1 to 1. Financial covenants are not tested if total liquidity is $25 million or greater. At September 30, 2007 and December 31, 2006, Philip was in compliance with the covenants under the credit agreement.



The various components of long-term debt described in this note are financial instruments. As of September 30, 2007 and December 31, 2006, the carrying value of PSC Metals' debt approximated its fair market value.

On November 5, 2007, in connection with our acquisition of PSC Metals, Philip used a portion of the sales proceeds to pay PSC Metals' portion of the credit agreement, approximately $34.6 million, and PSC Metals was released from all claims, guarantees and future obligations under the credit agreement. In addition, Philip collateralized PSC Metals' letters of credit of approximately $6.3 million.

PSC Metals is currently under negotiations to enter into a $100 million asset-based borrowing agreement. Subsequent to the closing of the borrowing agreement, PSC Metals will fund its letters of credit from its borrowing base and funds used to collateralize the letters of credit by Philip will be released.

***Mortgages Payable***

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

| | September 30, 2007 | December 31, | |
|---|---|---|---|
| | | 2006 | 2005 |
| Total mortgages | $ 105,386 | $ 109,289 | $ 81,512 |
| Less: mortgages on properties held for sale | (37,597) | (18,174) | (18,104) |
| | $ 67,789 | $ 91,115 | $ 63,408 |

On June 30, 2006, certain of our indirect subsidiaries engaged in property development and associated resort activities entered into a $32.5 million loan agreement with Textron Financial Corp. The loan is secured by a mortgage on our New Seabury golf course and resort in Mashpee, Massachusetts. The loan bears interest at the rate of 7.96% per annum and matures in five years with a balloon payment due of $30.0 million. Annual debt service payments of $3.0 million are required, which are payable in monthly installment amounts based on a 25-year amortization schedule.

***Secured Revolving Credit Agreement — WestPoint Home***

On June 16, 2006, WestPoint Home, Inc., an indirect wholly owned subsidiary of WPI, entered into a $250.0 million loan and security agreement with Bank of America, N.A., as Administrative Agent and lender. On September 18, 2006, The CIT Group/Commercial Services, Inc., General Electric Capital Corporation and Wells Fargo Foothill, LLC were added as lenders under this credit agreement. Under the five-year agreement, borrowings are subject to a monthly borrowing base calculation and include a $75.0 million sub-limit that may be used for letters of credit. Borrowings under the agreement bear interest, at the election of WestPoint Home, either at the prime rate adjusted by an applicable margin ranging from minus 0.25% to plus 0.50% or LIBOR adjusted by an applicable margin ranging from plus 1.25% to 2.00%. WestPoint Home pays an unused line fee of 0.25% to 0.275%.

Obligations under the agreement are secured by WestPoint Home's receivables, inventory and certain machinery and equipment.

The agreement contains covenants including, among others, restrictions on the incurrence of indebtedness, investments, redemption payments, distributions, acquisition of stock, securities or assets of any other entity and capital expenditures. However, WestPoint Home is not precluded from effecting any of these transactions if excess availability, after giving effect to such transaction, meets a minimum threshold.

As of September 30, 2007, there were no borrowings under the agreement, but there were outstanding letters of credit of approximately $15.1 million.



***Contractual Commitments***

The following table reflects, at December 31, 2006, our contractual cash obligations, subject to certain conditions, due over the indicated periods and when they come due ($ in millions):

| | Less Than 1 Year | 1-3 Years | 3-5 Years | After 5 Years | Total |
|---|---|---|---|---|---|
| Senior unsecured 7.125% notes | $ — | $ — | $ — | $ 480.0 | $ 480.0 |
| Senior unsecured 8.125% notes | — | — | — | 353.0 | 353.0 |
| Senior secured 7.85% notes | — | — | — | 215.0 | 215.0 |
| Senior debt interest | 82.5 | 165.0 | 160.7 | 105.6 | 513.8 |
| Borrowing under credit facilities – ACEP | — | — | 40.0 | — | 40.0 |
| Revolving line of credit and capital lease obligations- Metals segment | 0.7 | 0.7 | 0.2 | 0.7 | 2.3 |
| Mortgages payable | 18.2 | 30.3 | 32.8 | 28.1 | 109.4 |
| Lease obligations | 19.6 | 27.2 | 15.7 | 46.6 | 109.1 |
| Construction and development obligations | 9.4 | 0.8 | — | — | 10.2 |
| Other | 21.8 | 10.5 | 126.3 | — | 158.6 |
| Total | $ 152.2 | $ 234.5 | $ 375.7 | $ 1,229.0 | $ 1,991.4 |

As of September 30, 2007, other than the issuance of an additional $500.0 million aggregate principal amount of the additional 7.125% senior notes due 2013 and $600.0 million of variable rate senior convertible notes due 2013, and certain environmental liabilities discussed below, there were no other material changes in our contractual obligations or any other long-term liabilities reflected on our supplemental consolidated balance sheet as compared to those reported in our supplemental consolidated financial statements for the year ended December 31, 2006, included elsewhere in this Current Report on Form 8-K.

Certain of PSC Metals' facilities are environmentally impaired in part as a result of operating practices at the sites prior to their acquisition by PSC Metals and as a result of PSC Metals operations. PSC Metals has established procedures to periodically evaluate these sites, giving consideration to the nature and extent of the contamination. PSC Metals has provided for the remediation of these sites based upon management's judgment and prior experience. PSC Metals has estimated the liability to remediate these sites to be $24.0 million at September 30, 2007.

Estimates of PSC Metals' liability for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions and are inherently difficult to make, and the ultimate outcome may differ from current estimates. As additional information becomes available, estimates are adjusted. It is possible that technological, regulatory or enforcement developments, the results of environmental studies or other factors could alter estimates and necessitate the recording of additional liabilities, which could be material. In addition, because PSC Metals has disposed of waste materials at numerous third-party disposal facilities, it is possible that PSC Metals will be identified as a potentially responsible party at additional sites. The impact of such future events cannot be estimated at the current time.

***Metals and Home Fashion Purchase Orders***

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

***Obligations Related to Securities***

As discussed in Note 6, "Investments and Related Matters", to the supplemental consolidated financial statements as of and for

the period ended September 30, 2007, we have contractual liabilities of $1.1 million



related to securities sold not yet purchased as of September 30, 2007. This amount has not been included in the table above as their maturity is not subject to a contract and cannot properly be estimated.

***Off-Balance Sheet Arrangements***

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

***Discussion of Segment Liquidity and Capital Resources***

***Investment Management***

The growth in the AUM of the Private Funds for the nine months ended September 30, 2007 and in the years ended December 31, 2006 and 2005 resulted from gains on investments made in the Private Funds as well as from capital from new investors. Such growth directly impacted our cash flows due to management fees paid to Icahn Management which will then be distributed to us. Positive performance also resulted in higher incentive allocations paid to the General Partners and in turn distributed to us. The period ended December 31, 2004 has been excluded from this discussion. The Investment Management and GP Entities commenced operations on November 1, 2004; liquidity for this period is not comparable to liquidity for the years ended December 31, 2006 and 2005.

The Private Funds have historically not utilized significant amounts of leverage. As of September 30, 2007 for example, the ratio of the notional exposure of our invested capital to net asset value of the Private Funds was approximately 0.95 to 1.00 on the long side and 0.49 to 1.00 on the short side. Due to the low leverage we believe that we have access to significant amounts of cash from prime brokers, subject to customary conditions.

Historically, the management fees generated by our Investment and GP Entities have been more than sufficient to cover operating expenses.

Net cash used in operating activities is largely comprised of purchases of securities and sales proceeds from securities transactions. Purchases of securities during the first nine months of fiscal 2007 were approximately $6.9 billion compared to $3.4 billion for the comparable prior year period while proceeds from sales of securities were approximately $4.8 billion and $3.6 billion for the first nine months of 2007 and 2006, respectively. Net cash used in operating activities was $2.3 billion and $0.2 billion for the nine months ended September 30, 2007 and 2006, respectively.

Purchases of securities were $4.3 billion and $3.2 billion for the years ended December 31, 2006 and 2005, respectively, while proceeds from sales of securities were $5.2 billion and $1.3 billion, for December 31, 2006 and 2005, respectively. Net cash used in operating activities was $0.4 billion and $0.9 billion for the years ended December 31, 2006 and 2005, respectively.

There were no cash flows from investing activities during any of the relevant periods, as investments-related cash flows in the consolidated Private Funds are classified within operating activities in our supplemental consolidated statements of cash flows.

Cash inflows from investors in the Private Funds are classified within financing activities in our supplemental consolidated statements of cash flows. These amounts are reported as contributions to and distributions from non-controlling interests in consolidated affiliated partnerships. Net cash provided by financing activities was $2.0 billion and $0.2 billion for the nine months ended September 30, 2007 and 2006, respectively.

Net cash provided from financing activities was $0.4 billion and $0.9 billion for the years ended December 31, 2006 and 2005, respectively. This decrease in cash provided by financing activities was primarily a result of lower net cash inflows from investors in the Private Funds in 2006.

***Holding Company and Other Operations***

***Metals***

Historically PSC Metals' liquidity requirements primarily pertained to the funding of acquisitions and payment of dividends. Prior to our acquisition on November 5, 2007, PSC Metals has funded acquisitions principally from net cash provided by operating activities. PSC Metals' working capital decreased $14.2



million to $104.3 million on September 30, 2007 compared to $118.5 million on December 31, 2006, primarily attributable to an increase in accounts receivable. The increase in accounts receivable is due to higher monthly sales leading up to September 2007 as compared to the monthly sales leading up to December 2006.

PSC Metals' 2007 capital budget program is approximately $28.0 million, of which $19.9 million was incurred through September 30, 2007, excluding acquisitions. PSC Metals does not include potential acquisitions in its capital budget program. PSC Metals anticipates future capital expenditures in 2008 and future periods to be consistent with the 2007 rate of capital

expenditures. PSC Metals expects to fund its 2008 capital expenditure program and future acquisitions, if any, from cash flows from operations and borrowings under a new credit facility, if required.

PSC Metals generated positive cash flow from operations in each of the nine-month periods ended September 30, 2007 and 2006. Net cash provided by continuing operating activities was $8.6 million for the nine-month period ended September 30, 2007 as compared to $28.4 million in the comparable period in 2006. The decrease primarily relates to a decrease in net income of 27.6% with $27.1 million in the nine-month period ended September 30, 2007 compared to $37.5 million in 2006. An increase in net operating assets and liabilities of $22.1 million was primarily attributable to an increase in accounts receivable of $29.2 million in the nine-month period ended September 30, 2007 as compared to an increase in accounts receivable of $7.5 million in the comparable period in 2006. The increase in accounts receivable in 2007 was due to higher monthly sales in the 2007 nine-month period than in the comparable period of 2006.

Net cash provided by continuing operating activities was $56.9 million for the year ended December 31, 2006 as compared to $32.0 million in 2005. The increase primarily relates to an increase in net income of 116.7% with $50.8 million in 2006 compared to $23.4 million in 2005. A reduction in net operating assets and liabilities of $8.6 million, significantly impacted by a decrease in accounts receivable of $13.2 million due to lower monthly sales in the last two months of 2006, partially offset by an increase in inventories of $3.5 million as sales slowed in the last two months of 2006, also contributed to the positive cash flow from operations.

In 2005, net cash generated from operating activities decreased to $32.0 million from $39.9 million in 2004. The decrease is attributed to higher net income in 2004 of $99.1 million compared to $23.4 million in 2005, partially offset by an increase in net operating assets and liabilities in 2004 of $40.1 million compared to $0.3 million in 2005. Net income in 2005 was lower due to scrap ferrous prices stabilizing in 2005 from the historically high prices in 2004.

Net cash used in investing activities was $66.2 million for the nine-month period ended September 30, 2007 as compared to $18.4 million in the comparable period in 2006. The increase of $47.8 million was primarily due to the 2007 acquisitions of $46.9 million and a $1.0 million (approximately 5%) increase in capital expenditures. PSC Metals made no acquisitions in the comparable period in 2006.

Net cash used in investing activities was $11.7 million for the year ended December 31, 2006 as compared to $26.0 million in 2005. The decrease of $14.3 million is primarily due to reduced investments in capital expenditures. The 2006 capital expenditures are offset by lease proceeds of $9.1 million against previously recorded capital for the Canton, Ohio shredder installation. In addition, in 2006, PSC Metals reported a value on acquiring the shares of Keystone common stock for $1.2 million and cash proceeds for partial sales of $3.6 million resulting in a net reduction in investing activities of $2.4 million.

The cash used in investing activities in 2005 of $26.0 million was an increase of $17.4 million from $8.6 million invested in 2004. The increase is attributed to an aggressive capital program to upgrade equipment at PSC Metals' scrap yards.

Net cash provided by financing activities was $35.4 million for the nine-month period ended September 30, 2007 as compared to net cash used in financing activities of $11.0 million in the comparable period in 2006. During 2007, prior to our acquisition on November 5, 2007, PSC Metals borrowed $62.4 million and repaid $27.4 million for net borrowings of approximately $35.0 million. The proceeds from the 2007 net borrowings was used to finance PSC Metals' 2007 acquisitions.



Net cash used in financing activities was $36.2 million for the year ended December 31, 2006 as compared to $18.4 million in 2005. The increase in financing uses was for the payment of $35.0 million to PSC Metals' shareholder. PSC Metals also used $1.2 million to repay long-term debt in 2006, primarily equipment financing.

The net cash used in 2005 for financing activities was $18.4 million as compared to $8.6 million in 2004. Financing activities for 2005 included a $10.0 million dividend to PSC Metals' shareholder and $9.3 million to repay long-term debt, of which $8.1 million was for principal payments on payment-in-kind debt and $1.2 million towards equipment financing. In 2004, PSC Metals used cash to pay $46.5 million of term debt that was paid in full on December 31, 2004. PSC Metals also paid $1.3 million in 2004, primarily to repay equipment financing. Following the PSC Metals' bankruptcy in 2003, PSC Metals' parent provided $39.2 million in capital contributions.

PSC Metals' management believes that increased cash flows from operations together with funds available under its new credit facility, which is currently in negotiations, will be sufficient to fund working capital requirements over the next 12 months and for the long-term. The timing and size of future capital requirements, consistent with PSC Metals' strategy, are subject to change. PSC Metals' management anticipates that capital spending will increase over the next three to five years, as PSC Metals vertically integrates into feeder yards, mobile car crushing, and transportation, as it continues to upgrade its processing equipment, and as it continues to invest in the latest technologies for recovery of non-ferrous material within its shredded product. Future acquisitions, if any, may require funding in excess of borrowing availability under the proposed credit facility.

***Real Estate***

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

Real estate development activities require a significant amount of funds. With our renewed development activity at New Seabury and Grand Harbor, it is expected that cash expenditures in 2007 will approximate $50.0 million. We expect that such amounts will be funded through advances from unit sales and, to the extent such proceeds are insufficient, by Icahn Enterprises from available cash.

For the nine months ended September 30, 2007 and 2006, income from continuing operations was $9.8 million and $20.2 million, respectively. Included in income from continuing operations for the nine months ended September 30, 2007 and 2006 were non-cash charges for depreciation and amortization of $4.4 million and $4.0 million, respectively. For the years ended December 31, 2006, 2005 and 2004, income from continuing operations was $24.0 million, $12.4 million and $6.8 million, respectively. Included in income from continuing operations for the years ended December 31, 2006, 2005 and 2004 were non-cash charges for depreciation and amortization of $5.7 million, $4.7 million and $5.2 million, respectively.

***Home Fashion***

For the nine-month period ended September 30, 2007 and the year ended December 31, 2006, our Home Fashion segment had negative cash flows from operations of $71.9 million and $30.1 million, respectively. Such negative cash flow was principally due to ongoing restructuring efforts partially offset by reductions in working capital. As discussed above, WPI expects to continue its restructuring efforts and, accordingly, expects that restructuring charges and operating losses will continue to be incurred through the end of 2007.

At September 30, 2007, WPI had $75.7 million of unrestricted cash and cash equivalents.

For the year ended December 31, 2006, our Home Fashion segment had a negative cash flow from operations of $30.1 million. Such negative cash flow was principally due to ongoing restructuring efforts partially offset by reductions in working capital. As discussed above, WPI expects to continue its restructuring efforts and, accordingly, expects that restructuring charges and operating losses will continue to be incurred through the end of 2007.

On December 20, 2006, pursuant to a subscription and standby commitment agreement, IEH purchased from WPI, 1,000,000 shares of WPI's Series A-1 Preferred Stock, par value $0.01 per share, and



1,000,000 shares of WPI's series A-2 Preferred Stock, par value of $0.01 per share, for an aggregate purchase price of $200.0 million. Each share of Series A-1 and Series A-2 Preferred Stock is convertible into WestPoint common stock at a conversion price of $10.50 per share, subject to adjustment in certain events. However, until certain conditions are met, the Series A-1 and Series A-2 Preferred Stock may not be converted into common stock. In addition, WestPoint may cause the conversion of all Series A-1 or Series A-2 Preferred Stock upon the occurrence of certain events.

On December 21, 2006 WPI used $98.6 million of the proceeds to finance the acquisition of certain bed products manufacturing facilities from Manama Textile Mills WLL in Bahrain. The remainder of the proceeds from the preferred stock offering will provide for additional payments due under this purchase agreement, working capital, capital expenditures, possible additional acquisitions and joint ventures and general corporate purposes.

On June 16, 2006, WPI's primary operating subsidiary, WestPoint Home, Inc., entered into a $250.0 million senior secured revolving credit facility from Bank of America, N.A. with an expiration date of June 15, 2011. The borrowing availability under the senior credit facility is subject to a monthly borrowing base calculation less outstanding loans, letters of credit and other reserves under the facility. Borrowings under the agreement bear interest, at the election of WestPoint Home, either at the prime rate adjusted by an applicable margin ranging from minus 0.25% to plus 0.50% or at LIBOR adjusted by an applicable margin ranging from plus 1.25% to 2.00%. WestPoint Home pays an unused line fee of 0.25% to 0.275%. Obligations under the agreement are secured by WestPoint Home's receivables, inventory and certain machinery and equipment.

At September 30, 2007, there were no borrowings under the agreement, but there were outstanding letters of credit of $15.1 million. Based upon the eligibility and reserve calculations within the agreement, WestPoint Home had unused borrowing availability of approximately $134.7 million at September 30, 2007.

The senior secured revolving credit agreement contains various covenants including, among others, restrictions on indebtedness, investments, redemption payments, distributions, acquisition of stock, securities or assets of any other entity and capital expenditures. However, WestPoint Home is not precluded from effecting any of these, if excess availability, as defined after giving effect to any such debt issuance, investment, redemption, distribution or other transition or payment restricted by covenant meets a minimum threshold.

Capital expenditures by WPI were $26.5 million for the nine months ended September 30, 2007 (including $13.3 million for further upgrades to WPI's manufacturing plant in Bahrain and $7.2 million of non-recurring expenditures related to termination of long-term equipment leases for closed facilities), compared to $4.9 million for the comparable period last year. Capital expenditures for the remainder of 2007 are expected to total approximately $8.6 million, which is primarily dependent upon the requirements of WPI's facility in Bahrain. During the nine months ended September 30, 2007, WPI received $15.5 million of net proceeds from sale of assets as compared to $12.1 million in the comparable period last year.

Capital expenditures by WPI were $11.1 million for the year ended December 31, 2006. During 2006, WPI invested approximately $12.4 million, to acquire a 50% ownership interest in a joint venture in Pakistan for a bath products manufacturing facility. WPI may expend additional amounts in connection with further joint ventures and acquisitions, and such amounts may be significant.

Through a combination of its existing cash on hand and its borrowing availability under the WestPoint Home senior secured revolving credit facility, WPI believes that it has adequate capital resources and liquidity to meet its anticipated requirements to continue its operational restructuring initiatives and for working capital, capital spending and scheduled payments on the notes payable at least through the next twelve months. However, depending upon the levels of additional acquisitions and joint venture

investment activity, if any, additional financing, if needed, may not be available to WPI, or if available, the financing may not be on terms favorable to WPI. WPI's estimates of its reasonably anticipated liquidity needs may not be accurate and new business opportunities or other unforeseen events could occur, resulting in the need to raise additional funds from outside sources.



***Discontinued Operations***

*Gaming*

Our primary source of cash from our former Gaming segment is from the operation of our properties. At September 30, 2007, ACEP had cash and cash equivalents of $87.9 million. For the nine months ended September 30, 2007, net cash provided by operating activities (including the operations of the Aquarius) totaled approximately $50.3 million compared to approximately $41.8 million for the nine months ended September 30, 2006. The change in cash provided by operating activities was attributable to the increase in net income from $18.9 million for the nine months ended September 30, 2006 to $33.2 million for the nine months ended September 30, 2007. In addition to cash from operations, cash is available to ACEP, if necessary, under its senior secured revolving credit facility entered into by ACEP, as borrower, and certain of its subsidiaries, as guarantors. In May 2006, ACEP entered into an amendment to the senior secured revolving credit facility, increasing the amount of borrowings allowed by it to $60.0 million, subject to ACEP's complying with financial and other covenants (discussed below), until May 12, 2010. ACEP borrowed the maximum amount available under the facility, $60.0 million, in order to fund its acquisition of the Aquarius. At September 30, 2007, ACEP had outstanding borrowings under the senior secured revolving credit facility of $40.0 million and availability of $20.0 million.

For the year ended December 31, 2006, net cash provided by operating activities (including the operations of the Aquarius) totaled $63.5 million compared to $62.3 million for the year ended December 31, 2005 and $54.6 million for the year ended December 31, 2004. In addition to cash from operations, cash is available to us under the senior secured revolving credit facility entered into by ACEP, as borrower, and certain of its subsidiaries, as guarantors. In May 2006, we entered into an amendment to the senior secured revolving credit facility, increasing the amount of borrowings allowed by it to $60.0 million, subject to compliance with financial and other covenants (discussed below), until May 12, 2010. ACEP borrowed the maximum amount available under the facility, $60.0 million, in order to fund the acquisition of the Aquarius.

ACEP's primary use of cash during the nine months ended September 30, 2007 was for operating expenses, to pay interest on its 7.85% senior secured notes due 2012 and interest under its senior secured revolving credit facility. ACEP's capital spending was approximately $18.5 million and $28.7 million for the nine months ended September 30, 2007 and 2006, respectively. ACEP has estimated its 2007 capital spending for its existing facilities at approximately $31.1 million, which it anticipates to include approximately $14.9 million to purchase new and convert existing slot machines, of which approximately $11.5 million has been spent, and approximately $7.0 million for remaining Aquarius hotel renovations. The remainder of ACEP's capital spending estimate for 2007 will be for upgrades or maintenance to its existing assets.

ACEP's primary use of cash during the year ended December 31, 2006 was for the acquisition of the Aquarius as described below, operating expenses, capital spending, to pay interest on our 7.85% senior secured notes due 2012 and to repay borrowings and interest under ACEP's senior secured revolving credit facility. Capital spending was approximately $46.9 million for the year ended December 31, 2006 compared to $28.2 million and $14.0 million for the years ended December 31, 2005 and 2004, respectively.

ACEP funded the acquisition of the Aquarius with existing cash and borrowings of $60.0 million, under the senior secured revolving credit facility. ACEP intends to fund the planned capital improvements with existing cash and cash flow from operations. The purchase price, including direct acquisition costs for the Aquarius, was $113.6 million.

ACEP believes operating cash flows will be adequate to meet our anticipated requirements for working capital, capital spending and scheduled interest payments on the notes and under the senior secured revolving credit facility, lease payments and other indebtedness at least through the next twelve months. However, additional financing, if needed, may not be available to us, or if available, the financing may not be on terms favorable to us. Our estimates of our reasonably anticipated liquidity needs may not be accurate and new business opportunities or other unforeseen events could occur, resulting in the need to raise additional funds from outside sources.

The indenture governing ACEP's 7.85% senior secured notes due 2012 contains certain covenants that restrict payment of cash dividends or distributions, the purchase of equity interests and the purchase, redemption, defeasance or acquisition of debt subordinated to the investments as "restricted payments." The



indenture also prohibits the incurrence of debt and the issuance of disqualified or preferred stock unless certain ratios as described in the indenture are maintained. The revolving credit facility contains similar restrictive covenants.

On April 22, 2007, AEP, our wholly owned subsidiary, entered into an agreement to sell all of the issued and oustanding membership interests of ACEP, which comprise our remaining gaming operations.

*Home Fashion*

On October 18, 2007, our indirect majority owned subsidiary, WPI, entered into an agreement to sell the inventory at substantially all of its 30 retail outlet stores. The decision to close substantially all of the stores was based on a comprehensive evaluation of long-term growth prospects and strategic value to the WPI business. For the nine-month period ended September 30, 2007 and the year ended December 31, 2006, respectively, our Home Fashion segment had a negative cash flow from discontinued operations of $21.0 million and $6.8 million, respectively.

**Distributions**

During 2005, we began to pay distributions to our unitholders. Total distributions of $0.40 per unit were declared and paid during 2006 in an aggregate amount of $25.2 million.

On February 27, 2007, the Board of Directors approved payment of a quarterly cash distribution of $0.10 per unit on its depositary units for the first quarter of fiscal 2007 consistent with the distribution policy established in fiscal 2005. The distribution was paid on March 29, 2007 to depositary unitholders of record at the close of business on March 14, 2007.

On May 4, 2007, the Board of Directors approved a $0.05 increase in our quarterly distribution policy and payment of a quarterly cash distribution of $0.15 per unit on our depositary units payable in the second quarter of fiscal 2007. The distribution was paid on June 1, 2007 to depositary unitholders of record at the close of business on May 22, 2007. Under the terms of the indenture dated April 5, 2007 governing our variable rate notes as previously defined, we also made a $0.05 distribution to holders of these notes in accordance with the formula set forth in the indenture.

On August 3, 2007, the Board of Directors approved payment of a quarterly cash distribution of $0.15 per unit on our depositary units for the third quarter of fiscal 2007. The distribution was paid on September 7, 2007 to depositary unitholders of record at the close of business on August 27, 2007. Under the terms of the indenture dated April 5, 2007 governing our variable rate notes, we also made a $0.05 distribution to holders of these notes in accordance with the formula set forth in the indenture.

On November 2, 2007, the Board of Directors approved a quarterly distribution of $0.15 per unit on our depositary units payable in the fourth quarter of fiscal 2007. The distribution will be paid on December 3, 2007 to depositary unitholders of record at the close of business on November 19, 2007. Under the terms of the indenture dated April 5, 2007 governing our senior convertible notes due 2013, we will also be making a $0.05 distribution to holders of these notes in accordance with the formula set forth in the indenture.

On March 31, 2006, we distributed to holders of record of our preferred units as of March 15, 2006, 539,846 additional preferred units. Pursuant to the terms of the preferred units, on February 27, 2007, we declared our scheduled annual preferred unit distribution payable in additional preferred units at the rate of 5% of the liquidation preference of $10.00. The distribution is payable on March 30, 2007 to holders of record as of March 15, 2007. On February 27, 2007, the number of authorized preferred units was increased to 12,100,000.

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

***Critical Accounting Policies and Estimates***

Our significant accounting policies are described in Note 2, “Summary of Significant Accounting Policies,” of our supplemental consolidated financial statements as of September 30, 2007, and for the nine



months ended September 30, 2007 and 2006 and as of December 31, 2006 and 2005, and for the three years ended December 31, 2006, 2005 and 2004. Our supplemental consolidated financial statements have been prepared in accordance with generally accepted accounting principles, or U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Among others, estimates are used when accounting for valuation of investments, recognition of casino revenues and promotional allowances and estimated costs to complete its land, house and condominium developments. Estimates and assumptions are evaluated on an ongoing basis and are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.

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

***Investment Management***

*Consolidation*

The supplemental consolidated financial statements include the accounts of Icahn Enterprises and its wholly and majority owned subsidiaries in which control can be exercised, in addition to those entities in which Icahn Enterprises has a substantive controlling general partner interest or in which it is the primary beneficiary of a variable interest entity. We are considered to have

control if we have a direct or indirect ability to make decisions about an entity's activities through voting or similar rights. We use the guidance set forth in Emerging Issues Task Force ("EITF") Issue No. 04-05, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (* "EITF No. 04-05"), FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* ("FIN 46R"), and SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries — An Amendment of ARB No. 51, with Related Amendments of APB Opinion No. 18, and ARB No. 43 Chapter 12* ("SFAS No. 94"), with respect to our investments in partnerships and limited liability companies. All intercompany balances and transactions are eliminated.

The accompanying financial statements also include the Investment Management and GP Entities and certain consolidated Private Funds during the periods presented. The Investment Management and GP Entities consolidate those entities in which (i) they have an investment of more than 50% and have control over significant operating, financial and investing decisions of the entity pursuant to SFAS No. 94, (ii) they have a substantive, controlling general partner interest pursuant to EITF No. 04-05 or (iii) they are the primary beneficiary of a variable interest entity pursuant to FIN 46R. With respect to the consolidated Private Funds, the limited partners and shareholders have no substantive rights to impact ongoing governance and operating activities.

The analysis as to whether to consolidate an entity is subject to a significant amount of judgment. Some of the criteria considered include the determination as to the degree of control over an entity by its various equity holders, the design of the entity, how closely related the entity is to each of its equity holders, the relation of the equity holders to each other and a determination of the primary beneficiary in entities in which we have a variable interest. These analyses involve estimates, probability weighting of subjectively determined cash flows scenarios and other estimates based on the assumptions of management.

*Revenue Recognition on Management Fee and Incentive Allocation*

The Investment Management and GP Entities generate income from amounts earned pursuant to contractual arrangements with the Private Funds. Such amounts typically include an annual management fee of 2.5% of the net asset value before a performance-based, or incentive, allocation of 25% of capital appreciation (both realized and unrealized) earned by the Private Funds subject to a "high water mark" (whereby the General Partners do not earn incentive allocations during a particular year even though the fund had a positive return in such year until losses in prior periods are recovered). Such amounts have been (and may in the future be)



modified or waived in certain circumstances. The Investment Management and GP Entities and their affiliates may also earn income through their principal investments in the Private Funds.

The general partner incentive allocations earned from the Private Funds are accrued on a quarterly basis in accordance with Method 2 of EITF Topic D-96, *Accounting for Management Fees Based on a Formula* ("EITF Topic D-96"), and are allocated to the Onshore GP and the Offshore GP, respectively, at the end ofthe Onshore Fund's and the Offshore Master Funds' fiscal year (or sooner on redemptions). Such accruals may be reversed as a result of subsequent investment performance prior to the conclusion of the Private Funds' fiscal year.

*Compensation Arrangements*

The Investment Management and GP Entities have entered into agreements with certain of their employees whereby these employees have been granted rights to participate in a portion of the management fees and incentive allocations earned by the Investment Management and GP Entities, net of certain expenses, and subject to various vesting provisions. The vesting period of these rights is generally between two to seven years, and such rights expire at the end of the contractual term of each respective employment agreement. Up to 100% of the amounts earned annually under such rights may be deferred for a period not to exceed ten years from the date of deferral, based on an annual election made by the employee for the upcoming fiscal year's respective management fee and incentive allocation rights. These amounts remain invested in the Private Funds and generally earn the rate of return of these funds, before the effects of any levied management fees or incentive allocations, which are waived on such deferred amounts. Accordingly, these rights are accounted for as liabilities in accordance with SFAS No. 123R (Revised 2004), *Share-Based Payment,* and remeasured at fair value each reporting period until settlement.

The fair value of amounts deferred under these rights is determined at the end of each reporting period based, in part, on the (i) fair value of the underlying net assets of the Private Funds, upon which the respective management fees and incentive allocations are based, and (ii) performance of the funds in which the deferred amounts are reinvested. The carrying value of such amounts represents the allocable management fees or incentive allocation initially deferred and the appreciation or depreciation on any reinvested deferrals. These amounts approximate fair value because the appreciation or depreciation on the deferrals is based on the fair value of the Private Funds' investments, which are marked-to-market through earnings on a monthly basis.

*Valuation of Investments*

The fair value of our investments, including securities sold, not yet purchased, are based on observable market prices when available. Securities of the Private Funds that are listed on a securities exchange are valued at their last sales price on the primary securities exchange on which such securities are traded on such date. Securities that are not listed on any exchange but are traded over-the-counter are valued at the mean between the last "bid" and "ask" price for such security on such date. Securities and other instruments for which market quotes are not readily available are valued at fair value as determined in good faith by the applicable general partner. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of management's judgment.

***Holding Company and Other Operations***

*Accounting for the Impairment of Long-Lived Assets other than Goodwill*

Long-lived assets held and used by us and long-lived assets to be disposed of, are reviewed for impairment whenever events or changes in circumstances, such as vacancies and rejected leases, indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, we estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows, undiscounted and without interest charges, is less than the carrying amount of the asset an impairment loss is recognized. Measurement of an impairment loss for long-lived assets that we expect to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.



*Accounting for the Impairment of Goodwill*

We perform impairment tests on goodwill on an annual basis, or on an interim basis if events or circumstances indicate that it is more likely than not that impairment has occurred. Goodwill is potentially impaired if the carrying value of the reporting unit that contains the goodwill exceeds its estimated fair value. The fair value of the reporting unit is determined using a combination of an income approach, which estimates fair value based upon future discounted cash flows, and a market approach, which estimates fair value using market multiples, ratios, and valuations of a set of comparable companies within the industry.

The valuation methodology and underlying financial information that is used to estimate the fair value of our reporting units requires significant judgments to be made by management. These judgments include, but are not limited to, the long-term projections of future financial performance and the selection of appropriate discount rates used to present value future cash flows. Our five-year strategic operating plan serves as the basis for these valuations and represents our best estimate of future business conditions in our industry as well as our ability to compete. Discount rates are determined based upon the weighted average cost of capital for a set of comparable companies adjusted for risks associated with our different operations. If there was a significant downturn in a reporting unit business, we could incur a goodwill impairment.

*Commitments and Contingencies — Litigation*

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

*Environmental Remediation*

Due to nature of the operations of our Metals segment, we may be subject to potential environmental remediation claims. Our Metals segment is subject to federal, state, local and foreign environmental laws and regulations concerning discharges to the air, soil, surface and subsurface waters and the generation, handling, storage, transportation, treatment and disposal of waste materials and hazardous substances. PSC Metals is also subject to other Federal, state, local and foreign laws and regulations including those that require PSC Metals to remove or mitigate the effects of the disposal or release of certain materials at various sites. While it is typically very difficult to determine the timing and ultimate outcome of such actions, if any, PSC Metals' management 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, PSC Metals' management makes estimates of the amount of insurance recoveries, if any. PSC Metals accrues a liability when management 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 have previously been made.

It is impossible to predict precisely what effect these laws and regulations will have on PSC Metals in the future. Compliance with environmental laws and regulations may result in, among other things, capital expenditures, costs and liabilities. Management believes, based on past experience and its best assessment of future events, that these environmental liabilities and costs will be assessed and paid over an extended period of time. PSC Metals believes that it will be able to fund such costs in the ordinary course of business.

Certain of PSC Metals' facilities are environmentally impaired in part as a result of operating practices at the sites prior to their acquisition by PSC Metals and as a result of PSC Metals operations. PSC Metals has established procedures to periodically evaluate these sites, giving consideration to the nature and extent of the contamination. PSC Metals has provided for the remediation of these sites based upon management's judgment and prior experience. PSC Metals has estimated the liability to remediate these sites to be $24.0 million and $19.9 million at September 30, 2007 and December 31, 2006, respectively.

PSC Metals has been named as a potentially responsible or liable party under U.S. Federal and state superfund laws in connection with various sites. It is alleged that PSC Metals and its subsidiaries or their predecessors transported waste to the sites, disposed of waste at the sites, or operated the sites in question. PSC Metals has reviewed the nature and extent of the allegations, the number, connection and financial ability of other named and unnamed potentially responsible arties and the nature and estimated cost of the likely remedy. Based on its review, PSC Metals has accrued its estimate of its liability to remediate these sites to be $0 at September 30, 2007 and December 31, 2006, respectively. If it is determined that more expensive remediation approaches are required in the future, PSC Metals could incur additional obligations, which could be material.

Estimates of PSC Metals' liability for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions and are inherently difficult to make, and the ultimate outcome may differ from current estimates. As additional information becomes available, estimates are adjusted. It is possible that technological, regulatory or enforcement developments, the results of environmental studies or other factors could alter estimates and necessitate the recording of additional liabilities, which could be material. Moreover, because PSC Metals has disposed of waste materials at numerous third-party disposal facilities, it is possible that PSC Metals will be identified as a potentially responsible party at additional sites. The impact of such future events cannot be estimated at the current time.

*Use of Estimates in Preparation of Financial Statements*

The preparation of the supplemental consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period.

The more significant estimates include (1) the valuation allowances of accounts receivable and inventory, (2) the valuation of long-lived assets, mortgages and notes receivable, marketable equity and debt securities and other investments, (3) costs to complete for land, house and condominium developments, (4) gaming-related liability and promotional programs, (5) deferred tax assets, (6) oil and gas reserve estimates, (7) asset retirement obligations, (8) environmental liabilities and (9) fair value of derivatives. Actual results may differ from the estimates and assumptions used in preparing the supplemental consolidated financial statements.

*Income Taxes*

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

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

New Icahn Management (and Icahn Management prior to the acquisition on August 8, 2007) is subject to New York City Unincorporated Business Tax, or UBT, at a statutory rate of 4% on a portion of its income. UBT is accounted for under SFAS No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). New Icahn Management accounts for these taxes using the asset and liability method under which 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.

Management periodically evaluates all evidence, both positive and negative, in determining whether a valuation allowance to reduce the carrying value of deferred tax assets is still needed. In fiscal 2006 and fiscal 2005, we concluded, based on the projections of taxable income, that certain of our corporate subsidiaries more likely than not will realize a partial benefit from their deferred tax assets and loss carry forwards. Ultimate realization of the deferred tax assets is dependent upon, among other factors, our corporate subsidiaries'



ability to generate sufficient taxable income within the carryforward periods and is subject to change depending on the tax laws in effect in the years in which the carryforwards are used.

***Recently Issued Accounting Pronouncements***

*SFAS No. 155.* On February 16, 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Instruments — an Amendment of FASB Statements No. 133 and 140* ("SFAS No. 155"). The statement amends Statement No. 133 to permit fair value measurement for certain hybrid financial instruments that contain an embedded derivative, provides additional guidance on the applicability of SFAS No.133 and 140 to certain financial instruments and subordinated concentrations of credit risk. The new standard is effective for the first fiscal year beginning after September 15, 2006. The adoption of SFAS No. 155 as of January 1, 2007 did not have any impact on our supplemental consolidated financial statements.

*EITF 06-3.* In June 2006, the EITF issued EITF Issue 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)* ("EITF 06-3"), to clarify diversity in practice on the presentation of different types of taxes in the financial statements. EITF 06-3 concluded that, for taxes within the scope of the issue, a company may adopt a policy of presenting taxes either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of

sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. If taxes are reported on a gross basis, and are significant, an entity should disclose the amounts of those taxes subject to EITF 06-3. The guidance is effective for periods beginning after December 15, 2006. We present sales tax on a net basis in our supplemental consolidated financial statements, and the adoption of EITF 06-3 did not have any impact on our supplemental consolidated financial position, results of operations or cash flows.

*FIN 48.* In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement 109* ("FIN 48"), which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the "more-likely-than-not" threshold, the largest amount of tax benefit that is greater than 50 percent likely to be recognized upon ultimate settlement with the taxing authority is recorded. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening partners' equity. We adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have a material impact on our supplemental consolidated financial statements. See Note 17, "Income Taxes," to the supplemental consolidated financial statements as of, and for the period ended September 30, 2007 for additional information.

*SFAS No. 157.* In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS No. 157 does not require any new fair value measurements. We adopted SFAS No.157 as of January 1, 2007, in conjunction with the adoption of SFAS No. 159, as required. The adoption of SFAS No. 157 did not have any material impact on our supplemental consolidated financial statements.

*SFAS No. 158.* In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106, and 132). SFAS No. 158* requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. We are required to adopt SFAS No. 158 as of December 31, 2007. We are currently evaluating the effect, if any, of the adoption of SFAS No. 158 on our supplemental consolidated financial statements.

*SFAS No. 159.* In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115* ("SFAS No. 159"),



which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning partners' equity.

We adopted SFAS No. 159 as of January 1, 2007 and elected to apply the fair value option to our investment in ImClone Systems Incorporated ("ImClone"). It is our policy to apply the fair value option to all of our investments that would be subject to the equity method of accounting pursuant to APB 18, *The Equity Method of Accounting for Investments in Common Stock* ("APB 18"). In the fourth quarter of fiscal 2006, we first applied the equity method of accounting to our investment in ImClone due to changes in ImClone's board, resulting in our having the ability to exercise significant influence over ImClone. We believe that the quality of the earnings and the value of the investment that we report over time relating to our investment in ImClone are more accurately reflected by the market value methodology of SFAS No. 159 rather than the equity method of accounting. The equity method of accounting would require an appraisal of the fair values of ImClone's assets and liabilities at the dates that we acquired shares of common stock of ImClone as well as future appraisals should there be any material indications of impairment. We believe that such an appraisal would be subjective given the nature of ImClone's pharmaceutical operations.

As of the date of adoption, the carrying value of our investment in ImClone was approximately $164.3 million and the fair value of our investment was approximately $122.2 million. In accordance with the transition requirements of SFAS No. 159, we recorded a cumulative effect adjustment to beginning partners' equity for the difference between the fair value and carrying value on the date of adoption, which reduced partners' equity by approximately $42.2 million.

As described below in our discussion of the impact of our early adoption of SOP 07-1, we also elected the fair value option for the investments in debt and equity securities held by our consolidated Private Funds.

*SOP 07-1.* In June 2007, SOP 07-1 was issued. SOP 07-1 addresses whether the accounting principles of the AICPA Guide may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 applies to reporting periods beginning on or after December 15, 2007, although early application is permitted. The Investment Management and GP Entities adopted SOP 07-1 as of January 1, 2007.

As discussed above, because the General Partners and their affiliates acquire interests for strategic operating purposes in certain

of the same companies in which their subsidiary investment companies invest, they lose their ability to retain specialized accounting pursuant to the AICPA Guide. However, the Investment Management and GP Entities apply SFAS No. 115 to their investments held by the consolidated Private Funds in debt securities and in those equity securities with readily determinable fair values, as defined by that Statement, and classified such investments as available-for-sale securities and elected the fair value option pursuant to SFAS No. 159. For those equity securities that fall outside the scope of SFAS No. 115 because they do not have readily determinable fair values as defined by that Statement, the Investment Management and GP Entities elected the fair value option pursuant to SFAS No.159 and measured the fair value of such securities in accordance with the requirements of SFAS No. 157. For those investments in which the Investment Management and GP Entities would otherwise account for such investments under the equity method, the Investment Management and GP Entities, in accordance with their accounting policy, elected the fair value option pursuant to SFAS No. 159 for all such investments.

*FSP FIN 39-1.* On April 30, 2007, the FASB issued FASB Staff Position No. FIN 39-1 (“FSP FIN 39-1”), which amends FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts (FIN 39)*. FSP FIN 39-1 impacts entities that enter into master netting arrangements as part of their derivative transactions by allowing net derivative positions to be offset in the financial statements against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral or the



obligation to return cash collateral under those arrangements. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, although early application is permitted. We are currently evaluating the effect, if any, of the adoption of FSP FIN 39-1 on our supplemental consolidated financial statements.

*FSP FIN 46(R)-7.* In May 2007, the staff of the FASB issued FASB Staff Position on FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* (“FSP FIN 46(R)-7”). The staff position amends FIN 46R to indicate that investments accounted for at fair value in accordance with SOP 07-1 are not subject to consolidation under FIN 46R. The adoption of FSP FIN 46(R)-7 will require the Investment Management and GP Entities to apply consolidation provisions of FIN 46R to their consolidated entities that previously fell within the scope of the AICPA Guide. The adoption of FSP FIN 46(R)-7 will not have any material impact on our supplemental consolidated financial statements.

*Forward-Looking Statements*

Statements included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” which are not historical in nature are intended to be, and are hereby identified as, “forward looking statements” for purposes of the safe harbor provided by Section 27A of the Securities Act and Section 21E of the ’34 Act, as amended by Public Law 104-67.

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

**Certain Trends and Uncertainties**

We have in the past and may in the future make forward looking statements. Certain of the statements contained in this document involve risks and uncertainties. Our future results could differ materially from those statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed in Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2006, and in Part II, Item 1A, “Risk Factors,” in our Quarterly Reports for the quarters ended June 30, 2007 and September 30, 2007, filed with the SEC on August 9, 2007 and November 9, 2007, respectively. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those predicted.

**Exhibit 99.4**

**Quantitative and Qualitative Disclosures About Market Risk**

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

***a. Investment Management***

Our predominant exposure to market risk is related to our role as general partner or investment manager to the Private Funds and the sensitivities to movements in the fair value of their investments, including the effect on our management fees and incentive allocations.

The fair value of the financial assets and liabilities of the Private Funds primarily fluctuates in response to changes in the value of securities. The net effect of these fair value changes impacts the net gains (losses) from investment activities in our supplemental consolidated statements of operations. However, the majority of these fair value changes are absorbed by the non-controlling interest holders in the Private Funds.

The Private Funds' risk is evaluated daily and is managed on a position basis as well as on a portfolio basis. Our investment team meets on a regular basis to assess and review concentration risk, correlation risk and credit risk for significant positions. Risk metrics and other analytical tools are prepared in the normal course of business and made available to the General Partners.

*Effect on Private Fund Management Fees*

Our management fees are based on a specified percentage of the net asset value of a Private Fund (before an incentive allocation based on the net profits of a Private Fund subject to a loss carryforward provision), as described in our supplemental consolidated financial statements. Accordingly, our management fees will be directly affected by changes in market risk factors. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the market value of our investments in the related funds. Although the majority of our management fees are eliminated in consolidation, our allocated share of the net income of the Private Funds includes the amount of these eliminated fees.

*Impact on Incentive Allocations*

Our incentive allocations are based on a specified percentage of the net profits earned by the Private Funds subject to a loss carryforward provision. Our incentive allocations will be impacted by changes in market risk factors but are not readily predicted or estimated. Although our incentive allocations are eliminated in consolidation, our allocated share of the net income of the Private Funds includes the amount of these eliminated fees.

*Market Risk*

The Private Funds hold investments that are reported at fair value as of the reporting date, which include securities owned, securities sold, not yet purchased and derivatives as reported on our supplemental consolidated balance sheets. Based on their respective balances as of December 31, 2006, we estimate that in the event of a 10% decline in fair value of these investments, the fair value of securities owned and securities sold, not yet purchased would decrease by $275.7 million and increase by $69.1 million, respectively, and the fair value of derivatives would decrease by $18.2 million. However, we estimate that the impact to our share of the net gain (loss) from investment activities reported on our supplemental consolidated statement of operations would be significantly less than the change in fair value since we have an investment of approximately 7% in these Private Funds, and the non-controlling interests in income of consolidated entities would correspondingly offset approximately 93% of the change in fair value.

*Exchange Rate Risk*

The Private Funds are not materially exposed to foreign exchange risk since foreign investments are economically hedged by foreign currency forward contracts.

*Credit Risk*

Icahn Enterprises and certain of its consolidated Private Funds are subject to certain inherent risks through their investments.



Our entities typically invest excess cash in large money market funds. The money market funds primarily invest in government securities and other short-term, highly liquid instruments with a low risk of loss. The Private Funds also maintain free credit balances with their prime brokers and in interest bearing accounts at major banking institutions. We seek to diversify our cash investments across several accounts and institutions and monitor performance and counterparty risk.

The Private Funds and, to a lesser extent, other entities, hold derivative instruments that are subject to credit risk in the event that the counterparties are unable to meet the terms of such agreements. When the Private Funds make such investments or enter into other arrangements where they might suffer a significant loss through the default or insolvency of a counterparty, the General Partners monitor the credit quality of such counterparty and seek to do business with creditworthy counterparties. Counterparty risk is monitored by obtaining and reviewing public information filed by the counterparties and others.

***b. Holding Company and Other Operations***

*Interest Rate Risk*

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

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

We have predominately long-term fixed interest rate debt. Generally, the fair market value of debt securities with a fixed interest rate will increase as interest rates fall, and the fair market value will decrease as interest rates rise. At December 31, 2006, the impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of approximately $40 million. A 100 basis point decrease would result in an increase in market value of approximately $40 million.

*Equity Price Risk*

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

Based on a sensitivity analysis for our equity price risks as of December 31, 2006 and 2005 the effects of a hypothetical 10% increase or decrease in market prices as of those dates would result in a gain or loss that would be approximately $66.0 million and $85.0 million, respectively. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due to the nature of equity markets.