

FOREST CITY ENTERPRISES INC  
Form 10-Q  
December 08, 2011  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**Form 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 31, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-4372

FOREST CITY ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Ohio  
(State or other jurisdiction of  
incorporation or organization)

34-0863886  
(I.R.S. Employer  
Identification No.)

Terminal Tower                      50 Public Square  
Suite 1100                              Cleveland, Ohio

44113

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

216-621-6060

(Former name, former address and former fiscal year, if changed since last report)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or

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for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding, including unvested restricted stock, of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at December 1, 2011</u>
Class A Common Stock, \$.33 1/3 par value	150,156,140 shares
Class B Common Stock, \$.33 1/3 par value	20,959,481 shares

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**Forest City Enterprises, Inc. and Subsidiaries**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Forest City Enterprises, Inc. and Subsidiaries****Consolidated Balance Sheets**

(Unaudited)

	October 31, 2011 (Unaudited)	January 31, 2011
<i>(in thousands)</i>		
<b>Assets</b>		
Real Estate		
Completed rental properties	\$ 7,126,942	\$ 8,215,425
Projects under construction and development	2,237,756	2,706,235
Land held for development or sale	268,685	244,879
<b>Total Real Estate</b>	<b>9,633,383</b>	11,166,539
Less accumulated depreciation	(1,519,794)	(1,614,399)
Real Estate, net (variable interest entities \$1,976.8 million and \$2,627.8 million, respectively)	<b>8,113,589</b>	9,552,140
Cash and equivalents (variable interest entities \$21.6 million and \$24.7 million, respectively)	229,656	193,372
Restricted cash and escrowed funds (variable interest entities \$257.1 million and \$471.4 million, respectively)	457,441	720,180
Notes and accounts receivable, net	388,913	403,101
Investments in and advances to unconsolidated entities	663,474	431,509
Other assets (variable interest entities \$133.1 million and \$166.8 million, respectively)	610,310	759,399
<b>Total Assets</b>	<b>\$ 10,463,383</b>	\$ 12,059,701
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Mortgage debt and notes payable, nonrecourse - (variable interest entities \$950.7 million and \$1,879.0 million, respectively)	\$ 5,493,372	\$ 7,207,218
Bank revolving credit facility		137,152
Senior and subordinated debt (variable interest entities \$29.0 million as of each period)	1,038,447	773,683
Accounts payable, accrued expenses and other liabilities - (variable interest entities \$158.8 million and \$150.2 million, respectively)	1,082,806	1,074,042
Cash distributions and losses in excess of investments in unconsolidated entities	285,171	290,492
Deferred income taxes	485,663	489,974
<b>Total Liabilities</b>	<b>8,385,459</b>	9,972,561
<b>Redeemable Noncontrolling Interest</b>	<b>228,785</b>	226,829
<b>Commitments and Contingencies</b>		
<b>Equity</b>		
<b>Shareholders Equity</b>		

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Preferred stock 7.0% Series A cumulative perpetual convertible, without par value, \$50 liquidation preference; 6,400,000 shares authorized; 4,399,998 shares issued and outstanding	<b>220,000</b>	220,000
Preferred stock without par value; 13,600,000 shares authorized; no shares issued		
Common stock \$.33 1/3 par value		
Class A, 371,000,000 shares authorized, 148,303,025 and 144,251,634 shares issued and 148,192,446 and 144,230,310 shares outstanding, respectively	49,434	48,084
Class B, convertible, 56,000,000 shares authorized, 20,964,181 and 21,218,753 shares issued and outstanding, respectively; 26,257,961 issuable	6,988	7,073
<b>Total common stock</b>	<b>56,422</b>	<b>55,157</b>
Additional paid-in capital	<b>740,484</b>	689,004
Retained earnings	<b>666,052</b>	659,926
Less treasury stock, at cost; 110,579 and 21,324 Class A shares, respectively	<b>(1,914)</b>	(259)
<b>Shareholders' equity before accumulated other comprehensive loss</b>	<b>1,681,044</b>	1,623,828
Accumulated other comprehensive loss	<b>(114,723)</b>	(94,429)
<b>Total Shareholders' Equity</b>	<b>1,566,321</b>	1,529,399
Noncontrolling interest	<b>282,818</b>	330,912
<b>Total Equity</b>	<b>1,849,139</b>	1,860,311
<b>Total Liabilities and Equity</b>	<b>\$ 10,463,383</b>	\$ 12,059,701

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Forest City Enterprises, Inc. and Subsidiaries****Consolidated Statements of Operations**

(Unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2011	2010	2011	2010
	<i>(in thousands, except per share data)</i>		<i>(in thousands, except per share data)</i>	
<b>Revenues from real estate operations</b>	<b>\$ 261,198</b>	<b>\$ 287,046</b>	<b>\$ 822,827</b>	<b>\$ 850,049</b>
<b>Expenses</b>				
Operating expenses	169,155	162,082	491,834	486,726
Depreciation and amortization	55,415	60,367	166,660	177,733
Impairment of real estate	10,707	5,703	15,777	6,803
	235,277	228,152	674,271	671,262
Interest expense	(67,235)	(75,840)	(198,214)	(241,817)
Amortization of mortgage procurement costs	(3,414)	(3,322)	(9,036)	(8,655)
Gain on extinguishment of debt	15,101	2,460	9,334	10,653
Interest and other income	11,294	11,919	42,116	34,964
Net gain (loss) on disposition of partial interests in rental properties and other investment	5,849	(2,257)	15,410	257,990
<b>Earnings (loss) before income taxes</b>	<b>(12,484)</b>	<b>(8,146)</b>	<b>8,166</b>	<b>231,922</b>
<b>Income tax expense (benefit)</b>				
Current	(13,890)	(7,459)	1,244	4,111
Deferred	(3,328)	26,960	(6,720)	87,586
	(17,218)	19,501	(5,476)	91,697
Equity in earnings of unconsolidated entities	1,273	22,232	23,652	19,293
Impairment of unconsolidated entities	(41,289)	(21,564)	(41,289)	(36,745)
<b>Earnings (loss) from continuing operations</b>	<b>(35,282)</b>	<b>(26,979)</b>	<b>(3,995)</b>	<b>122,773</b>
Discontinued operations, net of tax:				
Operating earnings from rental properties		2,087	2,961	3,814
Impairment of real estate		(20,931)		(48,731)
Gain (loss) on disposition of rental properties		(758)	104,806	4,552
		(19,602)	107,767	(40,365)
<b>Net earnings (loss)</b>	<b>(35,282)</b>	<b>(46,581)</b>	<b>103,772</b>	<b>82,408</b>

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**Noncontrolling interests**

(Earnings) loss from continuing operations attributable to noncontrolling interests	(2,743)	937	(2,341)	(15,768)
Earnings from discontinued operations attributable to noncontrolling interests		(1,147)	(83,755)	(6,147)
	(2,743)	(210)	(86,096)	(21,915)

<b>Net earnings (loss) attributable to Forest City Enterprises, Inc.</b>	<b>\$ (38,025)</b>	<b>\$ (46,791)</b>	<b>\$ 17,676</b>	<b>\$ 60,493</b>
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Preferred dividends	(3,850)	(3,850)	(11,550)	(7,957)
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<b>Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders</b>	<b>\$ (41,875)</b>	<b>\$ (50,641)</b>	<b>\$ 6,126</b>	<b>\$ 52,536</b>
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**Basic earnings (loss) per common share**

Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders	\$ (0.25)	\$ (0.20)	\$ (0.11)	\$ 0.62
Earnings (loss) from discontinued operations attributable to Forest City Enterprises, Inc.		(0.13)	0.14	(0.29)

<b>Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders</b>	<b>\$ (0.25)</b>	<b>\$ (0.33)</b>	<b>\$ 0.03</b>	<b>\$ 0.33</b>
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**Diluted earnings (loss) per common share**

Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders	\$ (0.25)	\$ (0.20)	\$ (0.11)	\$ 0.58
Earnings (loss) from discontinued operations attributable to Forest City Enterprises, Inc.		(0.13)	0.14	(0.25)

<b>Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders</b>	<b>\$ (0.25)</b>	<b>\$ (0.33)</b>	<b>\$ 0.03</b>	<b>\$ 0.33</b>
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The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Forest City Enterprises, Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income (Loss)**

(Unaudited)

	<b>Three Months Ended October 31, 2011</b>	<b>2010</b>
	<i>(in thousands)</i>	
<b>Net loss</b>	<b>\$ (35,282)</b>	<b>\$(46,581)</b>
Other comprehensive income (loss), net of tax:		
Unrealized net losses on investment securities	<b>(8)</b>	(16)
Foreign currency translation adjustments	<b>(93)</b>	155
Unrealized net losses on interest rate derivative contracts	<b>(8,457)</b>	(7,929)
Total other comprehensive loss, net of tax	<b>(8,558)</b>	(7,790)
Comprehensive loss	<b>(43,840)</b>	(54,371)
Comprehensive income attributable to noncontrolling interest	<b>(2,749)</b>	(168)
<b>Total comprehensive loss attributable to Forest City Enterprises, Inc.</b>	<b>\$ (46,589)</b>	<b>\$(54,539)</b>
	<b>Nine Months Ended October 31, 2011</b>	<b>2010</b>
	<i>(in thousands)</i>	
<b>Net earnings</b>	<b>\$ 103,772</b>	<b>\$82,408</b>
Other comprehensive income (loss), net of tax:		
Unrealized net losses on investment securities	<b>(10)</b>	
Foreign currency translation adjustments	<b>50</b>	21
Unrealized net losses on interest rate derivative contracts	<b>(19,288)</b>	(31,426)
Total other comprehensive loss, net of tax	<b>(19,248)</b>	(31,405)
Comprehensive income	<b>84,524</b>	51,003
Comprehensive income attributable to noncontrolling interest	<b>(87,142)</b>	(21,845)
<b>Total comprehensive income (loss) attributable to Forest City Enterprises, Inc.</b>	<b>\$ (2,618)</b>	<b>\$29,158</b>



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## Forest City Enterprises, Inc. and Subsidiaries

## Consolidated Statements of Equity

(Unaudited)

	Preferred Stock Series A		Common Stock		Class B	Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Loss		Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount				Shares	Amount	Shares	Amount		
<i>(in thousands)</i>													
<b>Balances at January 31, 2010</b>		\$	132,836	\$ 44,279	22,516	\$ 7,505	\$ 571,189	\$ 613,073	28	\$ (154)	\$ (87,266)	\$ 356,214	\$ 1,504,840
Cumulative effect of adoption of new consolidation accounting guidance												(74,034)	(74,034)
Net earnings, net of \$1,925 attributable to redeemable noncontrolling interest							58,660					29,275	87,935
Other comprehensive loss, net of tax											(7,163)	(63)	(7,226)
Purchase of treasury stock								54	(786)				(786)
Conversion of Class B to Class A shares			1,297	432	(1,297)	(432)							
Issuance of Class A shares in exchange for Convertible Senior Notes			9,774	3,258			133,186						136,444
Proceeds received from partial termination of Convertible Senior Notes hedge							1,869						1,869
Issuance of Series A preferred stock for cash	1,000	50,000					(5,544)						44,456
Issuance of Series A preferred stock in exchange for Senior Notes	3,400	170,000					(2,342)						167,658
Purchase of equity call hedge related to issuance of							(17,556)						(17,556)

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preferred stock														
Preferred stock dividends													(11,807)	(11,807)
Exercise of stock options	123	41					1,899		(61)	681				2,621
Purchase of Puttable Equity-Linked Senior Notes due 2011							7							7
Restricted stock vested	222	74					(74)							
Stock-based compensation							14,931							14,931
Excess income tax deficiency from stock-based compensation							(2,216)							(2,216)
Redeemable noncontrolling interest adjustment							(6,845)							(6,845)
Acquisition of partner s noncontrolling interest in consolidated subsidiary							500							(500)
Contributions from noncontrolling interests													18,136	18,136
Distributions to noncontrolling interests													(20,777)	(20,777)
Change to equity method of accounting due to disposition of partial interests in rental properties													23,493	23,493
Other changes in noncontrolling interests													(832)	(832)
<b>Balances at January 31, 2011</b>	4,400	\$ 220,000	144,252	\$ 48,084	21,219	\$ 7,073	\$ 689,004	\$ 659,926	21	\$ (259)	\$ (94,429)	\$ 330,912	\$ 1,860,311	
Net earnings, net of \$2,852 attributable to redeemable noncontrolling interest								17,676				88,948	106,624	
Other comprehensive loss, net of tax											(20,294)	1,046	(19,248)	
Purchase of treasury stock									90	(1,670)			(1,670)	
Conversion of Class B to Class A shares		255	85	(255)	(85)									
Issuance of Class A shares in exchange for Convertible		3,444	1,148				47,594						48,742	

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Senior Notes due 2016														
Restricted stock vested	339	113				(113)								
Exercise of stock options	13	4				158		(1)	15					177
Preferred stock dividends								(11,550)						(11,550)
Stock-based compensation						9,516								9,516
Excess income tax deficiency from stock-based compensation						(790)								(790)
Redeemable noncontrolling interest adjustment						(4,808)								(4,808)
Acquisition of partners noncontrolling interest in consolidated subsidiaries						(77)					(20,260)			(20,337)
Contributions from noncontrolling interests											3,087			3,087
Distributions to noncontrolling interests											(87,588)			(87,588)
Change to equity method of accounting for subsidiaries											(33,598)			(33,598)
Other changes in noncontrolling interests											271			271
<b>Balances at October 31, 2011</b>	<b>4,400</b>	<b>\$ 220,000</b>	<b>148,303</b>	<b>\$ 49,434</b>	<b>20,964</b>	<b>\$ 6,988</b>	<b>\$ 740,484</b>	<b>\$ 666,052</b>	<b>110</b>	<b>\$ (1,914)</b>	<b>\$ (114,723)</b>	<b>\$ 282,818</b>	<b>\$ 1,849,139</b>	

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Forest City Enterprises, Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

(Unaudited)

**Nine Months Ended October 31,**  
**2011**                      **2010***(in thousands)*

<b>Net earnings</b>	<b>\$ 103,772</b>	<b>\$ 82,408</b>
Depreciation and amortization	<b>166,660</b>	177,733
Amortization of mortgage procurement costs	<b>9,036</b>	8,655
Impairment of real estate	<b>15,777</b>	6,803
Impairment of unconsolidated entities	<b>41,289</b>	36,745
Write-off of abandoned development projects	<b>9,931</b>	678
Gain on extinguishment of debt	<b>(9,334)</b>	(10,653)
Net gain on disposition of partial interests in rental properties and other investment	<b>(15,410)</b>	(257,990)
Deferred income tax expense (benefit)	<b>(6,720)</b>	87,586
Equity in earnings of unconsolidated entities	<b>(23,652)</b>	(19,293)
Stock-based compensation expense	<b>6,070</b>	6,279
Amortization and mark-to-market adjustments of derivative instruments	<b>3,320</b>	10,145
Non-cash interest expense related to Puttable Equity-Linked Senior Notes	<b>1,655</b>	1,419
Cash distributions from operations of unconsolidated entities	<b>37,747</b>	29,755
Discontinued operations:		
Depreciation and amortization	<b>2,216</b>	8,707
Amortization of mortgage procurement costs	<b>739</b>	1,531
Impairment of real estate		79,603
Deferred income tax expense (benefit)	<b>14,558</b>	(29,186)
Gain on disposition of rental properties	<b>(121,695)</b>	(4,776)
Cost of sales of land included in projects under construction and development and completed rental properties	<b>3,868</b>	17,359
Increase in land held for development or sale	<b>(18,370)</b>	(12,591)
Decrease in notes and accounts receivable	<b>7,036</b>	17,283
(Increase) decrease in other assets	<b>(5,625)</b>	7,069
Increase in restricted cash and escrowed funds used for operating purposes	<b>(10,585)</b>	(40,641)
Decrease in accounts payable, accrued expenses and other liabilities	<b>(8,813)</b>	(55,166)
<b>Net cash provided by operating activities</b>	<b>203,470</b>	149,462
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	<b>(547,531)</b>	(563,880)
Payment of lease procurement costs	<b>(16,907)</b>	(16,024)
Increase in other assets	<b>(10,215)</b>	(40,597)
Decrease (increase) in restricted cash and escrowed funds used for investing purposes	<b>181,609</b>	(301,856)
Proceeds from dispositions of full or partial interests in rental properties	<b>319,461</b>	189,788
(Increase) decrease in investments in and advances to affiliates	<b>(90,210)</b>	13,677
<b>Net cash used in investing activities</b>	<b>(163,793)</b>	(718,892)
<b>Cash Flows from Financing Activities</b>		
Proceeds from nonrecourse mortgage debt and notes payable	<b>265,836</b>	599,495
Principal payments on nonrecourse mortgage debt and notes payable	<b>(317,206)</b>	(279,769)
Borrowings on bank revolving credit facility	<b>464,575</b>	661,352

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Payments on bank revolving credit facility	(601,727)	(619,266)
Payment of Puttable Equity-Linked Senior Notes due 2011	(39,407)	
Proceeds from issuance of Convertible Senior Notes due 2018, net of \$10,625 of issuance costs	339,375	
Payment of transaction costs related to exchanges of Convertible Senior Notes due 2016 for Class A common stock	(3,200)	
Purchase of Senior Notes due 2011 and 2017		(16,569)
Payment of deferred financing costs	(12,414)	(25,155)
Change in restricted cash and escrowed funds and book overdrafts	(1,681)	(1,187)
Proceeds from issuance of Series A preferred stock, net of \$5,544 of issuance costs		44,456
Payment for equity call hedge related to the issuance of Series A preferred stock		(17,556)
Dividends paid to preferred shareholders	(11,550)	(7,957)
Purchase of treasury stock	(1,670)	(711)
Exercise of stock options	177	
Contributions from redeemable noncontrolling interest		181,909
Contributions from noncontrolling interests	3,087	2,526
Distributions to noncontrolling interests	(87,588)	(13,303)
<b>Net cash (used in) provided by financing activities</b>	<b>(3,393)</b>	<b>508,265</b>
<b>Net increase (decrease) in cash and equivalents</b>	<b>36,284</b>	<b>(61,165)</b>
<b>Cash and equivalents at beginning of period</b>	<b>193,372</b>	<b>251,405</b>
<b>Cash and equivalents at end of period</b>	<b>\$ 229,656</b>	<b>\$ 190,240</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Forest City Enterprises, Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

(Unaudited)

**Supplemental Non-Cash Disclosures:**

The table below represents the net effect of the following non-cash transactions:

	<b>Nine Months Ended October 31,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(in thousands)</i>	
<b>Operating Activities</b>		
Increase in land held for development or sale <sup>(1)(2)(3)</sup>	\$ (11,155)	\$ (16,631)
Decrease in notes and accounts receivable <sup>(4)(5)(6)(7)(8)</sup>	26,969	18,234
Decrease in other assets <sup>(4)(5)(6)(7)(9)</sup>	150,699	71,672
Decrease (increase) in restricted cash and escrowed funds <sup>(4)(5)(6)</sup>	149,593	(1,106)
Decrease in accounts payable, accrued expenses and other liabilities <sup>(3)(4)(5)(6)(7)</sup>	(4,235)	(115,435)
<b>Total effect on operating activities</b>	<b>\$ 311,871</b>	<b>\$ (43,266)</b>
<b>Investing Activities</b>		
Decrease in projects under construction and development <sup>(2)(3)(4)(6)(10)</sup>	\$ 442,332	\$ 32,714
Decrease in completed rental properties <sup>(2)(4)(5)(6)(7)</sup>	1,212,542	567,227
(Increase) decrease in investments in and advances to unconsolidated entities <sup>(4)(5)(6)(11)</sup>	(275,880)	108,974
<b>Total effect on investing activities</b>	<b>\$ 1,378,994</b>	<b>\$ 708,915</b>
<b>Financing Activities</b>		
Decrease in nonrecourse mortgage debt and notes payable <sup>(1)(4)(5)(6)(7)(11)(12)</sup>	\$ (1,642,048)	\$ (661,185)
Decrease in senior and subordinated debt <sup>(9)(13)</sup>	(40,000)	(167,658)
Increase in preferred stock <sup>(13)</sup>		170,000
Increase in Class A common stock <sup>(9)</sup>	959	
Increase (decrease) in additional paid-in capital <sup>(9)(10)(11)(12)(13)</sup>	37,956	(2,080)
Increase in redeemable noncontrolling interest <sup>(11)</sup>	4,808	44,842
Decrease in noncontrolling interest <sup>(4)(5)(6)(8)(12)</sup>	(52,540)	(49,568)
<b>Total effect on financing activities</b>	<b>\$ (1,690,865)</b>	<b>\$ (665,649)</b>

(1) Assumption of debt in exchange for a 75% equity interest in a land development project during the nine months ended October 31, 2011.

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- (2) Commercial Group and Residential Group outlots reclassified prior to sale from projects under construction and development or completed rental properties to land held for sale.
- (3) Increase or decrease in construction payables included in accounts payable, accrued expenses and other liabilities.
- (4) Change to equity method of accounting from full consolidation for *8 Spruce Street* and *DKLB BKLN* apartment buildings, due to recapitalization transactions during the nine months ended October 31, 2011.
- (5) Disposition of partial interests in *Mall at Stonecrest*, a regional mall, and 15 New York retail properties and change to equity method of accounting for remaining ownership interest during the nine months ended October 31, 2011 and disposition of partial interests in the Company's mixed-use *University Park* project and in *The Grand*, *Lenox Club* and *Lenox Park* apartment communities and change to equity method of accounting for the remaining ownership interest during the nine months ended October 31, 2010.
- (6) Change in consolidation method of accounting for various entities in the Residential and Commercial Groups during the nine months ended October 31, 2010, due to the adoption of accounting guidance for the consolidation of variable interest entities.
- (7) Disposition of *Waterfront Station East 4<sup>th</sup> & West 4<sup>th</sup> Buildings*, office buildings, and *Charleston Marriott*, a hotel, including assumption of nonrecourse mortgage debt by the buyers, during the nine months ended October 31, 2011 and disposition of *Saddle Rock Village*, a specialty retail center, and *101 San Fernando*, an apartment community, during the nine months ended October 31, 2010.
- (8) Receipt of a note receivable as a contribution from a noncontrolling interest during the nine months ended October 31, 2010.
- (9) Exchange of a portion of the Company's senior notes due 2016 for Class A common stock during the nine months ended October 31, 2011.
- (10) Capitalization of stock-based compensation granted to employees directly involved with the acquisition, development and construction of real estate.
- (11) Conversion of loans into investments in and advances to unconsolidated entities and redeemable noncontrolling interest in accordance with the amended operating agreement of Nets Sports and Entertainment, LLC, concurrent with the Company's closing on the purchase agreement with entities controlled by Mikhail Prokhorov during the nine months ended October 31, 2010 and adjustments to redemption value of redeemable noncontrolling interest during the nine months ended October 31, 2011.
- (12) Difference between fair value of consideration transferred and the book value of noncontrolling interest in connection with the acquisition of certain partners' noncontrolling interests in Nets Sports and Entertainment, LLC and development projects in the Commercial Group during the nine months ended October 31, 2011.
- (13) Exchange of a portion of the Company's senior notes due 2011, 2015 and 2017 for a new issue of 7.0% Series A Cumulative Perpetual Convertible Preferred Stock during the nine months ended October 31, 2010.

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****Forest City Enterprises, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

(Unaudited)

**A. Accounting Policies****Basis of Presentation**

The interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes included in the Company's annual report on Form 10-K for the year ended January 31, 2011. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments considered necessary for a fair statement of financial position, results of operations and cash flows at the dates and for the periods presented have been included.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires the Company to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. Some of the critical estimates made by the Company include, but are not limited to, determination of the primary beneficiary of variable interest entities ( VIEs ), estimates of useful lives for long-lived assets, reserves for collection on accounts and notes receivable and other investments, impairment of real estate and other-than-temporary impairments on its equity method investments. As a result of the nature of estimates made by the Company, actual results could differ.

**Reclassification**

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year's presentation. \$290,492,000 was reclassified from investments in and advances to unconsolidated entities to cash distributions and losses in excess of investments in unconsolidated entities on the consolidated balance sheet as of January 31, 2011.

**Accumulated Other Comprehensive Loss**

The following table summarizes the components of accumulated other comprehensive income (loss) ( accumulated OCI ).

	October 31, 2011	January 31, 2011
	<i>(in thousands)</i>	
Unrealized losses on securities	\$ 502	\$ 485
Unrealized losses on foreign currency translation	1,435	1,516
Unrealized losses on interest rate contracts <sup>(1)</sup>	185,626	153,432
	187,563	155,433
Noncontrolling interest and income tax benefit	(72,840)	(61,004)
<b>Accumulated Other Comprehensive Loss</b>	<b>\$ 114,723</b>	<b>\$ 94,429</b>

(1) Included in the amounts as of October 31 and January 31, 2011 are \$134,132 and \$102,387, respectively, of unrealized losses on an interest rate swap associated with New York Times, an office building in Manhattan, New York, on its nonrecourse mortgage debt with a notional amount of \$640,000. This swap effectively fixes the mortgage at an all-in lender interest rate of 6.40% (5.50% swap rate plus 0.90% lender spread) and expires in September 2017.

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Approximately \$32,900 is expected to be reclassified from accumulated OCI to interest expense within the next twelve months.

### **Fair Value of Financial Instruments**

The carrying amount of notes and accounts receivable and accounts payable, accrued expenses and other liabilities approximates fair value based upon the short-term nature of the instruments. The Company estimates the fair value of its debt instruments by discounting future cash payments at interest rates that the Company believes approximate the current market. Estimated fair value is based upon market prices of public debt, available industry financing data, current treasury rates and recent financing transactions.

**Table of Contents****Forest City Enterprises, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

(Unaudited)

**A. Accounting Policies (continued)**

The following table summarizes the fair value of nonrecourse mortgage debt and notes payable, bank revolving credit facility and senior and subordinated debt:

	October 31, 2011		January 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Fixed	\$ 4,326,021	\$ 4,473,280	\$ 4,649,129	\$ 4,802,728
Variable	2,205,798	2,261,168	3,468,924	3,519,566
<b>Total</b>	<b>\$ 6,531,819</b>	<b>\$ 6,734,448</b>	<b>\$ 8,118,053</b>	<b>\$ 8,322,294</b>

See Note H for fair values of other financial instruments.

**Variable Interest Entities**

The Company's VIEs consist of joint ventures that are engaged, directly or indirectly, in the ownership, development and management of office buildings, regional malls, specialty retail centers, apartment communities, military housing, supported-living communities, hotels, land development and The Nets, a member of the National Basketball Association ( NBA ) in which the Company accounts for its investment on the equity method of accounting. As of October 31, 2011, the Company determined that it was the primary beneficiary of 33 VIEs representing 22 properties (18 VIEs representing 9 properties in the Residential Group, 13 VIEs representing 11 properties in the Commercial Group and 2 VIEs/properties in the Land Development Group). The creditors of the consolidated VIEs do not have recourse to the Company's general credit. As of October 31, 2011, the Company held variable interests in 59 VIEs for which it is not the primary beneficiary. The maximum exposure to loss as a result of its involvement with these unconsolidated VIEs is limited to the Company's recorded investments in those VIEs totaling approximately \$67,000,000 at October 31, 2011. In addition, the Company has also determined that it is the primary beneficiary of a VIE which holds collateralized borrowings of \$29,000,000 as of October 31, 2011.

In July 2011, the Company completed a recapitalization transaction at *8 Spruce Street*, an apartment community in Manhattan, New York, whereby the existing noncontrolling partner converted its mezzanine debt to equity and the entity repaid other nonrecourse mortgage debt. Following the transaction, the Company determined the entity no longer qualified as a VIE. Based on the new equity structure, the amended partnership agreements and the substantive participating rights of the outside equity partner, the entity was deconsolidated during the nine months ended October 31, 2011. The impact of the deconsolidation of the VIE on the Consolidated Balance Sheets and parenthetical disclosures of the VIE balances were decreases of \$744,999,000 to real estate, net, \$4,588,000 to cash and equivalents, \$66,882,000 to restricted cash and escrowed funds, \$18,561,000 to other assets, \$670,000,000 to nonrecourse mortgage debt and \$35,009,000 to accounts payable, accrued expenses and other liabilities, offset by an increase to investments in and advances to unconsolidated entities of \$130,021,000.

**Noncontrolling Interest**

Interests held by partners in consolidated real estate partnerships are reflected in noncontrolling interest, which represents the noncontrolling partners' share of the underlying net assets of the Company's consolidated subsidiaries. Noncontrolling interest that is not redeemable is reported in the equity section of the Consolidated Balance Sheets.

Noncontrolling interests where the Company may be required to repurchase the noncontrolling interest at fair value under a put option or other contractual redemption requirement are reported in the mezzanine section of the Consolidated Balance Sheets between liabilities and equity, as redeemable noncontrolling interest. The Company adjusts the redeemable noncontrolling interest to redemption value (which approximates fair value) at each balance sheet date with changes recognized as an adjustment to additional paid-in capital (see Note H Fair Value Measurements).



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**Forest City Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Unaudited)

A. Accounting Policies (continued)

**New Accounting Guidance**

The following accounting pronouncements were adopted during the nine months ended October 31, 2011:

In December 2010, the Financial Accounting Standards Board ( FASB ) issued an amendment to the accounting guidance on the disclosure of supplementary pro forma information for business combinations. This guidance specifies that if a public entity is required to present pro forma comparative financial statements for business combinations that occurred during the current reporting period, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance is effective for fiscal years beginning on or after December 15, 2010. The adoption of this guidance on February 1, 2011 did not have an impact on the Company's consolidated financial statement disclosures.

In December 2010, the FASB issued an amendment to the accounting guidance on goodwill and other intangible assets. This guidance specifies when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units with zero or negative carrying amounts, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The guidance is effective for fiscal years beginning after December 15, 2010. The adoption of this guidance on February 1, 2011 did not have a material impact on the Company's consolidated financial statements.

The following new accounting pronouncements will be adopted on their respective required effective dates:

In September 2011, the FASB issued an amendment to the accounting guidance on testing goodwill for impairment. This guidance provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after performing a qualitative assessment, an entity determines that it is not more likely than not that the fair market value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is not necessary. If an entity concludes otherwise, it is then required to perform the first step of the two-step goodwill impairment test. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company does not expect the adoption of this accounting guidance to have a material impact on its consolidated financial statements.

In June 2011, the FASB issued an amendment to the accounting guidance for the presentation of comprehensive income. This guidance provides an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, this guidance requires an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This guidance is effective for annual and interim reporting periods beginning after December 15, 2011. Early adoption is permitted. The Company does not expect the adoption of this accounting guidance to have a material impact on its consolidated financial statements.

In May 2011, the FASB issued amendments to the accounting guidance on fair value measurement and disclosure requirements. This guidance results in common fair value measurement and disclosure requirements for financial statements prepared in accordance with GAAP and International Financial Reporting Standards. As a result, this guidance changes the wording used to describe many of the existing requirements for measuring fair value and for disclosing information about fair value measurements, but for many requirements the intent is not to change the existing application. Some of the guidance clarifies the FASB's intent about the application of existing fair value measurement requirements or may change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This

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guidance is effective for annual and interim reporting periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of the guidance to have a material impact on its consolidated financial statements.

In April 2011, the FASB issued an amendment to the guidance on accounting for transfers and servicing to improve the accounting for repurchase agreements and other agreements that entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The guidance specifies when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements, based upon whether the entity has maintained effective control over the transferred financial assets. This guidance is effective for annual and interim reporting periods beginning on or after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of this accounting guidance to have a material impact on its consolidated financial statements.

**Table of Contents****Forest City Enterprises, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

(Unaudited)

**B. Investments in Unconsolidated Entities**

Investments in unconsolidated entities include investments in and advances to unconsolidated entities and cash distributions and losses in excess of investments in unconsolidated entities that the Company does not control and/or is not deemed to be the primary beneficiary, which are accounted for under the equity method of accounting.

The following is a reconciliation of members' and partners' equity to the Company's carrying value:

	<b>October 31,</b>	January 31,
	<b>2011</b>	2011
	<i>(in thousands)</i>	
Members' and partners' equity, as below	<b>\$ 997,264</b>	\$ 587,164
Equity of other members and partners	<b>832,134</b>	616,640
Company's investment in partnerships	<b>165,130</b>	(29,476)
Basis differences <sup>(1)</sup>	<b>113,681</b>	76,634
Advances to and on behalf of affiliates	<b>99,492</b>	93,859
<b>Total Investments in Unconsolidated Entities</b>	<b>\$ 378,303</b>	\$ 141,017
Assets - Investments in and advances to unconsolidated entities	<b>\$ 663,474</b>	\$ 431,509
Liabilities - Cash distributions and losses in excess of investments in unconsolidated entities	<b>(285,171)</b>	(290,492)
<b>Total Investments in Unconsolidated Entities</b>	<b>\$ 378,303</b>	\$ 141,017

(1) This amount represents the aggregate difference between the Company's historical cost basis and the basis reflected at the equity method venture level, which is typically amortized over the life of the related assets and liabilities. Basis differences occur from certain acquisition, transaction and other costs, as well as other-than-temporary impairments that are not reflected in the net assets at the equity method venture level.

Summarized financial information for the equity method investments is as follows:

<b>(Combined 100%)</b>	
<b>October 31,</b>	January 31,
<b>2011</b>	2011
<i>(in thousands)</i>	

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<b>Balance Sheet:</b>		
Real Estate		
Completed rental properties	<b>\$ 7,155,582</b>	\$ 5,514,041
Projects under construction and development	<b>351,217</b>	174,106
Land held for development or sale	<b>226,477</b>	272,930
<b>Total Real Estate</b>	<b>7,733,276</b>	5,961,077
Less accumulated depreciation	<b>(1,224,318)</b>	(944,968)
<b>Real Estate, net</b>	<b>6,508,958</b>	5,016,109
Cash and equivalents	<b>144,173</b>	109,246
Restricted cash - military housing bond funds	<b>325,605</b>	384,584
Other restricted cash and escrowed funds	<b>307,370</b>	206,778
Other assets	<b>753,977</b>	536,246
Operating property assets held for sale <sup>(1)</sup>		67,190
<b>Total Assets</b>	<b>\$ 8,040,083</b>	\$ 6,320,153
Mortgage debt and notes payable, nonrecourse	<b>\$ 6,533,871</b>	\$ 5,301,900
Other liabilities	<b>508,948</b>	369,871
Liabilities of operating property held for sale <sup>(1)</sup>		61,218
Members and partners equity	<b>997,264</b>	587,164
<b>Total Liabilities and Members and Partners Equity</b>	<b>\$ 8,040,083</b>	\$ 6,320,153

(1) Represents assets and liabilities of *Metropolitan Lofts*, an unconsolidated apartment community in Los Angeles, California, which was disposed of February 1, 2011.



**Table of Contents****Forest City Enterprises, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

(Unaudited)

**B. Investments in Unconsolidated Entities (continued)**

	(Combined 100%) Three Months Ended October 31,		(Combined 100%) Nine Months Ended October 31,	
	2011	2010	2011	2010
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Operations:</b>				
Revenues	\$ 260,808	\$ 218,500	\$ 775,828	\$ 675,177
Operating expenses	(130,799)	(112,983)	(425,585)	(378,785)
Interest expense including early extinguishment of debt	(80,043)	(67,945)	(240,334)	(197,938)
Impairment of real estate <sup>(1)</sup>				(1,457)
Depreciation and amortization	(48,693)	(41,806)	(144,344)	(122,383)
Interest and other income	3,541	4,190	11,068	11,515
Earnings (loss) from continuing operations	\$ 4,814	\$ (44)	(23,367)	(13,871)
<b>Discontinued operations:</b>				
Operating earnings from rental properties		1,390		1,614
Gain on disposition of rental properties <sup>(2)</sup>		10,998		10,998
Discontinued operations subtotal		12,388		12,612
Net earnings (loss) (pre-tax)	\$ 4,814	\$ 12,344	\$ (23,367)	\$ (1,259)
Company's portion of net earnings (pre-tax)	1,273	22,232	11,085	19,380
Impairment of investments in unconsolidated entities <sup>(1)</sup>	(41,289)	(21,564)	(41,289)	(36,002)
Gain (loss) on disposition of equity method investments <sup>(2)</sup>			12,567	(830)
Net earnings (loss) (pre-tax) from unconsolidated entities	\$ (40,016)	\$ 668	\$ (17,637)	\$ (17,452)

(1) The following table shows the detail of the impairment noted above:

Three Months Ended October 31, Nine Months Ended October 31,  
2011 2010 2011 2010

*(in thousands)**(in thousands)*

Impairment of real estate:

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Mixed-Use Land Development:				
Old Stone Crossing at Caldwell Creek Charlotte, North Carolina	\$	\$	\$	\$ 1,457
Company's portion of impairment of real estate	\$	\$	\$	\$ 743
Impairment of investments in unconsolidated entities:				
Specialty Retail Centers:				
Village at Gulfstream Park Hallandale Beach, Florida	\$	34,579	\$	\$ 34,579
Metreon San Francisco, California				4,595
Commercial land and development rights Cleveland, Ohio	4,610		4,610	
Mixed-Use Land Development:				
Sterling Lakes Pepper Pike, Ohio	1,700		1,700	
Central Station:				
Four Museum Park properties Chicago, Illinois		18,311		18,311
Mercy Campus Chicago, Illinois				1,817
Office Buildings:				
Mesa del Sol Aperture Center Albuquerque, New Mexico		2,733		2,733
818 Mission Street San Francisco, California				4,018
Bulletin Building San Francisco, California				3,543
Other	400	520	400	985
Total impairment of investments in unconsolidated entities	\$	41,289	\$	21,564
			\$	41,289
				\$ 36,002
Total impairment of unconsolidated entities	\$	41,289	\$	21,564
			\$	41,289
				\$ 36,745

(2) Upon disposition, investments accounted for on the equity method are not classified as discontinued operations; therefore, gains or losses on the disposition of these properties are reported in continuing operations. The following table shows the detail of the gains and losses on the disposition of unconsolidated entities:

	Three Months Ended October 31, 2011		Nine Months Ended October 31, 2010	
	2011	2010	2011	2010
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Gain on disposition of rental properties:				
Woodbridge Crossing (Specialty Retail Center) Woodbridge, New Jersey	\$	\$	6,443	\$ 6,443
Pebble Creek (Apartment Community) Twinsburg, Ohio			4,555	4,555
Gain on disposition of rental properties	\$	\$	10,998	\$ 10,998
Company's portion of gain on disposition of rental properties	\$	\$	8,658	\$ 8,658
Gain (loss) on disposition of equity method investments:				
Apartment Communities:				
Metropolitan Lofts Los Angeles, California	\$	\$	9,964	\$
Twin Lake Towers Denver, Colorado			2,603	
Specialty Retail Centers:				
Coachella Plaza Coachella, California				104
Southgate Mall Yuma, Arizona				64
El Centro Mall El Centro, California				48
Metreon San Francisco, California				(1,046)
Total gain (loss) on disposition of equity method investments, net	\$	\$	12,567	\$ (830)

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(Unaudited)

**C. Mortgage Debt and Notes Payable, Nonrecourse**

The following table summarizes the composition of mortgage debt and notes payable, nonrecourse maturities including scheduled amortization and balloon payments as of October 31, 2011:

Fiscal Years Ending January 31,	Total Maturities	Scheduled Amortization <i>(in thousands)</i>	Scheduled Balloon Payments
2012	\$ 372,285	\$ 26,925	\$ 345,360
2013	1,103,181	\$ 91,932	\$ 1,011,249
2014	782,575	\$ 38,473	\$ 744,102
2015	313,605	\$ 30,758	\$ 282,847
2016	343,929	\$ 28,162	\$ 315,767
Thereafter	2,577,797		
<b>Total</b>	<b>\$ 5,493,372</b>		

**D. Financing Arrangements**

On August 16, 2005, the Park Creek Metropolitan District (the District) issued \$58,000,000 Junior Subordinated Limited Property Tax Supported Revenue Bonds, Series 2005 (the Junior Subordinated Bonds). The Junior Subordinated Bonds initially were to pay a variable rate of interest. Upon issuance, the Junior Subordinated Bonds were purchased by a third party and the sales proceeds were deposited with a trustee pursuant to the terms of the Series 2005 Investment Agreement. Under the terms of the Series 2005 Investment Agreement, after March 1, 2006, the District may elect to withdraw funds from the trustee for reimbursement for certain qualified infrastructure and interest expenditures (Qualifying Expenditures). In the event that funds from the trustee are used for Qualifying Expenditures, a corresponding amount of the Junior Subordinated Bonds converts to an 8.5% fixed rate and matures in December 2037 (Converted Bonds). On August 16, 2005, Stapleton Land, LLC, a consolidated subsidiary, entered into a Forward Delivery Placement Agreement (FDA) whereby Stapleton Land, LLC was entitled and obligated to purchase the converted fixed rate Junior Subordinated Bonds through June 2, 2008. The District withdrew \$58,000,000 of funds from the trustee for reimbursement of certain Qualifying Expenditures by June 2, 2008 and the Junior Subordinated Bonds became Converted Bonds. The Converted Bonds were acquired by Stapleton Land, LLC under the terms of the FDA. Stapleton Land, LLC immediately transferred the Converted Bonds to investment banks and the Company simultaneously entered into a total rate of return swap (TRS) with a notional amount of \$58,000,000. The Company receives a fixed rate of 8.5% and pays the Security Industry and Financial Markets Association (SIFMA) rate plus a spread on the TRS related to the Converted Bonds. The Company determined that the sale of the Converted Bonds to the investment banks and simultaneous execution of the TRS did not surrender control; therefore, the Converted Bonds have been recorded as a secured borrowing and included in mortgage debt and note payable, nonrecourse.

Prior to May 12, 2011, consolidated subsidiaries of the Company purchased \$23,000,000 of the Converted Bonds from the investment banks. Simultaneous to each purchase, a corresponding amount of a related TRS was terminated and the corresponding secured borrowing was removed from the Consolidated Balance Sheets. On May 12, 2011, the District refinanced \$42,000,000 of the outstanding \$58,000,000 Junior Subordinated Bonds. The Company received \$23,000,000 of the refinancing proceeds as repayment of Converted Bonds held by its consolidated subsidiaries and the investment banks received the remaining \$19,000,000 of refinancing proceeds which simultaneously terminated a corresponding amount of the related TRS and corresponding secured borrowing. The fair value of the Converted Bonds recorded in other assets was \$16,000,000 and \$58,000,000 at October 31 and January 31, 2011, respectively. The outstanding TRS contracts on the \$16,000,000 and \$35,000,000 of secured borrowings related to the Converted Bonds at October 31 and January 31, 2011, respectively, were supported by

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collateral consisting primarily of certain notes receivable owned by the Company aggregating \$5,236,000. The Company recorded net interest income of \$273,000 and \$947,000 related to the TRS for the three and nine months ended October 31, 2011, respectively, and \$505,000 and \$1,530,000 for the three and nine months ended October 31, 2010, respectively.

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(Unaudited)

**E. Bank Revolving Credit Facility**

On March 30, 2011, the Company and its 13-member bank group entered into a Third Amended and Restated Credit Agreement and a Third Amended and Restated Guaranty of Payment of Debt (collectively, the Credit Facility). On April 21, 2011, one additional member was admitted to the bank group and the total available borrowings were increased from \$425,000,000 to \$450,000,000. The Credit Facility matures on March 30, 2014 and provides for one, 12-month extension option, subject to certain conditions. Borrowings bear interest at LIBOR, subject to a floor of 100 basis points, plus 3.75%. Up to \$100,000,000 of the available borrowings may be used, in the aggregate, for letters of credit and/or surety bonds. The Credit Facility has a number of restrictive covenants, including a prohibition on certain consolidations and mergers, limitations on the amount of debt, guarantees and property liens that the Company may incur and restrictions on the pledging of ownership interests in subsidiaries. The Credit Facility removes the previous prohibition on paying common stock dividends, subject to a specified limitation. As amended on July 13, 2011, this limitation allows the Company to utilize up to \$24,000,000 during any four consecutive fiscal quarter periods for either common stock dividends or common stock repurchases and requires a portion of the proceeds from the issuance of the Company's Convertible Senior Notes due 2018 to be used to retire certain debt, as discussed below. Additionally, the Credit Facility contains certain development limitations and financial covenants, including the maintenance of minimum liquidity, certain debt service and cash flow coverage ratios, and specified levels of shareholders' equity (all as specified in the Credit Facility). At October 31, 2011, the Company was in compliance with all of these financial covenants.

On March 30, 2011, the Company also entered into a First Amendment to the Pledge Agreement (Pledge Agreement) with the banks party to the Credit Facility. The Pledge Agreement secures the Company's obligations under the Credit Facility by granting a security interest to the bank group in its right, title and interest as a member, partner, shareholder or other equity holder of certain direct subsidiaries, including, but not limited to, its right to receive profits, proceeds, accounts, income, dividends, distributions or return of capital from such subsidiaries, to the extent the granting of such security interest would not result in a default under project level financing or the organizational documents of such subsidiaries.

On July 13, 2011, the Company entered into a first amendment to the Credit Facility. This amendment permitted the Company to issue \$350,000,000 of Convertible Senior Notes due 2018 (the Issuance). The amendment required that 75% of the net proceeds (\$254,531,000) from the Issuance be used to retire debt no later than 180 days subsequent to the closing of such Issuance, subject to an additional 90-day extension provided certain terms of the amendment are met. At October 31, 2011, the Company has fully met this requirement and no further reserve for retirement of debt is required.

The following table summarizes the available credit on the Credit Facility:

	October 31, 2011	January 31, 2011
	<i>(in thousands)</i>	
<b>Maximum borrowings</b>	<b>\$ 450,000</b>	\$ 470,336
<b>Less outstanding balances and reserves:</b>		
Borrowings		137,152
Letters of credit	<b>74,221</b>	63,418
Surety bonds		
Reserve for retirement of debt		46,891
<b>Available credit</b>	<b>\$ 375,779</b>	\$ 222,875



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(Unaudited)

**F. Senior and Subordinated Debt**

The following table summarizes the Company's senior and subordinated debt:

	<b>October 31, 2011</b>	<b>January 31, 2011</b>
	<i>(in thousands)</i>	
<b>Senior Notes:</b>		
3.625% Puttable Equity-Linked Senior Notes due 2011, net of discount	\$	\$ 45,480
3.625% Puttable Equity-Linked Senior Notes due 2014, net of discount	<b>199,050</b>	198,806
7.625% Senior Notes due 2015	<b>178,253</b>	178,253
5.000% Convertible Senior Notes due 2016	<b>50,000</b>	90,000
6.500% Senior Notes due 2017	<b>132,144</b>	132,144
4.250% Convertible Senior Notes due 2018	<b>350,000</b>	
7.375% Senior Notes due 2034	<b>100,000</b>	100,000
<b>Total Senior Notes</b>	<b>1,009,447</b>	744,683
<b>Subordinated Debt:</b>		
Subordinate Tax Revenue Bonds due 2013	<b>29,000</b>	29,000
<b>Total Senior and Subordinated Debt</b>	<b>\$ 1,038,447</b>	\$ 773,683

All of the Company's senior notes are unsecured senior obligations and rank equally with all existing and future unsecured indebtedness; however, they are effectively subordinated to all existing and future secured indebtedness and other liabilities of the Company's subsidiaries to the extent of the value of the collateral securing such other debt, including the Credit Facility. The indentures governing the senior notes contain covenants providing, among other things, limitations on incurring additional debt and payment of dividends. At October 31, 2011, the Company was in compliance with all of these financial covenants.

**Puttable Equity-Linked Senior Notes due 2011**

During October 2011, the Company's remaining 3.625% Puttable Equity-Linked Senior Notes due 2011 ( 2011 Notes ) matured and were paid in full.

The following table summarizes the carrying amounts of the Company's debt and equity balances related to the 2011 Notes:

January 31, 2011  
*(in thousands)*

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Carrying amount of equity component	\$	7,484
Outstanding principal amount of the puttable equity-linked senior notes		46,891
Unamortized discount		(1,411)
Net carrying amount of the puttable equity-linked senior notes	\$	45,480

The unamortized discount was amortized as additional interest expense through October 15, 2011. The effective interest rate for the liability component of the 2011 Notes was 7.51%. The Company recorded non-cash interest expense of \$426,000 and \$1,411,000 for the three and nine months ended October 31, 2011, respectively, and \$322,000 and \$1,174,000 for the three and nine months ended October 31, 2010, respectively. The Company recorded contractual interest expense of \$354,000 and \$1,204,000 for the three and nine months ended October 31, 2011, respectively, and \$425,000 and \$1,576,000 for the three and nine months ended October 31, 2010, respectively.



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**Forest City Enterprises, Inc. and Subsidiaries**

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(Unaudited)

**F. Senior and Subordinated Debt (continued)**

**Convertible Senior Notes due 2016**

On May 5, 2011, the Company entered into separate, privately negotiated exchange agreements with certain holders of its 5.00% Convertible Senior Notes due October 15, 2016 ( 2016 Notes ) to exchange the notes for shares of the Company's Class A common stock. In order to induce the holders to make the exchange, the Company agreed to increase the conversion rate from 71.8894 shares of Class A common stock per \$1,000 principal amount of notes to 86.1073 shares, which factors in foregone interest to the holders among other inducements. Under the terms of the agreements, holders agreed to exchange \$40,000,000 in aggregate principal amount of notes for a total of 3,444,293 shares of Class A common stock. Any accrued but unpaid interest was paid in cash. Under the accounting guidance for induced conversion of convertible debt, the additional amounts paid to induce the holders to exchange their notes was expensed resulting in a non-tax deductible loss of \$10,800,000 during the nine months ended October 31, 2011, which is recorded as early extinguishment of debt.

**Convertible Senior Notes due 2018**

On July 19, 2011, the Company issued \$350,000,000 of 4.25% Convertible Senior Notes due August 15, 2018 ( 2018 Notes ) in a private placement. The notes were issued at par and accrued interest is payable semi-annually on February 15 and August 15, beginning February 15, 2012.

Holders may convert their notes at their option at any time prior to the close of business on the scheduled trading day immediately preceding the maturity date. Upon conversion, a note holder would receive 46.1425 shares of the Company's Class A common stock per \$1,000 principal amount of notes, based on a conversion price of approximately \$21.67 per share of Class A common stock, subject to adjustment. The amount payable upon a conversion of the notes is only payable in shares of Class A common stock, except for cash paid in lieu of fractional shares. If the daily volume weighted average price of the Class A common stock has equaled or exceeded 130% (\$28.17 at October 31, 2011) of the conversion price then in effect for at least 20 trading days in a 30 trading day period, the Company may, at its option, elect to terminate the conversion rights of the holders at any time. If it so elects, the Company is required to issue a conversion rights termination notice that designates an effective date on which the holders conversion rights will be terminated, which shall be a date at least 20 days after the mailing of such conversion rights termination notice (the Conversion Termination Date ). Holders electing to convert their notes after the mailing of a conversion rights termination notice and before the Conversion Termination Date shall receive cash payments of accrued and unpaid interest to, but not including, the conversion date and a make-whole premium for an amount equal to the remaining scheduled interest payments attributable to such notes through and including August 15, 2014.

**G. Derivative Instruments and Hedging Activities**

**Risk Management Objective of Using Derivatives**

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned decreases in earnings and cash flows that may be caused by interest rate volatility. Derivative instruments that are used as part of the Company's strategy include interest rate swaps and option contracts that have indices related to the pricing of specific balance sheet liabilities. The Company enters into interest rate swaps to convert certain floating-rate debt to fixed-rate long-term debt, and vice-versa, depending on market conditions, or forward starting swaps to hedge the changes in benchmark interest rates on forecasted financings. The Company enters into interest rate swap agreements for hedging purposes for periods that are generally one to ten years. Option products utilized include interest rate caps, floors and Treasury options. The use of these option products is consistent with the Company's risk management objective to reduce or eliminate exposure to variability in future cash flows primarily attributable to changes in benchmark rates relating to forecasted financings, and the variability in cash flows attributable to increases relating to interest payments on its floating-rate debt. The caps

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and floors have typical durations ranging from one to three years while the Treasury options are for periods of five to ten years. The Company does not have any Treasury options outstanding at October 31, 2011.

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**G. Derivative Instruments and Hedging Activities (continued)**

**Cash Flow Hedges of Interest Rate Risk**

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate caps and swaps as part of its interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an upfront premium. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in accumulated OCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The amount of ineffectiveness charged to earnings was insignificant for all periods presented. There are no amounts in the total ineffectiveness charged to earnings related to derivative losses reclassified from accumulated OCI as a result of forecasted transactions that did not occur by the end of the originally specified time period or within an additional two-month period of time thereafter (missed forecasted transaction). As of October 31, 2011, the Company expects that within the next twelve months it will reclassify amounts recorded in accumulated OCI into earnings as an increase in interest expense of approximately \$27,834,000, net of tax. However, the actual amount reclassified could vary due to future changes in fair value of these derivatives.

**Fair Value Hedges of Interest Rate Risk**

From time to time, the Company and/or certain of its joint ventures (the Joint Ventures) enter into TRS on various tax-exempt fixed-rate borrowings generally held by the Company and/or within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require the Company and/or the Joint Ventures pay a variable rate, generally equivalent to the SIFMA rate plus a spread. At October 31, 2011, the SIFMA rate was 0.14%. Additionally, the Company and/or the Joint Ventures have guaranteed the fair value of the underlying borrowing. Any fluctuation in the value of the TRS would be offset by the fluctuation in the value of the underlying borrowing, resulting in minimal financial impact to the Company and/or the Joint Ventures. At October 31, 2011, the aggregate notional amount of TRS that are designated as fair value hedging instruments is \$260,982,000. The underlying TRS borrowings are subject to a fair value adjustment (refer to Note H Fair Value Measurements).

**Nondesignated Hedges of Interest Rate Risk**

The Company entered into derivative contracts that are intended to economically hedge certain interest rate risk, even though the contracts do not qualify for hedge accounting or the Company has elected not to apply hedge accounting. In situations in which hedge accounting is discontinued, or not elected, and the derivative remains outstanding, the Company records the derivative at its fair value and recognizes changes in the fair value in the Consolidated Statements of Operations.

The Company periodically enters into forward swaps to protect itself against fluctuations in the swap rate at terms ranging between five to ten years associated with forecasted fixed rate borrowings. At the time the Company secures and locks an interest rate on an anticipated financing, it intends to simultaneously terminate the forward swap associated with that financing. At October 31, 2011, the Company had no forward swaps outstanding. The Company terminated forward swaps with notional amounts of \$62,800,000 and \$107,000,000 on February 1, 2011 and May 3, 2010, respectively. These forward swaps were not designated as cash flow hedges under the accounting guidance on derivatives and hedging activities. As such, the change in fair value of these swaps was marked to market through earnings on a quarterly basis. Related to these forward swaps, the Company recorded \$229,000 for the nine months ended October 31, 2011 as a reduction to interest expense and \$1,409,000 and \$6,134,000 for the three and nine months ended October 31, 2010, respectively, as an increase of interest expense.

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In instances where the Company enters into separate derivative instruments effectively hedging the same debt for consecutive annual periods, the amount of notional is excluded from the following disclosure in an effort to provide information that enables the financial statement user to understand the Company's volume of derivative activity.

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(Unaudited)

**G. Derivative Instruments and Hedging Activities (continued)**

The following table presents the fair values and location in the Consolidated Balance Sheets of all derivative instruments:

<b>Fair Value of Derivative Instruments</b>					
<b>October 31, 2011</b>					
		<b>Asset Derivatives</b>		<b>Liability Derivatives</b>	
		<b>(included in Other Assets)</b>		<b>(included in Accounts Payable, Accrued Expenses and Other Liabilities)</b>	
	<b>Current Notional</b>	<b>Fair Value</b>	<b>Current Notional</b>	<b>Fair Value</b>	
<i>(in thousands)</i>					
<b>Derivatives Designated as Hedging Instruments</b>					
Interest rate caps	\$	\$	\$	\$	
Interest rate swap agreements			1,197,320	140,465	
TRS	27,197	414	233,785	11,795	
Total derivatives designated as hedging instruments	\$ 27,197	\$ 414	\$ 1,431,105	\$ 152,260	
<b>Derivatives Not Designated as Hedging Instruments</b>					
Interest rate caps	\$ 1,273,268	\$ 26	\$	\$	
Interest rate swap agreements	20,117	1,330			
TRS	141,703	5,507	30,360	13,728	
Total derivatives not designated as hedging instruments	\$ 1,435,088	\$ 6,863	\$ 30,360	\$ 13,728	
<b>January 31, 2011</b>					
<i>(in thousands)</i>					
<b>Derivatives Designated as Hedging Instruments</b>					
Interest rate caps	\$ 476,100	\$ 184	\$	\$	
Interest rate swap agreements	300,000	716	1,285,000	110,398	
TRS			280,885	21,938	
Total derivatives designated as hedging instruments	\$ 776,100	\$ 900	\$ 1,565,885	\$ 132,336	

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**Derivatives Not Designated as Hedging Instruments**

Interest rate caps and floors	\$ 1,943,202	\$ 11	\$	\$
Interest rate swap agreements	20,117	1,801	60,900	14,011
TRS	140,800	2,144	30,600	10,240
Total derivatives not designated as hedging instruments	\$ 2,104,119	\$ 3,956	\$ 91,500	\$ 24,251

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(Unaudited)

**G. Derivative Instruments and Hedging Activities (continued)**

The following tables present the impact of gains and losses related to derivative instruments designated as cash flow hedges included in the accumulated OCI section of the Consolidated Balance Sheets and in equity in loss of unconsolidated entities and interest expense in the Consolidated Statements of Operations:

Derivatives Designated as	Gain (Loss) Recognized  in OCI (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)		Ineffectiveness Recognized in Interest Expense on Derivatives
		Location on Consolidated Statements of Operations	Amount	
<b>Cash Flow Hedging Instruments</b>				
<b><u>Three Months Ended October 31, 2011</u></b>				
<i>(in thousands)</i>				
Interest rate caps, interest rate swaps and Treasury options	\$ (14,867)	Interest expense Equity in loss of	\$ (934)	\$ 1
Interest rate caps, interest rate swaps and Treasury options		unconsolidated entities	(100)	(17)
<b>Total</b>	\$ (14,867)		\$ (1,034)	\$ (16)

**Nine Months Ended October 31, 2011**

Interest rate caps, interest rate swaps and Treasury options	\$ (37,756)	Interest expense Equity in loss of	\$ (2,569)	\$ 1
Interest rate caps, interest rate swaps and Treasury options		unconsolidated entities	(282)	(572)
<b>Total</b>	\$ (37,756)		\$ (2,851)	\$ (571)

Derivatives Designated as	Gain (Loss) Recognized	Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)		Ineffectiveness Recognized
		Location on Consolidated	Amount	

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Cash Flow Hedging Instruments	in OCI (Effective Portion)	Statements of Operations	in Interest Expense on Derivatives	
<b><u>Three Months Ended October 31, 2010</u></b>		<i>(in thousands)</i>		
Interest rate caps, interest rate swaps and Treasury options	\$ (13,633)	Interest expense	\$ (696)	\$ 1
		Equity in loss of		
		unconsolidated		
Treasury options		entities	(19)	(3)
<b>Total</b>	\$ (13,633)		\$ (715)	\$ (2)
<b><u>Nine Months Ended October 31, 2010</u></b>				
Interest rate caps, interest rate swaps and Treasury options	\$ (53,747)	Interest expense	\$ (2,144)	\$ 2
		Equity in loss of		
		unconsolidated		
Treasury options		entities	(57)	(5)
<b>Total</b>	\$ (53,747)		\$ (2,201)	\$ (3)



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(Unaudited)

**G. Derivative Instruments and Hedging Activities (continued)**

The following table presents the impact of gains and losses in the Consolidated Statements of Operations related to derivative instruments:

	Net Gain (Loss) Recognized <sup>(1)</sup>			
	Three Months Ended		Nine Months Ended	
	October 31, 2011	October 31, 2010	October 31, 2011	October 31, 2010
<b>Derivatives Designated as Fair Value Hedging Instruments</b>	<i>(in thousands)</i>			
TRS	\$ 2,190	\$ 2,620	\$ 9,654	\$ 8,492
<b>Derivatives Not Designated as Hedging Instruments</b>				
Interest rate caps, interest rate swaps and floors	\$ (235)	\$ (1,502)	\$ (632)	\$ (6,804)
TRS	(1,579)	2,541	(125)	(1,237)
<b>Total</b>	<b>\$ (1,814)</b>	<b>\$ 1,039</b>	<b>\$ (757)</b>	<b>\$ (8,041)</b>

- (1) The net loss recognized in interest expense from the change in fair value of the underlying TRS borrowings was \$2,190 and \$9,654 for the three and nine months ended October 31, 2011, respectively, and \$2,620 and \$8,492 for the three and nine months ended October 31, 2010, respectively, offsetting the gain recognized on the TRS (see Note H - Fair Value Measurements).

**Credit-risk-related Contingent Features**

The principal credit risk to the Company through its interest rate risk management strategy is the potential inability of the financial institution from which the derivative financial instruments were purchased to cover its obligations. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Company's risk of loss approximates the fair value of the derivative. To mitigate this exposure, the Company generally purchases its derivative financial instruments from the financial institution that issues the related debt, from financial institutions with which the Company has other lending relationships, or from financial institutions with a minimum credit rating of AA at the time the Company enters into the transaction.

The Company has agreements with its derivative counterparties that contain a provision under which the derivative counterparty could terminate the derivative obligations if the Company defaults on its obligations under the Credit Facility and designated conditions are fulfilled. In instances where subsidiaries of the Company have derivative obligations that are secured by a mortgage, the derivative obligations could be terminated if the indebtedness between the two parties is terminated, either by loan payoff or default of the indebtedness. In addition, the Company has certain derivative contracts which provide that if the Company's credit rating were to fall below certain levels, it may trigger additional collateral to be posted with the counterparty up to the full amount of the liability position of the derivative contracts. Also, certain subsidiaries of the Company have agreements with certain of its derivative counterparties that contain provisions whereby the subsidiaries of the Company must maintain certain minimum financial ratios.

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As of October 31, 2011, the aggregate fair value of all derivative instruments in a liability position, prior to the adjustment for nonperformance risk of \$15,951,000, is \$181,939,000. The Company had posted collateral consisting primarily of cash and notes receivable of \$74,678,000 related to all derivative instruments. If all credit risk contingent features underlying these agreements had been triggered on October 31, 2011, the Company would have been required to post collateral of the full amount of the liability position.

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(Unaudited)

**H. Fair Value Measurements**

The Company's financial assets and liabilities subject to fair value measurements are interest rate caps, interest rate swap agreements, TRS and borrowings subject to TRS (see Note G - Derivative Instruments and Hedging Activities). The Company's impairment of real estate and unconsolidated entities are also subject to fair value measurements (see Note M - Impairment of Real Estate, Impairment of Unconsolidated Entities, Write-off of Abandoned Development Projects and Gain on Early Extinguishment of Debt and Note N - Discontinued Operations and Gain (Loss) on Disposition of Rental Properties).

**Items Measured at Fair Value on a Recurring Basis**

The Company's financial assets consist of interest rate caps, interest rate swap agreements and TRS with positive fair values that are included in other assets. The Company's financial liabilities consist of interest rate swap agreements and TRS with negative fair values that are included in accounts payable, accrued expenses and other liabilities and borrowings subject to TRS included in mortgage debt and notes payable, nonrecourse. The Company records the redeemable noncontrolling interest related to Brooklyn Arena, LLC at redemption value, which approximates fair value. The following table presents information about the Company's financial assets and liabilities and redeemable noncontrolling interest that were measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

**Fair Value Measurements****at October 31, 2011**

	Level 1	Level 2	Level 3	Total
	<i>(in thousands)</i>			
Interest rate caps	\$	\$ 26	\$	\$ 26
Interest rate swap agreements (positive fair value)		1,330		1,330
Interest rate swap agreements (negative fair value)		(6,333)	(134,132)	(140,465)
TRS (positive fair value)			5,921	5,921
TRS (negative fair value)			(25,523)	(25,523)
Fair value adjustment to the borrowings subject to TRS			11,381	11,381
Redeemable noncontrolling interest			(228,785)	(228,785)
Total	\$	\$ (4,977)	\$ (371,138)	\$ (376,115)

The table below presents a reconciliation of all financial assets and liabilities and redeemable noncontrolling interest measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

**Fair Value Measurements**  
**Nine Months Ended October 31, 2011**  
*(in thousands)*

Redeemable Noncontrolling	Interest Rate Swaps	Net	Fair value adjustment	Total TRS Related	Total
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	Interest		TRS	to the borrowings subject to TRS		
Balance, February 1, 2011	\$ (226,829)	\$ (102,387)	\$ (30,034)	\$	21,938	\$ (8,096) \$ (337,312)
Total realized and unrealized gains (losses):						
Included in earnings	2,852		9,529		(9,654)	(125) 2,727
Included in other comprehensive income		(31,745)				(31,745)
Included in additional paid-in capital	(4,808)					(4,808)
Settlement			903		(903)	
Balance, October 31, 2011	\$ (228,785)	\$ (134,132)	\$ (19,602)	\$	11,381	\$ (8,221) \$ (371,138)

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**I. Stock-Based Compensation**

During the nine months ended October 31, 2011, the Company granted 473,519 stock options and 730,554 shares of restricted stock under the Company's 1994 Stock Plan. The stock options had a grant-date fair value of \$11.20, which was computed using the Black-Scholes option-pricing model with the following assumptions: expected term of 5.5 years, expected volatility of 72.4%, risk-free interest rate of 2.6%, and expected dividend yield of 0%. The exercise price of the options is \$17.72, which was the closing price of the underlying Class A common stock on the date of grant. The restricted stock had a grant-date fair value of \$17.72 per share, which was the closing price of the Class A common stock on the date of grant.

At October 31, 2011, there was \$5,906,000 of unrecognized compensation cost related to stock options that is expected to be recognized over a weighted-average period of 2.83 years, and there was \$19,020,000 of unrecognized compensation cost related to restricted stock that is expected to be recognized over a weighted-average period of 2.78 years.

The amount of stock-based compensation costs and related deferred income tax benefit recognized in the financial statements are as follows:

	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Stock option costs	\$ 806	\$ 479	\$ 1,801	\$ 4,693
Restricted stock costs	2,385	1,858	7,715	6,690
Total stock-based compensation costs	3,191	2,337	9,516	11,383
Less amount capitalized into qualifying real estate projects	(1,522)	(519)	(3,446)	(5,104)
Amount charged to operating expenses	1,669	1,818	6,070	6,279
Depreciation expense on capitalized stock-based compensation	693	150	1,064	451
Total stock-based compensation expense	\$ 2,362	\$ 1,968	\$ 7,134	\$ 6,730
Deferred income tax benefit	\$ 829	\$ 660	\$ 2,567	\$ 2,301

The amount of grant-date fair value expensed immediately for awards granted to retirement-eligible grantees during the nine months ended October 31, 2011 and 2010 was \$1,022,000 and \$1,136,000, respectively. During the nine months ended October 31, 2011, previously recorded stock option costs in the amount of \$1,622,000, most of which was previously capitalized into real estate projects, were reversed to reflect actual forfeitures in excess of estimated forfeitures.

In connection with the vesting of restricted stock during the nine months ended October 31, 2011 and 2010, the Company repurchased into treasury 90,104 shares and 50,073 shares, respectively, of Class A common stock to satisfy the employees' related minimum statutory tax withholding requirements. These shares were placed in treasury with an aggregate cost basis of \$1,670,000 and \$711,000, respectively.

**J. Commercial Group Land Sales**

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On January 31, 2011, the Company closed on the sale of two parcels of land, with air rights, to Rock Ohio Caesars Cleveland, LLC for development of a casino in downtown Cleveland. The land is adjacent to the Company's *Tower City Center* mixed-use complex. The sales price for one parcel, an approximate 6 acre land parcel and air rights ( Parcel #1 ), was \$45,000,000. The sales price for the second parcel, an approximate 10 acre land parcel and air rights ( Parcel #2 ), was \$40,000,000.

At January 31, 2011, the Company received cash deposits of \$8,550,000 and \$2,500,000 on Parcel #1 and Parcel #2, respectively. During the three months ended April 30, 2011, the Company received \$33,950,000 of the purchase price of Parcel #1. With the receipt of this payment the buyer's initial and continuing investment on the sale of Parcel #1 was adequate for gain recognition under the full accrual method in accordance with accounting guidance for sales of real estate. As such, the entire sales price is included in revenues from real estate operations and the related cost of land is included in operating expenses, resulting in a gain on sale of approximately \$42,622,000 for the nine months ended October 31, 2011. The final \$2,500,000 of the purchase price of Parcel #1 was received during the three months ended October 31, 2011.

During the three months ended October 31, 2011, the Company received an additional installment of \$4,500,000 of the purchase price of Parcel #2. The minimum initial investment related to Parcel #2 had still not been met at October 31, 2011 and accordingly, the deposits received are recorded as a deposit liability under the deposit method in accordance with accounting guidance for sales of real estate and included in accounts payable, accrued expenses and other liabilities at October 31, 2011. The remaining purchase price of Parcel #2 is payable during 2012.

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**K. Net Gain on Disposition of Partial Interests in Rental Properties and Other Investment**

The net gain on disposition of partial interests in rental properties and other investment is comprised of the following:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2011	2010	2011	2010
	<i>(in thousands)</i>			
Stonecrest Mall Joint Venture	\$ 5,849	\$	\$ 5,849	\$
New York Retail Joint Venture			9,561	
University Park Joint Venture		399		176,192
The Nets				55,112
Bernstein Joint Venture				29,342
Other transaction costs		(2,656)		(2,656)
	\$ 5,849	\$ (2,257)	\$ 15,410	\$ 257,990

**Stonecrest Mall Joint Venture**

On October 19, 2011, the Company entered into a joint venture agreement with an outside partner whereby the outside partner invested in the *Mall at Stonecrest*, a regional mall located in Atlanta, Georgia ( *Stonecrest* ). The outside partner received a 49% equity interest in *Stonecrest*.

For its 49% equity interest, the outside partner assumed debt of \$49,464,000, representing 49% of the nonrecourse mortgage debt on the property. In addition, the Company is entitled to receive up to \$3,750,000 of contingent consideration, none of which has been recognized during the three months ended October 31, 2011, based on *Stonecrest*'s financial results as defined in the partnership agreement. The transaction resulted in a gain on disposition of partial interests in rental property of \$5,849,000 during the three months ended October 31, 2011. As a result of this transaction, the Company is accounting for *Stonecrest* as an equity method investment since the outside partner has substantive participating rights with regards to the property.

**New York Retail Joint Venture**

On March 29, 2011, the Company entered into joint venture agreements with an outside partner, an affiliated entity of Madison International Realty LLC. The outside partner invested in a total of 15 retail properties located in the New York City metropolitan area. The outside partner received a 49% equity interest in 15 mature retail properties, 14 of which were formerly wholly-owned by the Company and one retail property that was owned 75% by the Company.

For its 49% equity interests, the outside partner invested cash and assumed debt of \$244,952,000, representing 49% of the nonrecourse mortgage debt on the 15 properties. As of October 31, 2011, the Company received proceeds of \$178,286,000, primarily in the form of a loan. Based on the net amount of cash received, the outside partner's minimum initial investment requirement of 20% was not met. As such, the transaction did not qualify for full gain recognition under accounting guidance related to real estate sales. Therefore, the installment method of gain recognition was applied, resulting in a net gain on disposition of partial interest in rental properties of \$9,561,000 during the nine months ended October 31, 2011 with the remaining gain of \$115,388,000 deferred and included in accounts payable, accrued expenses and other liabilities at October 31, 2011. Transaction costs totaled \$11,776,000, of which, \$5,779,000 relating to participation payments made to the ground lessors of two of the properties in accordance with the respective ground lease agreements, did not qualify for deferral and were included in the calculation of the net gain on disposition of partial interests in rental properties of \$9,561,000 for the nine months ended October 31, 2011. As a result of

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this transaction, the Company is accounting for the 15 properties as equity method investments since both partners have joint control of the properties.



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**Forest City Enterprises, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(Unaudited)

**K. Net Gain on Disposition of Partial Interests in Rental Properties and Other Investment (continued)**

**University Park Joint Venture**

On February 22, 2010, the Company formed a joint venture with an outside partner, HCN FCE Life Sciences, LLC, to acquire seven life science office buildings in the Company's mixed-use *University Park* project in Cambridge, Massachusetts, formerly wholly-owned by the Company.

For its 49% share of the joint venture, the outside partner invested cash and the joint venture assumed approximately \$320,000,000 of nonrecourse mortgage debt on the seven buildings. In exchange for the contributed ownership interest, the Company received net cash proceeds of \$140,545,000, of which \$135,117,000 was in the form of a loan from the joint venture, resulting in full gain recognition of \$176,192,000 net of transaction costs of \$31,268,000, during the nine months ended October 31, 2010.

Included in these transaction costs were \$23,251,000 of participation payments made to the ground lessor of the seven properties in accordance with the respective ground lease agreements. As a result of this transaction, the Company is accounting for the new joint venture and the seven properties as equity method investments since both partners have joint control of the new venture and the properties.

**The Nets**

On May 12, 2010, entities controlled by Mikhail Prokhorov (MP Entities) invested \$223,000,000 and made certain funding commitments to acquire 80% of The Nets, 45% of Brooklyn Arena, LLC (Arena), the entity that through its subsidiaries is overseeing the construction of and has a long-term lease in the *Barclays Center* arena, and the right to purchase up to 20% of Atlantic Yards Development Company, LLC, which will develop non-arena real estate.

The transaction resulted in a change of controlling ownership interest in The Nets and a pre-tax net gain recognized by the Company of \$55,112,000 (\$31,437,000 after noncontrolling interest). This net gain is comprised of the gain on the transfer of ownership interest combined with the adjustment to fair value of the 20% retained noncontrolling interest.

In accordance with accounting guidance on real estate sales, the sale of 45% interest in Arena was not deemed a culmination of the earning process since no cash was withdrawn; therefore the transaction does not have an earnings impact.

The MP Entities have the right to put their Arena ownership interests to the Company during a four-month period following the ten-year anniversary of the completion of the *Barclays Center* arena for fair market value, as defined in the agreement. Due to the put option, the noncontrolling interest is redeemable and does not qualify as permanent equity. As a result, this amount is recorded as redeemable noncontrolling interest in the mezzanine section of the Company's consolidated balance sheet and is reported at redemption value, which represents fair market value, on a recurring basis.

Nets Sports and Entertainment, LLC has a similar right to put its noncontrolling interest in The Nets to the MP Entities at fair market value during the same time period as the MP Entities have their put right on Arena.

**Bernstein Joint Venture**

On February 19, 2010 the Company formed a new joint venture with the Bernstein Development Corporation to hold the Company's previously held investment interests in three residential properties totaling 1,340 rental units located within the Washington, D.C. metropolitan area. Both partners in the new joint venture have a 50% interest and joint control over the properties.

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The Company received \$28,922,000 in cash proceeds and the joint venture assumed \$163,000,000 of the nonrecourse mortgage debt on the properties resulting in gains on disposition of partial interests in rental properties and other investment of \$29,342,000 for the nine months ended October 31, 2010. As a result of this transaction, the Company is accounting for the new joint venture and the three properties as equity method investments since both partners have joint control of the new venture and the properties.

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**L. Income Taxes**

Income tax expense (benefit) for the three months ended October 31, 2011 and 2010 was \$(17,218,000) and \$19,501,000, respectively. Income tax expense (benefit) for the nine months ended October 31, 2011 and 2010 was \$(5,476,000) and \$91,697,000, respectively. The difference in the recorded income tax expense (benefit) versus the income tax expense (benefit) computed at the statutory federal income tax rate is primarily attributable to state income taxes, utilization of state net operating losses, additional general business credits, changes to the valuation allowances associated with certain deferred tax assets, and various permanent differences between pre-tax GAAP income and taxable income.

The Company applies an estimated annual effective tax rate to its year-to-date earnings from operations to derive its tax provision for the quarter. Certain circumstances may arise which make it difficult for the Company to determine a reasonable estimate of its annual effective tax rate for the year. The Company's projected marginal operating results, which includes the gain related to the Commercial Group's land sales as described in Note J, results in an effective tax rate that changes significantly with small variations in projected income or loss from operations or permanent differences and thus does not provide for a reliable estimate of the estimated annual effective tax rate. Therefore, in computing the Company's income tax provision for the three and nine months ended October 31, 2011, the Company has excluded the gain on the Commercial Group's land sale from its estimated annual effective tax rate calculation and has recognized the actual income tax expense related to the gain during the nine months ended October 31, 2011.

At January 31, 2011, the Company had a federal net operating loss carryforward for tax purposes of \$206,051,000 (generated primarily from the impact on its net earnings of tax depreciation expense from real estate properties and excess deductions from stock-based compensation) that will expire in the years ending January 31, 2024 through January 31, 2031, a charitable contribution deduction carryforward of \$37,273,000 that will expire in the years ending January 31, 2012 through January 31, 2016 (\$6,068,000 expiring in the year ending January 31, 2012), General Business Credit carryovers of \$19,070,000 that will expire in the years ending January 31, 2012 through January 31, 2031 (\$41,000 expiring in the year ending January 31, 2012), and an alternative minimum tax (AMT) credit carryforward of \$29,315,000 that is available until used to reduce federal tax to the AMT amount.

The Company's policy is to consider a variety of tax-deferral strategies, including tax deferred exchanges, when evaluating its future tax position. The Company has a full valuation allowance against the deferred tax asset associated with its charitable contributions. The Company has a valuation allowance against its general business credits, other than those general business credits which are eligible to be utilized to reduce future AMT liabilities. The Company has a valuation allowance against certain of its state net operating losses and credits. These valuation allowances exist because management believes it is more likely than not that the Company will not realize these benefits.

The Company applies the with-and-without methodology for recognizing excess tax benefits from the deduction of stock-based compensation. The net operating loss available for the tax return, as is noted in the paragraph above, is greater than the net operating loss available for the tax provision due to excess deductions from stock-based compensation reported on the return, as well as the impact of adjustments to the net operating loss under accounting guidance on accounting for uncertainty in income taxes. As of January 31, 2011, the Company has not recorded a net deferred tax asset of approximately \$17,264,000 from excess stock-based compensation deductions taken on the tax return for which a benefit has not yet been recognized in the Company's tax provision.

**M. Impairment of Real Estate, Impairment of Unconsolidated Entities, Write-Off of Abandoned Development Projects and Gain on Extinguishment of Debt**  
**Impairment of Real Estate**

The Company reviews its real estate portfolio, including land held for development or sale, for impairment whenever events or changes indicate that its carrying value may not be recoverable. In cases where the Company does not expect to recover its carrying costs, an impairment charge is recorded. The impairments recorded during the three and nine months ended October 31, 2011 and 2010 represent write-downs to estimated fair value due to a change in events, such as a bona fide third-party purchase offer or changes in certain assumptions, including estimated holding periods and current market conditions and the impact of these assumptions to the properties' estimated future cash flows, which

represents Level 2 or Level 3 inputs.

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(Unaudited)

**M. Impairment of Real Estate, Impairment of Unconsolidated Entities, Write-Off of Abandoned Development Projects and Gain on Extinguishment of Debt (continued)**

The following table summarizes the Company's impairment of real estate included in continuing operations.

	Three Months Ended October 31, 2011		Nine Months Ended October 31, 2010	
	2011	2010	2011	2010
	<i>(in thousands)</i>		<i>(in thousands)</i>	
250 Huron (Office Building)	\$ 10,257	\$ 2,040	\$ 10,257	\$ 2,040
Investment in retail property			3,435	
Land Projects:				
Mill Creek		110	1,400	560
Gladden Farms				650
Development property at Waterfront Station		3,103		3,103
Other	450	450	685	450
	\$ 10,707	\$ 5,703	\$ 15,777	\$ 6,803

In 2008, 250 Huron, an office building located in Cleveland, Ohio was vacated by its single tenant, which occupied the entire building. A lease termination payment received by the Company was placed into escrow for the purpose of servicing the nonrecourse mortgage debt until new tenants for the building could be obtained. During 2010, the Company entered into an option to sell the building at a sales price that was below the carrying value, resulting in an impairment charge of \$2,040,000 during the three and nine months ended October 31, 2010. Unable to obtain the necessary lender approval for the purchaser to assume the nonrecourse mortgage debt, the option to sell expired in August 2011. Subsequently, the Company received a notice of default from the loan servicer. As a result, the Company no longer intends to hold the property long term and dramatically shortened its estimated holding period. This reduced estimate of future undiscounted cash flows was not sufficient to recover the carrying value of the asset, resulting in an impairment charge of \$10,257,000 during the three months ended October 31, 2011. During November 2011, the lender entered into a sales agreement to sell the nonrecourse mortgage debt to a third party with whom the Company has entered into negotiations to transfer the property to in full satisfaction of the outstanding nonrecourse mortgage debt balance. Upon the actual disposition of the asset, the Company will be relieved of any payment obligation under the nonrecourse mortgage debt and will recognize a gain for the excess of the carrying value of the mortgage over the fair value of the asset disposed.

In addition, the Company had impairments related to consolidated real estate assets that were disposed of during the three months ended January 31, 2011 and included in discontinued operations (see Note N - Discontinued Operations and Gain (Loss) on Disposition of Rental Properties). During the three and nine months ended October 31, 2010, the Company had impairments of real estate of \$31,552,000 and \$76,962,000, respectively, related to *Simi Valley Town Center*, a regional mall located in Simi Valley, California. During both the three and nine months ended October 31, 2010, the Company had a \$2,641,000 impairment of real estate related to an investment in a triple net lease property located in Pueblo, Colorado.

**Impairment of Unconsolidated Entities**

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The Company reviews its portfolio of unconsolidated entities for other-than-temporary impairments whenever events or changes indicate that its carrying value in the investments may be in excess of fair value. An equity method investment's value is impaired if management's estimate of its fair value is less than the carrying value and the difference is deemed to be other-than-temporary. In order to arrive at the estimates of fair value, the Company uses varying assumptions that may include comparable sale prices, market discount rates, market capitalization rates and estimated future discounted cash flows specific to the geographic region and property type, which are considered to be Level 3 inputs. For newly opened properties, assumptions also include the timing of initial lease up at the property. In the event the initial lease up assumptions differ from actual results, estimated future discounted cash flows may vary resulting in impairment charges in future periods.

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(Unaudited)

**M. Impairment of Real Estate, Impairment of Unconsolidated Entities, Write-Off of Abandoned Development Projects and Gain on Extinguishment of Debt (continued)**

The following table summarizes the Company's impairment of unconsolidated entities:

	Three Months Ended October 31, 2011		Nine Months Ended October 31, 2010	
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Specialty Retail Centers:				
Village at Gulfstream Park	Hallandale Beach, Florida	\$ 34,579	\$ 34,579	\$
Metreon	San Francisco, California			4,595
Commercial land and development rights	Cleveland, Ohio	4,610	4,610	
Mixed-Use Land Development:				
Sterling Lakes	Pepper Pike, Ohio	1,700	1,700	
Central Station:				
Four Museum Park properties	Chicago, Illinois		18,311	18,311
Mercy Campus	Chicago, Illinois			1,817
Old Stone Crossing at Caldwell Creek	Charlotte, North Carolina			743
Office Buildings:				
Mesa del Sol Aperture Center	Albuquerque, New Mexico		2,733	2,733
818 Mission Street	San Francisco, California			4,018
Bulletin Building	San Francisco, California			3,543
Other		400	520	985
		\$ 41,289	\$ 21,564	\$ 41,289
				\$ 36,745

The impairment recorded during the three months ended October 31, 2011 at *Village at Gulfstream Park*, a specialty retail center in Hallandale Beach, Florida represents an other-than-temporary impairment in the Company's equity method investment. The specialty retail center was fully opened in February 2010 and was leased during the general economic downturn which resulted in a longer initial lease-up period than originally projected and increased rent concessions to the existing tenant base. Based on these conditions, management revised its estimate of future discounted cash flows, which are a key component in estimating fair value, resulting in an impairment charge of \$35,000,000 during the three months ended January 31, 2011. During the three months ended October 31, 2011, the general economic conditions continued to negatively impact the operating results at the specialty retail center. The specialty retail center has continued to experience a slower than anticipated lease-up period and has not reached the expected level of cash flows used in previous estimates of fair value. Based on these conditions, management revised its estimate of future discounted cash flows downward. As a result, the Company's equity method investment was recorded at its estimated fair value as of October 31, 2011, resulting in an additional impairment charge of \$34,579,000 during the three months ended October 31, 2011.

**Write-Off of Abandoned Development Projects**

On a quarterly basis, the Company reviews each project under development to determine whether it is probable the project will be developed. If management determines that the project will not be developed, project costs are written off as an abandoned development project cost. The Company abandons certain projects under development for a number of reasons, including, but not limited to, changes in local market conditions, increases in construction or financing costs or third party challenges related to entitlements or public financing. The Company wrote

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off abandoned development projects of \$4,686,000 and \$9,931,000 for the three and nine months ended October 31, 2011, respectively, and \$641,000 and \$678,000 for the three and nine months ended October 31, 2010, respectively, which were recorded in operating expenses.

In addition, included in equity in earnings (loss) of unconsolidated entities are write-offs of \$343,000 and \$2,900,000 for the three and nine months ended October 31, 2010, respectively, which represent the Company's proportionate share of write-offs of abandoned development projects of equity method investments. The Company had no write-offs of abandoned development projects related to unconsolidated entities for both the three and nine months ended October 31, 2011.

### **Gain on Extinguishment of Debt**

For the three and nine months ended October 31, 2011, the Company recorded \$15,101,000 and \$9,334,000, respectively, as gain on extinguishment of debt. The amounts for 2011 include gains of \$15,101,000 on extinguishment of nonrecourse mortgage debt at a mixed-use development project located in Las Vegas, Nevada and \$5,329,000 related to the early extinguishment of Urban Development Action Grant loans on *Avenue at Tower City Center*, a specialty retail center located in Cleveland, Ohio. These gains were offset by non-tax deductible losses of \$10,800,000 related to the exchange of a portion of the 2016 Notes for Class A common stock and \$296,000 related to a nonrecourse mortgage debt financing transaction on *Johns Hopkins 855 North Wolfe Street*, an office building located in East Baltimore, Maryland.



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**M. Impairment of Real Estate, Impairment of Unconsolidated Entities, Write-Off of Abandoned Development Projects and Gain on****Extinguishment of Debt (continued)**

For the three and nine months ended October 31, 2010, the Company recorded \$2,460,000 and \$10,653,000, respectively, as gain on extinguishment of debt. The amounts for 2010 primarily include a \$6,297,000 gain related to the exchange of a portion of the 2011 Notes, 7.625% Senior Notes due 2015 and 6.500% Senior Notes due 2017 ( 2017 Notes ) for a new issue of Series A preferred stock, a \$2,472,000 gain on the early extinguishment of nonrecourse mortgage debt at *Botanica on the Green* and *Crescent Flats*, apartment communities located in Denver, Colorado, and a \$1,896,000 gain on the early extinguishment of a portion of the 2011 and 2017 Notes.

**N. Discontinued Operations and Gain (Loss) on Disposition of Rental Properties**

The following table lists rental properties included in discontinued operations:

Property	Location	Square Feet/ Number of Units/ Rooms	Period Disposed	Three Months Ended 10/31/2011	Nine Months Ended 10/31/2011	Three Months Ended 10/31/2010	Nine Months Ended 10/31/2010
<i>Commercial Group:</i>							
Waterfront Station 4 <sup>th</sup> Buildings	East 4 <sup>th</sup> & West Washington, D.C.	631,000 square feet	Q2 2011		Yes	Yes	Yes
Charleston Marriott hotel	Charleston, West Virginia	352 rooms	Q1 2011		Yes	Yes	Yes
Simi Valley Town Center Investment in triple net lease property	Simi Valley, California Pueblo, Colorado	612,000 square feet 203,000 square feet	Q4 2010 Q4 2010			Yes	Yes
Saddle Rock Village	Aurora, Colorado	294,000 square feet	Q3 2010			Yes	Yes
<i>Residential Group:</i>							
101 San Fernando	San Jose, California	323 units	Q2 2010			Yes	Yes

The following table summarizes the operating results related to discontinued operations:

	\$	\$	\$	\$
	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Revenues from real estate operations</b>	\$	\$ 16,564	\$ 13,070	\$ 45,632
<b>Expenses</b>				
Operating expenses		7,847	5,018	22,914
Depreciation and amortization		2,830	2,216	8,707
Impairment of real estate		34,193		79,603

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	44,870	<b>7,234</b>	111,224
Interest expense	(2,615)	<b>(1,526)</b>	(7,483)
Amortization of mortgage procurement costs	(589)	<b>(739)</b>	(1,531)
Interest income	1		7
Gain (loss) on disposition of rental properties	(1,428)	<b>121,695</b>	4,776
<b>Earnings (loss) before income taxes</b>	<b>(32,937)</b>	<b>125,266</b>	<b>(69,823)</b>
<b>Income tax expense (benefit)</b>			
Current	(376)	<b>2,941</b>	(272)
Deferred	(12,959)	<b>14,558</b>	(29,186)
	(13,335)	<b>17,499</b>	(29,458)
<b>Earnings (loss) from discontinued operations</b>	<b>(19,602)</b>	<b>107,767</b>	<b>(40,365)</b>
<b>Noncontrolling interests</b>			
Gain on disposition of rental properties		<b>81,758</b>	4,211
Operating earnings from rental properties	1,147	<b>1,997</b>	1,936
	1,147	<b>83,755</b>	6,147
<b>Earnings (loss) from discontinued operations attributable to Forest City Enterprises, Inc.</b>	<b>\$ (20,749)</b>	<b>\$ 24,012</b>	<b>\$ (46,512)</b>

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(Unaudited)

**N. Discontinued Operations and Gain (Loss) on Disposition of Rental Properties**  
**(continued)**

The following table summarizes the pre-tax gain (loss) on disposition of rental properties:

	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Waterfront Station - East 4th & West 4th Buildings (Office Buildings)	\$	\$	\$ 111,738	\$
Charleston Marriott (Hotel)			9,957	
101 San Fernando (Apartment Community)				6,204
Saddle Rock Village (Specialty Retail Center)		(1,428)		(1,428)
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$ 121,695</b>	<b>\$ 4,776</b>

**O. Earnings Per Share**

The Company's restricted stock is considered a participating security pursuant to the two-class method for computing basic earnings per share (EPS). The Class A Common Units, which are reflected as noncontrolling interests in the Consolidated Balance Sheets, are considered convertible participating securities as they are entitled to participate in any dividends paid to the Company's common shareholders. The Class A Common Units are included in the computation of basic EPS using the two-class method and are included in the computation of diluted EPS using the if-converted method. The Class A common stock issuable in connection with the put or conversion of the 2014 Notes, 2016 Notes, 2018 Notes and Series A preferred stock are included in the computation of diluted EPS using the if-converted method. The loss from continuing operations attributable to Forest City Enterprises, Inc. for the three and nine months ended October 31, 2011 and the three months ended October 31, 2010 were allocated solely to holders of common stock as the participating security holders do not share in the losses.

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**O. Earnings Per Share (continued)**

The reconciliation of the amounts used in the basic and diluted EPS computations is shown in the following table.

	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Numerators (in thousands)</b>				
Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc.	\$ (38,025)	\$ (26,042)	\$ (6,336)	\$ 107,005
Dividends on preferred stock	(3,850)	(3,850)	(11,550)	(7,957)
Undistributed earnings allocated to participating securities				(3,158)
<b>Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Basic</b>	<b>(41,875)</b>	<b>(29,892)</b>	<b>(17,886)</b>	<b>95,890</b>
Dividends on preferred stock				
Undistributed earnings allocated to participating securities				3,158
Interest on convertible debt				7,920
Preferred distribution on Class A Common Units				1,075
<b>Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Diluted</b>	<b>\$ (41,875)</b>	<b>\$ (29,892)</b>	<b>\$ (17,886)</b>	<b>\$ 108,043</b>
Net earnings (loss) attributable to Forest City Enterprises, Inc.	\$ (38,025)	\$ (46,791)	\$ 17,676	\$ 60,493
Dividends on preferred stock	(3,850)	(3,850)	(11,550)	(7,957)
Undistributed earnings allocated to participating securities			(765)	(1,675)
<b>Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Basic</b>	<b>(41,875)</b>	<b>(50,641)</b>	<b>5,361</b>	<b>50,861</b>
Dividends on preferred stock				
Undistributed earnings allocated to participating securities				1,675
Interest on convertible debt				7,920
Preferred distribution on Class A Common Units				1,075

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<b>Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Diluted</b>	<b>\$ (41,875)</b>	<b>\$ (50,641)</b>	<b>\$ 5,361</b>	<b>\$ 61,531</b>
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**Denominators**

<b>Weighted average shares outstanding - Basic</b>	<b>169,150,429</b>	155,484,451	<b>167,838,122</b>	155,431,893
Effect of stock options and restricted stock				466,380
Effect of convertible preferred stock				
Effect of convertible debt				28,133,038
Effect of convertible Class A Common Units				3,646,755
<b>Weighted average shares outstanding - Diluted <sup>(1)</sup></b>	<b>169,150,429</b>	155,484,451	<b>167,838,122</b>	187,678,066

**Earnings Per Share**

Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Basic	<b>\$ (0.25)</b>	\$ (0.20)	<b>\$ (0.11)</b>	\$ 0.62
Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Diluted	<b>\$ (0.25)</b>	\$ (0.20)	<b>\$ (0.11)</b>	\$ 0.58
Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Basic	<b>\$ (0.25)</b>	\$ (0.33)	<b>\$ 0.03</b>	\$ 0.33
Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Diluted	<b>\$ (0.25)</b>	\$ (0.33)	<b>\$ 0.03</b>	\$ 0.33

- (1) a) For the three and nine months ended October 31, 2011 and the three months ended October 31, 2010, incremental shares from dilutive options, restricted stock and convertible securities aggregating 52,263,216, 43,670,392 and 46,792,862, respectively, were not included in the computation of diluted EPS because their effect is anti-dilutive due to the loss from continuing operations.
- b) For the nine months ended October 31, 2010, weighted-average shares issuable upon the conversion of preferred stock of 12,631,541 were not included in the computation of diluted EPS because their effect is anti-dilutive under the if-converted method. Weighted-average options and restricted stock of 4,940,041 and 3,998,084 for the three and nine months ended October 31, 2011, respectively, and 5,011,252 and 4,787,334 for the three and nine months ended October 31, 2010, respectively, were not included in the computation of diluted EPS because their effect is anti-dilutive.
- c) For the three and nine months ended October 31, 2011 and 2010, weighted-average performance shares of 172,609 were not included in the computation of diluted EPS because the performance criteria were not satisfied as of the end of the respective periods.

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(Unaudited)

**P. Segment Information**

The Company operates through three strategic business units and five reportable segments. The three strategic business units/reportable segments are the Commercial Group, Residential Group and Land Development Group ( Real Estate Groups ). The Commercial Group, the Company's largest business unit, owns, develops, acquires and operates regional malls, specialty/urban retail centers, office and life science buildings, hotels and mixed-use projects. The Residential Group owns, develops, acquires and operates residential rental properties, including upscale and middle-market apartments and adaptive re-use developments. Additionally, the Residential Group develops for-sale condominium projects and also owns interests in entities that develop and manage military family housing. The Land Development Group acquires and sells both land and developed lots to residential, commercial and industrial customers. It also owns and develops land into master-planned communities and mixed-use projects. The remaining two reportable segments are Corporate Activities and The Nets, a member of the NBA in which the Company accounts for its investment on the equity method of accounting. The following tables summarize financial data for the Company's five reportable segments. All amounts are presented in thousands.

	<b>October 31,</b>		<b>January 31,</b>					
	<b>2011</b>		<b>2011</b>					
	<b>Identifiable Assets</b>							
Commercial Group	<b>\$ 7,779,962</b>		\$ 8,617,287					
Residential Group	<b>1,983,187</b>		2,825,527					
Land Development Group	<b>509,156</b>		498,190					
The Nets	<b>8,009</b>							
Corporate Activities	<b>183,069</b>		118,697					
	<b>\$ 10,463,383</b>		\$ 12,059,701					
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 31,</b>		<b>October 31,</b>		<b>October 31,</b>		<b>October 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>Revenues from Real Estate Operations</b>				<b>Operating Expenses</b>			
Commercial Group	<b>\$ 184,178</b>	\$ 218,580	<b>\$ 571,174</b>	\$ 649,168	<b>\$ 100,228</b>	\$ 103,340	<b>\$ 299,373</b>	\$ 312,742
Commercial Group Land Sales	<b>397</b>	8,672	<b>48,049</b>	23,429	<b>270</b>	7,169	<b>3,425</b>	18,952
Residential Group	<b>68,503</b>	52,706	<b>179,532</b>	157,888	<b>46,856</b>	33,681	<b>123,392</b>	98,833
Land Development Group	<b>8,120</b>	7,088	<b>24,072</b>	19,564	<b>9,668</b>	9,003	<b>29,086</b>	26,874
The Nets								
Corporate Activities					<b>12,133</b>	8,889	<b>36,558</b>	29,325
	<b>\$ 261,198</b>	\$ 287,046	<b>\$ 822,827</b>	\$ 850,049	<b>\$ 169,155</b>	\$ 162,082	<b>\$ 491,834</b>	\$ 486,726

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	Depreciation and Amortization Expense				Interest Expense			
Commercial Group	\$ 41,675	\$ 44,659	\$ 124,904	\$ 135,909	\$ 40,868	\$ 56,191	\$ 128,285	\$ 174,269
Residential Group	13,276	15,163	40,469	40,195	10,015	3,295	25,269	17,318
Land Development Group	60	65	174	264	865	845	2,465	2,178
The Nets								
Corporate Activities	404	480	1,113	1,365	15,487	15,509	42,195	48,052
	\$ 55,415	\$ 60,367	\$ 166,660	\$ 177,733	\$ 67,235	\$ 75,840	\$ 198,214	\$ 241,817

	Interest and Other Income				Capital Expenditures			
Commercial Group	\$ 4,055	\$ 3,229	\$ 18,510	\$ 13,438	\$ 159,282	\$ 115,600	\$ 425,779	\$ 398,320
Residential Group	4,488	6,006	15,362	14,243	27,532	48,195	121,095	165,544
Land Development Group	2,631	2,521	8,025	6,946	8		358	
The Nets								
Corporate Activities	120	163	219	337	129		299	16
	\$ 11,294	\$ 11,919	\$ 42,116	\$ 34,964	\$ 186,951	\$ 163,795	\$ 547,531	\$ 563,880

The Company uses a measure defined as Earnings Before Depreciation, Amortization and Deferred Taxes ( EBDT ) to report its operating results. EBDT is a non-GAAP measure and is defined as net earnings excluding the following items at the Company's proportionate share: i) gain (loss) on disposition of rental properties, divisions and other investments (net of tax); ii) the adjustment to recognize rental revenues and rental expense using the straight-line method; iii) non-cash charges for real estate depreciation, amortization and amortization of mortgage procurement costs; iv) deferred income taxes; v) preferred payment which is classified as noncontrolling interest expense in the Company's Consolidated Statements of Operations; vi) impairment of real estate (net of tax); vii) extraordinary items (net of tax); and viii) cumulative or retrospective effect of change in accounting principle (net of tax).

**Table of Contents****Forest City Enterprises, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

(Unaudited)

**P. Segment Information (continued)**

The Company believes that, although its business has many facets such as development, acquisitions, disposals, and property management, the core of its business is the recurring operations of its portfolio of real estate assets. The Company's Chief Executive Officer, the chief operating decision maker, uses EBDT, as presented, to assess performance of its portfolio of real estate assets by operating segment because it provides information on the financial performance of the core real estate portfolio operations. EBDT measures the profitability of a real estate segment's operations of collecting rent, paying operating expenses and servicing its debt. The Company's segments adhere to the accounting policies described in Note A herein and Note A in the Company's annual report on Form 10-K for the year ended January 31, 2011.

Effective during the nine months ended October 31, 2011, under the direction of the Company's chief operating decision maker, EBDT provided in order to assess performance for the Real Estate Groups and The Nets was on a pre-tax basis. The Corporate Activities segment controls tax strategies and evaluates results on a consolidated basis. As a result, beginning February 1, 2011, the Company will no longer allocate income tax expense (benefit) to the Real Estate Groups or The Nets. In addition, based on the consolidated evaluation of income taxes, it was determined that EBDT would exclude all deferred income taxes instead of just those attributable to the Real Estate Groups. All amounts in the following table are represented in thousands:

**Reconciliation of EBDT to Net Earnings (Loss) by Segment:**

Three Months Ended October 31, 2011	Commercial Group	Residential Group	Land Development Group	The Nets	Corporate Activities	Total
<b>EBDT</b>	\$ 73,677	\$ 25,956	\$ 3,131	\$ (11,283)	\$ (14,004)	\$ 77,477
Depreciation and amortization Real Estate Groups	(50,402)	(20,861)	(41)			(71,304)
Amortization of mortgage procurement costs Real Estate Groups	(2,999)	(995)	(58)			(4,052)
Straight-line rent adjustment	3,038	230				3,268
Preference payment	(585)					(585)
Gain on disposition of partial interests in rental properties	5,849					5,849
Impairment of real estate	(10,257)		(450)			(10,707)
Impairment of unconsolidated real estate	(39,189)		(2,100)			(41,289)
Income tax benefit (expense):						
Deferred income taxes					3,328	3,328
Current income taxes attributable to above dispositions					(10)	(10)
<b>Net earnings (loss) attributable to Forest City Enterprises, Inc.</b>	<b>\$ (20,868)</b>	<b>\$ 4,330</b>	<b>\$ 482</b>	<b>\$ (11,283)</b>	<b>\$ (10,686)</b>	<b>\$ (38,025)</b>
Preferred dividends					(3,850)	(3,850)
<b>Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders</b>	<b>\$ (20,868)</b>	<b>\$ 4,330</b>	<b>\$ 482</b>	<b>\$ (11,283)</b>	<b>\$ (14,536)</b>	<b>\$ (41,875)</b>



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Three Months Ended October 31, 2010	Commercial Group	Residential Group	Land Development Group	The Nets	Corporate Activities	Total
<b>EBDT</b>	\$ 73,040	\$ 34,678	\$ 441	\$ (598)	\$ (16,862)	\$ 90,699
Depreciation and amortization Real Estate Groups	(50,678)	(20,251)	(48)			(70,977)
Amortization of mortgage procurement costs Real Estate Groups	(2,982)	(716)	(47)			(3,745)
Deferred taxes Real Estate Groups	(3,305)	(4,730)	(607)		(19,928)	(28,570)
Straight-line rent adjustment	2,208	(37)	(1)			2,170
Preference payment	(585)					(585)
Gain (loss) on disposition of partial interests in rental properties, net of tax	(1,497)	352				(1,145)
Gain on disposition of unconsolidated entities, net of tax	3,943	1,356				5,299
Impairment of real estate, net of tax	(2,213)		(344)			(2,557)
Impairment of unconsolidated entities, net of tax	(1,674)		(11,527)			(13,201)
Discontinued operations, net of tax:						
Depreciation and amortization - Real Estate Groups	(1,943)					(1,943)
Amortization of mortgage procurement costs - Real Estate Groups	(284)					(284)
Deferred taxes - Real Estate Groups	(760)					(760)
Straight-line rent adjustment	497					497
Loss on disposition of rental properties	(758)					(758)
Impairment of real estate	(20,931)					(20,931)
<b>Net earnings (loss) attributable to Forest City Enterprises, Inc.</b>	<b>\$ (7,922)</b>	<b>\$ 10,652</b>	<b>\$ (12,133)</b>	<b>\$ (598)</b>	<b>\$ (36,790)</b>	<b>\$ (46,791)</b>
Preferred dividends					(3,850)	(3,850)
<b>Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders</b>	<b>\$ (7,922)</b>	<b>\$ 10,652</b>	<b>\$ (12,133)</b>	<b>\$ (598)</b>	<b>\$ (40,640)</b>	<b>\$ (50,641)</b>

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(Unaudited)

**P. Segment Information (continued)****Reconciliation of EBDT to Net Earnings (Loss) by Segment (continued):**

Nine Months Ended October 31, 2011	Commercial Group	Residential Group	Land Development Group	The Nets	Corporate Activities	Total
<b>EBDT</b>	\$ 266,453	\$ 72,713	\$ 4,023	\$ (14,969)	\$ (52,661)	\$ 275,559
Depreciation and amortization - Real Estate Groups	(149,476)	(58,362)	(194)			(208,032)
Amortization of mortgage procurement costs - Real Estate Groups	(7,841)	(2,721)	(204)			(10,766)
Straight-line rent adjustment	2,069	355				2,424
Preference payment	(1,756)					(1,756)
Gain on disposition of partial interests in rental properties	15,410					15,410
Gain on disposition of unconsolidated entities		12,567				12,567
Impairment of real estate	(13,692)	(235)	(1,850)			(15,777)
Impairment of unconsolidated real estate	(39,189)		(2,100)			(41,289)
Discontinued operations:						
Depreciation and amortization - Real Estate Groups	(1,030)					(1,030)
Amortization of mortgage procurement costs - Real Estate Groups	(333)					(333)
Straight-line rent adjustment	571					571
Gain on disposition of rental properties	39,937					39,937
Income tax expense:						
Deferred income taxes					(7,838)	(7,838)
Current income taxes attributable to above dispositions					(41,971)	(41,971)
<b>Net earnings (loss) attributable to Forest City Enterprises, Inc.</b>	<b>\$ 111,123</b>	<b>\$ 24,317</b>	<b>\$ (325)</b>	<b>\$ (14,969)</b>	<b>\$ (102,470)</b>	<b>\$ 17,676</b>
Preferred dividends					(11,550)	(11,550)
<b>Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders</b>	<b>\$ 111,123</b>	<b>\$ 24,317</b>	<b>\$ (325)</b>	<b>\$ (14,969)</b>	<b>\$ (114,020)</b>	<b>\$ 6,126</b>
Nine Months Ended October 31, 2010	Commercial Group	Residential Group	Land Development Group	The Nets	Corporate Activities	Total
<b>EBDT</b>	\$ 206,141	\$ 87,457	\$ 1,007	\$ 10,774	\$ (38,653)	\$ 266,726
Depreciation and amortization - Real Estate Groups	(150,006)	(55,736)	(202)			(205,944)

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Amortization of mortgage procurement costs						
Real Estate Groups	(7,889)	(1,859)	(211)			(9,959)
Deferred taxes - Real Estate Groups	(16,274)	(11,343)	(827)	(16,408)		(44,852)
Straight-line rent adjustment	8,349	735	(5)			9,079
Preference payment	(1,756)					(1,756)
Gain on disposition of partial interests in rental properties, net of tax	106,118	18,083				124,201
Gain on disposition of unconsolidated entities, net of tax	3,436	1,356				4,792
Impairment of real estate, net of tax	(2,213)		(1,016)			(3,229)
Impairment of unconsolidated entities, net of tax	(9,115)		(13,380)			(22,495)
Discontinued operations, net of tax:						
Depreciation and amortization - Real Estate Groups	(6,083)	(636)				(6,719)
Amortization of mortgage procurement costs - Real Estate Groups	(752)	(13)				(765)
Deferred taxes - Real Estate Groups	(964)	(400)				(1,364)
Straight-line rent adjustment	1,168					1,168
Gain (loss) on disposition of rental properties	(758)	1,099				341
Impairment of real estate	(48,731)					(48,731)
<b>Net earnings (loss) attributable to Forest City Enterprises, Inc.</b>	\$ 80,671	\$ 38,743	\$ (14,634)	\$ 10,774	\$ (55,061)	\$ 60,493
Preferred dividends					(7,957)	(7,957)
<b>Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders</b>	\$ 80,671	\$ 38,743	\$ (14,634)	\$ 10,774	\$ (63,018)	\$ 52,536

Q. Capital Stock  
*Common Stock*

During May 2011, the Company completed an exchange of \$40,000,000 in aggregate principal amount of the 2016 Notes for 3,444,293 shares of Class A common stock, pursuant to separate, privately negotiated exchange agreements.

*Preferred Stock*

The Company declared and paid Series A preferred stock dividends of \$3,850,000 and \$11,550,000 during the three and nine months ended October 31, 2011, respectively, and \$3,850,000 and \$7,957,000 during the three and nine months ended October 31, 2010, respectively, to preferred shareholders. Undeclared Series A preferred stock dividends were approximately \$1,925,000 at October 31, 2011. Effective November 1, 2011, the Company's Board of Directors declared cash dividends on the outstanding shares of Series A preferred stock dividends of approximately \$3,850,000 for the period from September 15, 2011 to December 14, 2011 to shareholders of record at the close of business on December 1, 2011, which will be paid on December 15, 2011.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) of Forest City Enterprises, Inc. and subsidiaries should be read in conjunction with the financial statements and the footnotes thereto contained in the annual report on Form 10-K for the year ended January 31, 2011.

## RESULTS OF OPERATIONS

### Corporate Description

We principally engage in the ownership, development, management and acquisition of commercial and residential real estate and land throughout the United States. We operate through three strategic business units and five reportable segments. The **Commercial Group**, our largest strategic business unit, owns, develops, acquires and operates regional malls, specialty/urban retail centers, office and life science buildings, hotels and mixed-use projects. The **Residential Group** owns, develops, acquires and operates residential rental properties, including upscale and middle-market apartments and adaptive re-use developments. Additionally, the Residential Group develops for-sale condominium projects and also owns interests in entities that develop and manage military family housing. The **Land Development Group** acquires and sells both land and developed lots to residential, commercial and industrial customers. It also owns and develops land into master-planned communities and mixed-use projects.

**Corporate Activities** and **The Nets**, a member of the National Basketball Association ( NBA ) in which we account for our investment on the equity method of accounting, are other reportable segments of the Company.

We have approximately \$10.5 billion of consolidated assets in 28 states and the District of Columbia at October 31, 2011. Our core markets include Boston, the state of California, Chicago, Denver, the New York City/Philadelphia metropolitan area and the Greater Washington D.C./Baltimore metropolitan area. We have offices in Albuquerque, Boston, Chicago, Dallas, Denver, London (England), Los Angeles, New York City, San Francisco, Washington, D.C., and our corporate headquarters in Cleveland, Ohio.

Significant milestones occurring during the third quarter of 2011 included:

Forest City Military Communities and the U.S. Air Force, through the Air Force Center for Engineering and the Environment, closing a 50-year housing privatization agreement for the development and management of 2,185 family homes at four U.S. Air Force bases in the Southeast, bringing Forest City's military housing portfolio to more than 14,000 homes;

At *Westchester's Ridge Hill*, a retail center currently under construction in Yonkers, New York, tenants Whole Foods Market, Yard House, The Cheesecake Factory, L.L.Bean, Sephora, H&M, Old Navy and Desigual all opened. In addition, Orvis, Gap, Charming Charlie and Sur la Table opened during November 2011;

Commencing construction of the *Continental Building*, a 203 unit apartment building in Dallas, Texas, following the closing of the \$28,109,000 mortgage loan; and

Closing \$190,821,000 in nonrecourse mortgage financing transactions.

In addition, subsequent to October 31, 2011, we achieved the following significant milestones:

The opening of *Foundry Lofts*, a 170 unit apartment community at The Yards, Washington, D.C.'s up-and-coming urban development in the Capitol Riverfront area. The property is an adaptive reuse of a historic industrial building and opened with 50% of units preleased; and

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The selection by the Georgia Department of Transportation to lead a project team in the development of a new multi-modal transportation hub in downtown Atlanta. We will be responsible for fee-based master planning for the project which will be developed on a 119-acre site.

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**Net Earnings (Loss) Attributable to Forest City Enterprises, Inc.** Net loss attributable to Forest City Enterprises, Inc. for the three months ended October 31, 2011 was \$38,025,000 versus \$46,791,000 for the three months ended October 31, 2010. Although we have substantial recurring revenue from our properties, we also periodically enter into significant transactions, which can create substantial variances in net earnings between periods. This variance to the prior year is primarily attributable to the following increases, which are net of noncontrolling interest:

\$13,277,000 (which includes \$1,900,000 for unconsolidated entities) related to increased gains on extinguishment of debt in 2011 compared to 2010;

\$7,938,000 related to the 2011 decrease in impairment charges of consolidated (including discontinued operations) and unconsolidated entities;

\$5,849,000 related to the 2011 gain on disposition of partial interest in the *Mall at Stonecrest*, a regional mall in Atlanta, Georgia, related to the formation of a new joint venture with an outside partner;

\$2,656,000 related to transaction costs expensed during 2010 that were incurred in connection with a potential partial disposition of certain rental properties that did not occur; and

\$23,384,000 due to decreased income tax expense attributable to both continuing and discontinued operations primarily related to the various transactions discussed herein.

These increases were partially offset by the following decreases, net of noncontrolling interest:

\$10,868,000 related to a 2011 increase in allocated losses from our equity investment in The Nets (see The Nets section of the MD&A);

\$8,658,000 related to the 2010 gains on disposition of our unconsolidated investments in *Woodbridge Crossing*, a specialty retail center in Woodbridge, New Jersey, and *Pebble Creek*, an apartment community in Twinsburg, Ohio;

\$3,702,000 (which includes \$343,000 for unconsolidated entities) of increased write-offs of abandoned development projects in 2011 compared to 2010;

\$3,278,000 related to the change in fair market value of certain derivatives between the comparable periods, which was marked to market through interest expense as a result of the derivatives not qualifying for hedge accounting; and

\$2,396,000 primarily related to decreased occupancy at *Two MetroTech Center*, an office building in Brooklyn, New York.

Net earnings attributable to Forest City Enterprises, Inc. for the nine months ended October 31, 2011 was \$17,676,000 versus \$60,493,000 for the nine months ended October 31, 2010. The variance to the prior year is primarily attributable to the following decreases, which are net of noncontrolling interest:

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\$176,192,000 related to the 2010 gain on disposition of partial interest in seven mixed-use *University Park* life science properties, related to the formation of a new joint venture with an outside partner;

\$31,437,000 related to the 2010 gain on disposition of partial interest in The Nets;

\$29,342,000 related to the 2010 gain on disposition of partial interest in *The Grand*, *Lenox Club* and *Lenox Park*, apartment communities in the Washington D.C. metropolitan area, related to the formation of a new joint venture with an outside partner;

\$7,210,000 primarily related to decreased occupancy at *Two MetroTech Center*;

\$6,353,000 (which includes \$2,900,000 for unconsolidated entities) of increased write-offs of abandoned development projects in 2011 compared to 2010;

\$6,098,000 related to increases in professional fees associated with strategic planning and process improvement initiatives;

\$3,206,000 related to a 2011 increase in allocated losses from our equity investment in The Nets; and

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\$3,034,000 (which includes \$455,000 for unconsolidated entities) related to decreased gains on early extinguishment of debt in 2011 compared to 2010. See Note M - Impairment of Real Estate, Impairment of Unconsolidated Entities, Write-Off of Abandoned Development Projects and Gain on Extinguishment of Debt in the Notes to Consolidated Financial Statements in Item 1 of this Form 10-Q.

These decreases were partially offset by the following increases, net of noncontrolling interest:

\$64,559,000 related to the 2011 decrease in impairment charges of consolidated (including discontinued operations) and unconsolidated entities;

\$42,622,000 related to the 2011 sale of land and air rights for development of a casino in downtown Cleveland, Ohio;

\$39,373,000 related to the 2011 gains on disposition of rental properties exceeding 2010 gains. The 2011 gain related to *Waterfront Station East 4<sup>th</sup> & West 4<sup>th</sup> Buildings*, office buildings in Washington, D.C., and *Charleston Marriott*, a hotel in Charleston, West Virginia, while the 2010 gains related to the disposition of *101 San Fernando*, an apartment community in San Jose, California and *Saddle Rock Village*, a specialty retail center in Aurora, Colorado;

\$9,561,000 due to the 2011 gain on disposition of partial interests in 15 retail properties in the New York City metropolitan area, related to the formation of new joint venture agreements with an outside partner;

\$5,849,000 related to the 2011 gain on disposition of partial interest in the *Mall at Stonecrest*, related to the formation of a new joint venture with an outside partner;

\$5,135,000 related to the change in fair market value of certain derivatives between the comparable periods, which was marked to market through interest expense as a result of the derivatives not qualifying for hedge accounting;

\$4,739,000 related to the 2011 gains on disposition of our unconsolidated investments exceeding 2010 gains. The 2011 gains related to *Metropolitan Lofts* and *Twin Lake Towers*, apartment communities in Los Angeles, California and Denver, Colorado, respectively, while the 2010 gain primarily related to *Woodbridge Crossing* and *Pebble Creek*;

\$3,142,000 related to an increase in income recognized on the sale of state and federal Historic Preservation Tax Credits and New Market Tax Credits in 2011 compared to 2010;

\$2,656,000 related to transaction costs expensed during 2010 that were incurred in connection with a potential partial disposition of certain rental properties that did not occur; and

\$50,216,000 due to decreased income tax expense attributable to both continuing and discontinued operations primarily related to the various transactions discussed herein.



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**Summary of Segment Operating Results** The following tables present a summary of revenues from real estate operations, operating expenses, interest expense, equity in earnings of unconsolidated entities and impairment of unconsolidated entities by segment. See discussion of these amounts by segment in the narratives following the tables.

	Three Months Ended October 31,			Nine Months Ended October 31,		
	2011	2010	Variance	2011	2010	Variance
	(in thousands)			(in thousands)		
<b>Revenues from Real Estate Operations</b>						
Commercial Group	\$ 184,178	\$ 218,580	\$ (34,402)	\$ 571,174	\$ 649,168	\$ (77,994)
Commercial Group Land Sales	397	8,672	(8,275)	48,049	23,429	24,620
Residential Group	68,503	52,706	15,797	179,532	157,888	21,644
Land Development Group	8,120	7,088	1,032	24,072	19,564	4,508
The Nets						
Corporate Activities						
<b>Total Revenues from Real Estate Operations</b>	<b>\$ 261,198</b>	<b>\$ 287,046</b>	<b>\$ (25,848)</b>	<b>\$ 822,827</b>	<b>\$ 850,049</b>	<b>\$ (27,222)</b>
<b>Operating Expenses</b>						
Commercial Group	\$ 100,228	\$ 103,340	\$ (3,112)	\$ 299,373	\$ 312,742	\$ (13,369)
Cost of Commercial Group Land Sales	270	7,169	(6,899)	3,425	18,952	(15,527)
Residential Group	46,856	33,681	13,175	123,392	98,833	24,559
Land Development Group	9,668	9,003	665	29,086	26,874	2,212
The Nets						
Corporate Activities	12,133	8,889	3,244	36,558	29,325	7,233
<b>Total Operating Expenses</b>	<b>\$ 169,155</b>	<b>\$ 162,082</b>	<b>\$ 7,073</b>	<b>\$ 491,834</b>	<b>\$ 486,726</b>	<b>\$ 5,108</b>
<b>Interest Expense</b>						
Commercial Group	\$ 40,868	\$ 56,191	\$ (15,323)	\$ 128,285	\$ 174,269	\$ (45,984)
Residential Group	10,015	3,295	6,720	25,269	17,318	7,951
Land Development Group	865	845	20	2,465	2,178	287
The Nets						
Corporate Activities	15,487	15,509	(22)	42,195	48,052	(5,857)
<b>Total Interest Expense</b>	<b>\$ 67,235</b>	<b>\$ 75,840</b>	<b>\$ (8,605)</b>	<b>\$ 198,214</b>	<b>\$ 241,817</b>	<b>\$ (43,603)</b>
<b>Equity in Earnings of Unconsolidated Entities</b>						
Commercial Group	\$ 6,894	\$ 6,274	\$ 620	\$ 13,661	\$ 12,521	\$ 1,140
Gain on disposition of <i>Woodbridge Crossing</i>		6,443	(6,443)		6,443	(6,443)
Gain on disposition of <i>Coachella Plaza</i>					104	(104)
Gain on disposition of <i>Southgate Mall</i>					64	(64)
Gain on disposition of <i>El Centro Mall</i>					48	(48)
Loss on disposition of <i>Metreon</i>					(1,046)	1,046
Residential Group	2,583	7,655	(5,072)	8,662	14,317	(5,655)
Gain on disposition of <i>Metropolitan Lofts</i>				9,964		9,964
Gain on disposition of <i>Twin Lake Towers</i>				2,603		2,603

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Gain on disposition of <i>Pebble Creek</i>		2,215	(2,215)		2,215	(2,215)
Land Development Group	<b>3,079</b>	60	3,019	<b>3,731</b>	2,633	1,098
The Nets	<b>(11,283)</b>	(415)	(10,868)	<b>(14,969)</b>	(18,006)	3,037
Corporate Activities						

**Total Equity in Earnings of**

<b>Unconsolidated Entities</b>	\$	<b>1,273</b>	\$	22,232	\$	(20,959)	\$	<b>23,652</b>	\$	19,293	\$	4,359
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**Impairment of Unconsolidated Entities**

Commercial Group	\$	<b>39,189</b>	\$	2,733	\$	36,456	\$	<b>39,189</b>	\$	14,889	\$	24,300
Residential Group												
Land Development Group		<b>2,100</b>		18,831		(16,731)		<b>2,100</b>		21,856		(19,756)
The Nets												
Corporate Activities												

**Total Impairment of Unconsolidated**

<b>Entities</b>	\$	<b>41,289</b>	\$	21,564	\$	19,725	\$	<b>41,289</b>	\$	36,745	\$	4,544
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***Commercial Group***

**Revenues from Real Estate Operations** Revenues from real estate operations for the Commercial Group, including the group's land sales, decreased by \$42,677,000, or 18.8%, for the three months ended October 31, 2011 compared to the same period in the prior year. The variance is primarily attributable to the following decreases:

\$25,422,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2011 with an outside partner in 15 retail properties in the New York City metropolitan area;

\$8,275,000 related to decreases in commercial outlot land sales primarily at *Salt Lake City* in Utah and *Orchard Town Center* in Westminster, Colorado;

\$4,782,000 related to the change from full consolidation method of accounting to equity method for *8 Spruce Street*, an apartment community in Manhattan, New York, in 2011 due to recapitalization transactions. The revenue for 2010 relates to amounts earned on a construction contract with the New York City School Construction Authority for the construction of a school on the lower floors at *8 Spruce Street*. This represents a reimbursement of costs that is included in operating expenses;

\$3,298,000 related to decreased occupancy at *Two MetroTech Center*; and

\$1,933,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2011 with an outside partner at the *Mall at Stonecrest*.

These decreases were partially offset by the following increase:

\$1,731,000 related to increased revenues on a lease with Rock Ohio Caesars Cleveland, LLC ( *Rock Ohio* ) for space in the *Higbee Building* in downtown Cleveland, Ohio, for Phase I of its new casino.

The balance of the remaining decrease of \$698,000 was generally due to other miscellaneous fluctuations.

Revenues from real estate operations for the Commercial Group, including the group's land sales, decreased by \$53,374,000, or 7.9%, for the nine months ended October 31, 2011 compared to the same period in the prior year. The variance is primarily attributable to the following decreases:

\$56,870,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2011 with an outside partner in 15 retail properties in the New York City metropolitan area;

\$20,380,000 related to decreases in commercial outlot land sales primarily at *South Bay Southern Center* in Redondo Beach, California, *Salt Lake City*, *Orchard Town Center* and *Westchester's Ridge Hill* in Yonkers, New York;

\$9,461,000 related to the change from full consolidation method of accounting to equity method for *8 Spruce Street* in 2011 due to recapitalization transactions. The revenues for 2010 and for 2011 prior to the conversion to equity method of accounting on July 1, 2011 relate to amounts earned on a construction contract with the New York City School Construction Authority for the construction of a school on the lower floors at *8 Spruce Street*. This represents a reimbursement of costs that is included in operating expenses;

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\$8,205,000 related to decreased occupancy at *Two MetroTech Center*;

\$8,031,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2010 with an outside partner in *University Park*; and

\$2,082,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2011 with an outside partner at the *Mall at Stonecrest*.

These decreases were partially offset by the following increases:

\$45,000,000 related to the 2011 sale of land and air rights for development of a casino in downtown Cleveland, Ohio;

\$3,487,000 related to increased revenues on a lease with Rock Ohio for space in the *Higbee Building* for Phase I of its new casino;

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\$3,553,000 related to increased occupancy at *Illinois Science and Technology Park* in Skokie, Illinois and *Orchard Town Center*; and

\$1,144,000 related to the phased opening of *Westchester's Ridge Hill*.

The balance of the remaining decrease of \$1,529,000 was generally due to other miscellaneous fluctuations.

**Operating and Interest Expenses** Operating expenses for the Commercial Group, including the group's land sales, decreased \$10,011,000, or 9.1%, for the three months ended October 31, 2011 compared to the same period in the prior year. The variance is primarily attributable to the following decreases:

\$10,926,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2011 with an outside partner in 15 retail properties in the New York City metropolitan area;

\$6,899,000 related to decreases in commercial outlot land sales primarily at *Salt Lake City* and *Orchard Town Center*; and

\$4,782,000 related to the change from full consolidation method of accounting to equity method for *8 Spruce Street* in 2011 due to recapitalization transactions. The operating expense for 2010 relates to construction of a school at *8 Spruce Street*. These costs are reimbursed by the New York City School Construction Authority which is included in revenues from real estate operations discussed above.

These decreases were partially offset by the following increases:

\$2,665,000 related to the phased opening of *Westchester's Ridge Hill*;

\$2,098,000 related to increased write-offs of abandoned development projects in 2011 compared to 2010; and

\$1,382,000 related to increased research and development costs for a modular construction project at *Atlantic Yards* in Brooklyn, New York.

The balance of the remaining increase of \$6,451,000 was generally due to other miscellaneous fluctuations.

Operating expenses for the Commercial Group, including the group's land sales, decreased \$28,896,000, or 8.7%, for the nine months ended October 31, 2011 compared to the same period in the prior year. The variance is primarily attributable to the following decreases:

\$24,131,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2011 with an outside partner in 15 retail properties in the New York City metropolitan area;

\$17,905,000 related to decreases in commercial outlot land sales primarily at *South Bay Southern Center*, *Salt Lake City*, *Orchard Town Center* and *Westchester's Ridge Hill*;

\$9,461,000 related to the change from full consolidation method of accounting to equity method for *8 Spruce Street* in 2011 due to recapitalization transactions. The operating expense for 2010 and for 2011 prior to the conversion to equity method of accounting on July 1, 2011 relate to construction of a school at *8 Spruce Street*. These costs are reimbursed by the New

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York City School Construction Authority which are included in revenues from real estate operations; and

\$2,434,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2010 with an outside partner in *University Park*.

These decreases were partially offset by the following increases:

\$7,043,000 related to increased write-offs of abandoned development projects in 2011 compared to 2010;

\$3,454,000 related to increased research and development costs for a modular construction project at *Atlantic Yards* in Brooklyn, New York;

\$2,844,000 related to the phased opening of *Westchester's Ridge Hill*;

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\$2,378,000 related to the 2011 sale of land and air rights for development of a casino in downtown Cleveland, Ohio; and

\$1,689,000 primarily related to increased marketing costs related to the *Barclays Center* arena.

The balance of the remaining increase of \$7,627,000 was generally due to other miscellaneous fluctuations.

Interest expense for the Commercial Group decreased by \$15,323,000, or 27.3%, for the three months ended October 31, 2011 and by \$45,984,000, or 26.4%, for the nine months ended October 31, 2011 compared to the same periods in the prior year. The variances are primarily attributable to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture with an outside partner in 15 retail properties in the New York City metropolitan area in 2011, increased capitalized interest due to additional qualified expenditures and changes in mark-to-market adjustments on non-designated interest rate swaps.

Comparable occupancy for the Commercial Group is 91.2% and 90.5% for retail and office, respectively, as of October 31, 2011 compared to 90.6% and 91.2%, respectively, as of October 31, 2010. Retail and office occupancy as of October 31, 2011 and 2010 is based on square feet leased at the end of the fiscal quarter. Comparable occupancy relates to properties opened and operated in both the nine months ended October 31, 2011 and 2010. Average occupancy for hotels for the nine months ended October 31, 2011 is 69.6% compared to 69.9% for the nine months ended October 31, 2010.

As of October 31, 2011, the average base rent per square feet expiring for retail and office leases is \$27.46 and \$31.19, respectively, compared to \$27.74 and \$31.04, respectively, as of October 31, 2010. Square feet of expiring leases and average base rent per square feet are operating statistics that represent 100% of the square footage and base rental income per square foot from expiring leases. The average daily rate ( ADR ) for our hotel portfolio is \$148.15 and \$138.92 for the nine months ended October 31, 2011 and 2010, respectively. ADR is an operating statistic and is calculated by dividing revenue by the number of rooms sold for all hotels that were open and operating for both the nine months ended October 31, 2011 and 2010.

We continuously monitor retail and office leases expiring in the short to mid-term. Management's plan to obtain lease renewals for expiring retail and office leases includes signing of lease extensions, if available, and active marketing for available or soon to be available space to new or existing tenants in the normal course of business.

***Residential Group***

**Revenues from Real Estate Operations** Included in revenues from real estate operations is fee income related to the development and construction management related to our military housing projects. Military housing fee income and related operating expenses may vary significantly from period to period based on the timing of development and construction activity at each applicable project. Revenues from real estate operations for the Residential Group increased by \$15,797,000, or 30.0%, during the three months ended October 31, 2011 compared to the same period in the prior year. The variance is primarily attributable to the following increases:

\$9,918,000 related to military housing fee income from the management and development of military housing units located primarily on the islands of Oahu and Kauai, Hawaii, Chicago, Illinois, Seattle, Washington, and Colorado Springs, Colorado;

\$1,997,000 related to the sale of land parcels and related development opportunities in Richmond, Virginia;

\$1,424,000 related to third party management fees and other fee income;

\$1,081,000 related to the change from equity method to full consolidation method of accounting for *Millender Center* in Detroit, Michigan; and

\$1,072,000 related to new property openings as noted in the table below.

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These increases were partially offset by the following decrease:

\$2,075,000 related to the change from full consolidation to equity method of accounting for *DKLB BKLN*, an apartment community in Brooklyn, New York as a result of the recapitalization of the entity.

The balance of the remaining increase of \$2,380,000 was generally due to increased rents and occupancies and other miscellaneous fluctuations.



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Revenues from real estate operations for the Residential Group increased by \$21,644,000, or 13.7%, during the nine months ended October 31, 2011 compared to the same period in the prior year. The variance is primarily attributable to the following increases:

\$11,842,000 related to military housing fee income from the management and development of military housing units located primarily on the islands of Oahu and Kauai, Hawaii, Chicago, Illinois, Seattle, Washington, and Colorado Springs, Colorado;

\$3,165,000 related to the change from equity method to full consolidation method of accounting for *Millender Center* in Detroit, Michigan;

\$2,765,000 related to new property openings as noted in the table below; and

\$1,997,000 related to the sale of land parcels and related development opportunities in Richmond, Virginia.  
The balance of the remaining increase of \$1,875,000 was generally due to other miscellaneous fluctuations.

**Operating and Interest Expenses** Operating expenses for the Residential Group increased by \$13,175,000, or 39.1%, during the three months ended October 31, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following increases:

\$8,117,000 related to management expenditures associated with military housing fee revenues;

\$1,958,000 related to write-offs of abandoned development projects;

\$1,950,000 related to the cost of the land sale and related development opportunities in Richmond, Virginia; and

\$1,743,000 related to expenditures associated with third party management and consulting fee arrangements.  
These increases were offset by the following decrease:

\$1,123,000 related to the change from full consolidation to equity method of accounting for *8 Spruce Street*, an apartment community in Manhattan, New York and *DKLB BKLN* as a result of the recapitalization of these entities.  
The balance of the remaining increase of \$530,000 was generally due to direct property expenses and general operating activities.

Operating expenses for the Residential Group increased by \$24,559,000, or 24.8%, during the nine months ended October 31, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following increases:

\$12,615,000 related to management expenditures associated with military housing fee revenues;

\$2,319,000 related to expenditures associated with third party management and consulting fee arrangements;

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\$2,301,000 related to the change from equity method to full consolidation method of accounting for *Millender Center*;

\$2,210,000 related to write-offs of abandoned development projects;

\$1,950,000 related to the cost of the land sale and related development opportunities in Richmond, Virginia;

\$1,760,000 related to the change from full consolidation to equity method of accounting for *8 Spruce Street* and *DKLB BKLN* as a result of the recapitalization of these entities; and

\$1,189,000 related to new property openings as noted in the table below.

The balance of the remaining increase of \$215,000 was generally due to direct property expenses and general operating activities.

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Interest expense for the Residential Group increased by \$6,720,000 or 203.9% during the three months ended October 31, 2011 and by \$7,951,000 or 45.9% during the nine months ended October 31, 2011 compared to the same periods in the prior year primarily as a result of the opening of new properties, as noted in the table below, and mark-to-market adjustments on non-designated interest rate swaps.

The following table presents the increases (decreases) in revenues and operating expenses incurred by the Residential Group for newly-opened properties for the three and nine months ended October 31, 2011 compared to the same period in the prior year:

Newly - Opened Properties	Location	Quarter Opened	Year Opened	Three Months Ended October 31, 2011 vs. 2010			Nine Months Ended October 31, 2011 vs. 2010			
				Real Estate Operations Units	Operating Expenses (in thousands)	Interest Expense (in thousands)	Revenues from Real Estate Operations	Operating Expenses (in thousands)	Interest Expense (in thousands)	
Presidio Landmark	San Francisco, California	Q3-2010		161	885	116	396	1,756	1,746	3,482
Hamel Mill Lofts	Haverhill, Massachusetts	Q4-2008/Q3-2010		305	187	(164)	(22)	1,009	(557)	33
<b>Total</b>					\$ 1,072	\$ (48)	\$ 374	\$ 2,765	\$ 1,189	\$ 3,515

Comparable average occupancy for the Residential Group is 94.7% and 93.6% for the nine months ended October 31, 2011 and 2010, respectively. Average residential occupancy is calculated by dividing gross potential rent less vacancy by gross potential rent. Comparable occupancy relates to properties opened and operated in both the nine months ended October 31, 2011 and 2010.

Comparable net rental income ( NRI ) for our Residential Group was 92.0% and 89.6% for the nine months ended October 31, 2011 and 2010, respectively. NRI is an operating statistic that represents the percentage of potential rent received after deducting vacancy and rent concessions from gross potential rent.

**Land Development Group**

**Revenues from Real Estate Operations** Land sales and the related gross margins vary from period to period depending on the timing of sales and general market conditions. Although improved over the same period in the prior year, our land sales continue to be impacted by decreased demand from home buyers in certain core markets for the land business, reflecting conditions throughout the housing industry. Revenues from real estate operations for the Land Development Group increased by \$1,032,000 for the three months ended October 31, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following increase:

\$1,693,000 related to higher land sales at *Stapleton*, in Denver, Colorado.  
The increase was partially offset by the following decrease:

\$1,025,000 related to lower land sales at a land development project in Eaton Township, Ohio.

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The balance of the remaining increase of \$364,000 was due primarily to higher land sales at *Tangerine Crossing* in Tucson, Arizona, and *Legacy Lakes* in Aberdeen, North Carolina offset by fluctuations in land sales at other land development projects.

Revenues from real estate operations for the Land Development Group increased by \$4,508,000 for the nine months ended October 31, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following increases:

\$4,701,000 related to higher land sales at *Stapleton*; and

\$2,458,000 related to higher land sales at *Tangerine Crossing* and *Mill Creek* in York County, South Carolina. These increases were partially offset by the following decreases:

\$1,327,000 related to lower land sales at *Gladden Forest* in Marana, Arizona, and *Waterbury* in North Ridgeville, Ohio; and

\$1,025,000 related to lower land sales at a land development project in Eaton Township, Ohio. The balance of the remaining decrease of \$299,000 was due to fluctuations in land sales at other land development projects.

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**Operating and Interest Expenses** Operating expenses increased by \$665,000 for the three months ended October 31, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following:

\$1,025,000 related to lower land sales at a land development project in Eaton Township, Ohio. The balance of the remaining increase of \$1,690,000 was due primarily to higher land sales at *Tangerine Crossing*, *Legacy Lakes* and *Stapleton* offset by fluctuations in land sales and operating results at other land development projects.

Operating expenses increased by \$2,212,000 for the nine months ended October 31, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following increases:

\$2,546,000 related to higher land sales at *Tangerine Crossing* and *Mill Creek*; and

\$1,438,000 related to higher land sales at *Stapleton*. These increases were partially offset by the following decreases:

\$1,421,000 related to lower land sales at *Gladden Forest* and *Waterbury*; and

\$1,025,000 related to lower land sales at a land development project in Eaton Township, Ohio. The balance of the remaining increase of \$674,000 was primarily due to fluctuations in land sales and operating results at other land development projects.

Interest expense increased by \$20,000 for the three months ended October 31, 2011 and \$287,000 for the nine months ended October 31, 2011 compared to the same periods in the prior year. Interest expense varies from year to year depending on the level of interest-bearing debt within the Land Development Group and interest rates.

## ***The Nets***

Our ownership of The Nets is through Nets Sports and Entertainment LLC ( NS&E ). NS&E also owns Brooklyn Arena, LLC ( Arena ), an entity that through its subsidiaries is overseeing the construction of and has a long-term lease in the *Barclays Center* arena, the future home of The Nets. NS&E consolidates Arena and accounts for its investment in The Nets on the equity method of accounting. As a result of consolidating NS&E, we record the entire net loss of The Nets allocated to NS&E in equity in loss of unconsolidated entities and allocate, based on an analysis of each respective members' claims on the net book equity assuming a liquidation at book value, NS&E's noncontrolling partners' share of its losses, if any, through noncontrolling interests in our Statement of Operations.

The amount of equity in loss, net of noncontrolling interests, was \$11,283,000 and \$14,969,000 for the three and nine months ended October 31, 2011, respectively, representing an increase in our allocated losses of \$10,868,000 and \$3,206,000 compared to the same periods in the prior year.

On May 12, 2010, entities controlled by Mikhail Prokhorov ( MP Entities ) invested \$223,000,000 and made certain funding commitments ( Funding Commitments ) to acquire 80% of The Nets, 45% of Arena and the right to purchase up to 20% of Atlantic Yards Development Company, LLC, which will develop non-arena real estate. In accordance with the Funding Commitments, the MP Entities agreed to fund The Nets operating needs up to \$60,000,000 including reimbursements to us for loans made to cover The Nets operating needs from March 1, 2010 to May 12, 2010 totaling \$15,000,000.

The MP Entities met the \$60,000,000 funding commitment during the three months ended July 31, 2011. As a result, NS&E is required to fund 100% of the operating needs, as defined, until the *Barclays Center* arena is complete and open, which is expected to be during the three

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months ended October 31, 2012. Thereafter, members' capital contributions will be made in accordance with the operating agreements. During the three and nine months ended October 31, 2011, NS&E funded \$14,678,000 and \$22,978,000, respectively, of The Nets operating needs related to the 2011-2012 season.

**Table of Contents****Corporate Activities**

**Operating and Interest Expenses** Operating expenses increased by \$3,244,000 and \$7,233,000, respectively, for the three and nine months ended October 31, 2011 compared to the same periods in the prior year. The increase of \$3,244,000 for the three months ended October 31, 2011 was primarily related to increases in professional fees of \$1,787,000 associated with strategic planning and process improvement initiatives and charitable contributions of \$508,000. The increase of \$7,233,000 for the nine months ended October 31, 2011 was primarily related to an increase in professional fees of \$6,098,000 associated with strategic planning and process improvement initiatives.

Interest expense decreased by \$22,000 and \$5,857,000, respectively, for the three and nine months ended October 31, 2011 compared to the same period in the prior year. The decrease for the nine months ended October 31, 2011 was related to the exchange of \$110,000,000 and \$40,000,000 of Convertible Senior Notes due 2016 retired in exchange for Class A common stock in January 2011 and May 2011, respectively, decreased interest on revolving credit facility as a result of decreased borrowings and a lower interest rate and the retirement of the \$178,749,000 of Senior Notes in exchange for a new issuance of Series A preferred stock in March 2010, partially offset by interest expense on the \$350,000,000 of Convertible Senior Notes issued in July 2011.

**Other Activity**

The following items are discussed on a consolidated basis.

**Depreciation and Amortization**

We recorded depreciation and amortization of \$55,415,000 and \$166,660,000 for the three and nine months ended October 31, 2011, respectively, and \$60,367,000 and \$177,733,000 for the three and nine months ended October 31, 2010, respectively, which is a decrease of \$4,952,000, or 8.2%, and \$11,073,000, or 6.2%, compared to the same periods in the prior year. The decreases are primarily attributable to the disposition of partial interests in rental properties, the largest of which related to 15 retail properties during the first quarter of 2011, offset by new property openings.

**Impairment of Real Estate**

We review our real estate portfolio, including land held for development or sale, for impairment whenever events or changes indicate that our carrying value may not be recoverable. In cases where we do not expect to recover our carrying costs, an impairment charge is recorded. The impairments recorded during the three and nine months ended October 31, 2011 and 2010 represent write-downs to estimated fair value due to a change in events, such as a bona fide third-party purchase offer or changes in certain assumptions, including estimated holding periods and current market conditions and the impact of these assumptions to the properties' estimated future cash flows.

The following table summarizes our impairment of real estate included in continuing operations.

		Three Months Ended October 31, 2011		Nine Months Ended October 31, 2010	
		2011	2010	2011	2010
		<i>(in thousands)</i>		<i>(in thousands)</i>	
250 Huron (Office Building)	Cleveland, Ohio	\$ 10,257	\$ 2,040	\$ 10,257	\$ 2,040
Investment in retail property	Portage, Michigan			3,435	
Land Projects:					
Mill Creek	York County, South Carolina		110	1,400	560
Gladden Farms	Marana, Arizona				650
Development property at Waterfront Station	Washington, D.C.		3,103		3,103
Other		450	450	685	450
		\$ 10,707	\$ 5,703	\$ 15,777	\$ 6,803

In 2008, 250 Huron, an office building located in Cleveland, Ohio was vacated by its single tenant, which occupied the entire building. A lease termination payment received by us was placed into escrow for the purpose of servicing the nonrecourse mortgage debt until new tenants for the building could be obtained. During 2010, we entered into an option to sell the building at a sales price that was below the carrying value,

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resulting in an impairment charge of \$2,040,000 during the three and nine months ended October 31, 2010. Unable to obtain the necessary lender approval for the purchaser to assume the nonrecourse mortgage debt, the option to sell expired in August 2011. Subsequently, we received a notice of default from the loan servicer. As a result, we no longer intend to hold the property long term and dramatically shortened its estimated holding period. This reduced estimate of future undiscounted cash flows was not sufficient to recover the carrying value of the asset, resulting in an



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impairment charge of \$10,257,000 during the three months ended October 31, 2011. During November 2011, the lender entered into a sales agreement to sell the nonrecourse mortgage debt to a third party with whom we have entered into negotiations to transfer the property to in full satisfaction of the outstanding nonrecourse mortgage debt balance. Upon the actual disposition of the asset, we will be relieved of any payment obligation under the nonrecourse mortgage debt and will recognize a gain for the excess of the carrying value of the mortgage over the fair value of the asset disposed.

In addition, we had impairments related to consolidated real estate assets that were disposed of during the three months ended January 31, 2011 and included in discontinued operations. During the three and nine months ended October 31, 2010, we had impairments of real estate of \$31,552,000 and \$76,962,000, respectively, related to *Simi Valley Town Center*, a regional mall located in Simi Valley, California. During both the three and nine months ended October 31, 2010, we had a \$2,641,000 impairment of real estate related to an investment in a triple net lease property located in Pueblo, Colorado.

**Impairment of Unconsolidated Entities**

We review our portfolio of unconsolidated entities for other-than-temporary impairments whenever events or changes indicate that our carrying value in the investments may be in excess of fair value. An equity method investment's value is impaired if management's estimate of its fair value is less than the carrying value and the difference is deemed to be other-than-temporary. In order to arrive at the estimates of fair value, we use varying assumptions that may include comparable sale prices, market discount rates, market capitalization rates and estimated future discounted cash flows specific to the geographic region and property type. For newly opened properties, assumptions also include the timing of initial lease up at the property. In the event the initial lease up assumptions differ from actual results, estimated future discounted cash flows may vary resulting in impairment charges in future periods.

The following table summarizes our impairment of unconsolidated entities:

		Three Months Ended October 31, 2011		Nine Months Ended October 31, 2010	
		2011	2010	2011	2010
		<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Specialty Retail Centers:</b>					
Village at Gulfstream Park	Hallandale Beach, Florida	\$ 34,579	\$	\$ 34,579	\$
Metreon	San Francisco, California				4,595
Commercial land and development rights	Cleveland, Ohio	4,610		4,610	
<b>Mixed-Use Land Development:</b>					
Sterling Lakes	Pepper Pike, Ohio	1,700		1,700	
<b>Central Station:</b>					
Four Museum Park properties	Chicago, Illinois		18,311		18,311
Mercy Campus	Chicago, Illinois				1,817
Old Stone Crossing at Caldwell Creek	Charlotte, North Carolina				743
<b>Office Buildings:</b>					
Mesa del Sol Aperture Center	Albuquerque, New Mexico		2,733		2,733
818 Mission Street	San Francisco, California				4,018
Bulletin Building	San Francisco, California				3,543
Other		400	520	400	985
		\$ 41,289	\$ 21,564	\$ 41,289	\$ 36,745

The impairment recorded during the three months ended October 31, 2011 at *Village at Gulfstream Park*, a specialty retail center in Hallandale Beach, Florida represents an other-than-temporary impairment in our equity method investment. The specialty retail center was fully opened in February 2010 and was leased during the general economic downturn which resulted in a longer initial lease-up period than originally projected and increased rent concessions to the existing tenant base. Based on these conditions, management revised its estimate of future discounted cash flows, which are a key component in estimating fair value, resulting in an impairment charge of \$35,000,000 during the three months ended January 31, 2011. During the three months ended October 31, 2011, the general economic conditions continued to negatively impact the operating results at the specialty retail center. The specialty retail center has continued to experience a slower than anticipated lease-up period and has not reached the expected level of cash flows used in previous estimates of fair value. Based on these conditions, management revised its estimate of future discounted cash flows downward. As a result, our equity method investment was recorded at its estimated fair value as of October 31, 2011, resulting in an additional impairment charge of \$34,579,000 during the three months ended October 31, 2011.





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Equity in earnings of unconsolidated entities was \$1,273,000 for the three months ended October 31, 2011 compared to \$22,232,000 for the three months ended October 31, 2010, representing a decrease of \$20,959,000. This variance is primarily attributable to the following decreases:

- Commercial Group

\$6,443,000 related to the 2010 gain on disposition of our partnership interests in *Woodbridge Crossing*, a specialty retail center in Woodbridge, New Jersey;

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\$1,745,000 primarily related to 2010 lease termination fee income at *San Francisco Centre*, a regional mall located in San Francisco, California, that did not recur; and

\$1,221,000 related to increased expenses from the phased opening of the *East River Plaza*, a retail center in Manhattan, New York.

- Residential Group

\$2,835,000 primarily related to increased interest expense due to an increased effective rate on the property level nonrecourse mortgage that is no longer hedged at the entity level at *Uptown Apartments*, an apartment community in Oakland, California;

\$2,215,000 related to the 2010 gain on disposition of *Pebble Creek*, an apartment community located in Twinsburg, Ohio;

\$1,334,000 related to the lease up losses of *8 Spruce Street* currently being opened in phases and *DKLB BKLN* that opened in phases beginning in the fourth quarter of 2009. These two properties were consolidated until the recapitalization transaction in July 2011 which resulted in joint control of the investment; and

\$1,289,000 primarily related to a favorable 2010 legal settlement at *Oceanpointe Towers*, a senior housing apartment community in Long Branch, New Jersey.

- The Nets

\$10,868,000 related to The Nets (see *The Nets* section of the MD&A ).  
These decreases were partially offset by the following increases:

- Commercial Group

\$1,976,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2011 with an outside partner in 15 retail properties in the New York City metropolitan area.

- Land Group

\$1,926,000 related to gain on early extinguishment of nonrecourse mortgage debt at *Sterling Lakes*, a mixed-use land development project in Pepper Pike, Ohio.

The balance of the remaining increase of \$3,089,000 was due to fluctuations in the operations of equity method investments.

Equity in earnings of unconsolidated entities was \$23,652,000 for the nine months ended October 31, 2011 compared to \$19,293,000 for the nine months ended October 31, 2010, representing an increase of \$4,359,000. This variance is primarily attributable to the following increases:

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### - Commercial Group

\$3,967,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2011 with an outside partner in 15 retail properties in the New York City metropolitan area;

\$2,557,000 related to the 2010 write-off of an abandoned development project in Pittsburgh, Pennsylvania; and

\$1,046,000 related to the 2010 loss on disposition of our partnership interests in *Metreon*.

### - Residential Group

\$9,964,000 relates to the 2011 gain on disposition of *Metropolitan Lofts*;

\$2,603,000 relates to the 2011 gain on disposition of *Twin Lake Towers*; and

\$1,384,000 primarily related to a 2010 legal settlement at *3800 Wilshire*, a condominium project in Los Angeles, California.

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- Land Group

\$1,926,000 related to the 2011 gain on early extinguishment of nonrecourse mortgage debt at *Sterling Lakes*.

- The Nets

\$3,037,000 relates to a reduction in our share of the losses of The Nets.  
These increases were partially offset by the following decreases:

- Commercial Group

\$6,443,000 related to the 2010 gain on disposition of our partnership interests in *Woodbridge Crossing*;

\$4,739,000 primarily related to 2010 lease termination fee income at *San Francisco Centre* that did not recur;

\$2,368,000 related to increased expenses from the phased opening of the *East River Plaza*; and

\$1,926,000 primarily related to increased expenses of the phased opening at *Village of Gulfstream*, a specialty retail center in Hallandale Beach, Florida.

- Residential Group

\$4,485,000 related to the lease up losses of 8 *Spruce Street* and *DKLB BKLN*. These two properties were consolidated until the recapitalization transaction in July 2011 which resulted in joint venture control of the investment;

\$2,215,000 related to the 2010 gain on disposition of *Pebble Creek*;

\$2,065,000 primarily related to increased interest expense due to an increased effective rate on the property level nonrecourse mortgage that is no longer hedged at the entity level at *Uptown Apartments*;

\$1,305,000 related to decreased sales at *Central Station*, a mixed-use land development in Chicago, Illinois; and

\$1,168,000 primarily related to a favorable 2010 legal settlement at *Oceanpointe Towers*.  
The balance of the remaining increase of \$4,589,000 was due to fluctuations in the operations of equity method investments.

**Discontinued Operations**

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See Note N - Discontinued Operations and Gain (Loss) on Disposition of Rental Properties in the Notes to Consolidated Financial Statements in Item 1 of this Form 10-Q for detailed information.

### **FINANCIAL CONDITION AND LIQUIDITY**

With the exception of multi-family rental properties, ongoing economic conditions continue to put downward pressure on occupancies, rent levels and property values. Access to bank credit and capital has improved modestly since 2010, with the larger banks and permanent lenders indicating an increased interest in originating new loans for real estate projects, particularly as existing loans in their portfolios get paid off. Underwriting standards remain conservative, with lenders favoring high quality existing operating assets in strong markets. Originations of new loans for commercial mortgage backed securities remain well below the levels in 2006 and 2007. While a limited number of banks have begun to originate construction loans for new apartment projects, lending for land acquisition and construction loans for office or retail projects remain difficult to obtain. We believe loans for real estate projects will continue to be constrained for the foreseeable future.

Our principal sources of funds are cash provided by operations including land sales, our bank revolving credit facility, nonrecourse mortgage debt and notes payable, dispositions of operating properties or development projects through sales or equity joint ventures, proceeds from the issuance of senior notes, proceeds from the issuance of common or preferred equity and other financing arrangements. Our principal uses of funds are the financing of our real estate operating and development projects and acquisitions of real estate, capital expenditures for our existing portfolio and principal and interest payments on our nonrecourse mortgage debt, notes payable and bank revolving credit facility, interest and principal payments on our outstanding senior notes and dividend payments on our Series A preferred stock.



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Our primary capital strategy seeks to isolate the operating and financial risk at the property level to maximize returns and reduce risk on and of our equity capital. As such, substantially all of our operating and development properties are separately encumbered with nonrecourse mortgage debt and notes payable. We do not cross-collateralize our mortgage debt and notes payable outside of a single identifiable project. We operate as a C-corporation and retain substantially all of our internally generated cash flows. This cash flow, together with refinancing and property sale proceeds, has historically provided us with the necessary liquidity to take advantage of investment opportunities. The economic downturn and its impact on the lending and capital markets reduced our ability to finance development and acquisition opportunities and also increased the required rates of return to make new investment opportunities appealing. As a result of these market changes, we have dramatically cut back on entering into new development and acquisition activities.

Despite the decrease in development activities, we intend to complete all projects that are under construction. We continue to make progress on certain other pre-development projects primarily located in core markets. The cash we believe is required to fund our equity in projects under construction and development plus any cash necessary to extend or paydown the remaining 2011 debt maturities is anticipated to exceed our cash from operations. As a result, we intend to extend maturing debt or repay it with net proceeds from property sales, equity joint ventures or future debt or equity financing.

During the nine months ended October 31, 2011, we were successful in closing several transactions that improved our liquidity, strengthened our Balance Sheet and addressed certain near term maturities of our debt.

We successfully entered into a Third Amended and Restated Credit Agreement and a Third Amended and Restated Guaranty of Payment of Debt (collectively, the Credit Facility ) which fixed our total available borrowings at \$450,000,000 while removing the provision to reduce this maximum for specified external capital raising events. The Credit Facility matures on March 30, 2014 and provides for one 12-month extension option, subject to certain conditions and replaces a previous facility that was set to expire February 1, 2012. Although both the new and previous facilities bear interest at LIBOR plus 3.75%, the LIBOR floor under the new Credit Facility was reduced from 200 basis points to 100 basis points. The Credit Facility removes the previous prohibition on paying common stock dividends, subject to a specified limitation. As amended on July 13, 2011, this limitation allows us to utilize up to \$24,000,000 during any four consecutive fiscal quarter periods for either common stock dividends or common stock repurchases and required a portion of the proceeds from the issuance of our 4.25% Convertible Senior Notes due 2018 to be used to retire certain debt, as discussed below.

In July 2011, we issued \$350,000,000 of 4.25% Convertible Senior Notes due 2018 in a private placement (the Issuance ). As required by our Credit Facility, 75% of the net proceeds (\$254,531,000) were required to be used to retire debt no later than 180 days subsequent to the closing of such Issuance, subject to an additional 90 day extension provided certain terms of the amendment are met. During the three months ended October 31, 2011, using the proceeds from this Issuance, we made paydowns on selected nonrecourse mortgage debt including properties specifically discussed below in a continued effort to address near to mid-term debt maturities. In addition, the remaining \$46,891,000 of our Puttable Equity-Linked Senior Notes due 2011 matured and were paid in full during the three months ended October 31, 2011. As of October 31, 2011, the requirement has been met and no further reserve for retirement of debt is required.

During the nine months ended October 31, 2011, we generated significant net proceeds from property sales and equity joint ventures of \$319,461,000, the majority of which relates to new joint ventures formed with an outside partner for equity interests in 15 retail properties located in the New York City metropolitan area (see the Net Gain on Disposition of Partial Interest in Rental Properties and Other Investment section of the MD&A) and the sale of *Waterfront Station East & West 4<sup>th</sup> Buildings* (see the Discontinued Operations section of the MD&A) . This liquidity will be used to fund our equity requirements in our development projects and extend or paydown near term debt maturities.

During May 2011, we continued to address future liquidity needs related to our near to mid-term senior unsecured notes and deleverage our Balance Sheet, by entering into separate, privately negotiated exchange agreements whereby we exchanged \$40,000,000 in aggregate principal of our Convertible Senior Notes due 2016 for 3,444,293 shares of Class A common stock. This transaction strengthened our Balance Sheet by converting senior recourse debt with a 2016 maturity date with permanent equity.

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During July 2011, we also completed recapitalizations and modified credit facilities for *8 Spruce Street* and *DKLB BKLN*. These transactions resulted in significant debt reduction for the properties. For *8 Spruce Street*, our 30% partner in the project converted its \$110,000,000 of mezzanine debt to equity, increasing its equity ownership to 49%. We also modified the property's existing nonrecourse financing, whereby the credit facility was reduced from \$605,000,000 to \$539,000,000 and the maturity was extended through July 1, 2016. These changes reduce total available debt on the property from \$715,000,000 to \$539,000,000. For *DKLB BKLN*, the holder of \$30,000,000 mezzanine debt converted its mezzanine debt to a 49% equity interest in the property. We also modified the property's existing bank financing, whereby the balance was reduced from \$117,000,000 to \$104,000,000 and the maturity was extended through July 3, 2013. These changes reduce total debt on the property from \$147,000,000 to \$104,000,000.

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We continue to explore various other options to strengthen our balance sheet and enhance our liquidity, but can give no assurance that we can accomplish any of these other options on favorable terms or at all. If we cannot enhance our liquidity, it could adversely impact our growth and result in further curtailment of development activities.

As of October 31, 2011 we had \$372,285,000 of nonrecourse mortgage financings with scheduled maturities during the fiscal year ending January 31, 2012, of which \$26,925,000 represents regularly scheduled amortization payments. Subsequent to October 31, 2011, we have addressed \$109,346,000 of these maturities, through closed transactions, commitments and/or automatic extensions. We are currently in negotiations to refinance and/or extend the remaining \$236,014,000 of nonrecourse debt scheduled to mature during the year ended January 31, 2012. We cannot give assurance as to the ultimate result of these negotiations. As with all nonrecourse mortgages, if we are unable to negotiate an extension or otherwise refinance the mortgage, we could go into default and the lender could commence foreclosure proceedings.

We have two nonrecourse mortgages amounting to \$86,219,000 that are in default as of October 31, 2011 and are included in 2011 nonrecourse mortgage financings due during the fiscal year ended January 31, 2012. During the three months ended October 31, 2011, each lender commenced foreclosure proceedings on these nonrecourse mortgages. Upon the actual disposition of the assets securing these nonrecourse mortgages, we will be relieved of any payment obligation under the nonrecourse mortgage and will recognize a gain for the excess of the carrying value of the mortgages over the fair value of the assets disposed. The loss of these properties would not have a significant impact to our financial condition, cash flows or liquidity.

As of October 31, 2011, we had two nonrecourse mortgages greater than five percent of our total nonrecourse mortgage debt and notes payable. The mortgages, encumbering *New York Times*, an office building in Manhattan, New York and *Westchester's Ridge Hill*, have outstanding balances of \$640,000,000 and \$453,221,000, respectively, at October 31, 2011.

As of October 31, 2011, our share of nonrecourse mortgage debt and notes payable recorded on our unconsolidated subsidiaries amounted to \$2,299,053,000 of which \$72,643,000 (\$7,188,000 represents scheduled principal payments) was scheduled to mature during the year ending January 31, 2012. Negotiations are ongoing on the 2011 maturities, but we cannot give assurance that we will obtain these financings on favorable terms or at all.

We have a fully consolidated development project consisting of approximately 13 acres of land held in Las Vegas, Nevada with a carrying value of approximately \$128,000,000. The project was secured by a nonrecourse mortgage of approximately \$41,800,000, which matured on July 1, 2011 and was in default at July 31, 2011. In August 2011, we successfully resolved the defaulted nonrecourse mortgage by settling the entire outstanding balance of nonrecourse mortgage at a discount for a cash payment of approximately \$26,600,000 resulting in a gain on extinguishment of debt during the three months ended October 31, 2011 of \$15,101,000, net of expenses. Based on our current estimated cash flow analysis, the carrying value of the development project is projected to be recovered from estimated future undiscounted cash flows. However, if there are changes to our current development plan assumptions, or we experience significant delays in the development project, the assumptions used in our estimated cash flow analysis may change, resulting in a potentially significant impairment charge being recorded.

We have a regional mall in Bolingbrook, Illinois which opened in 2007, and has yet to achieve its expected stabilization levels. During the three months ended October 31, 2011, we made a \$20,000,000 mortgage paydown, extended the maturity date from March 2013 to September 2018 and reduced the interest rate from 5.56% to 4.38%. At October 31, 2011, the property is secured by an approximate \$74,600,000 nonrecourse mortgage as well as a special real estate tax assessment that supports certain municipal bond financing that was used to provide infrastructure improvements benefiting the property. With the deleveraging of the asset and the lower interest rate, these transactions decreased debt service requirements and improved operating cash flow.

Three of our joint ventures accounted for under the equity method of accounting have nonrecourse mortgages that are past due or in default at October 31, 2011 (our proportional share of these mortgages is \$16,299,000). If we go into default and are unable to negotiate an extension or otherwise cure the default, the lenders could commence foreclosure proceedings. The carrying value of our investments in the joint ventures was \$-0- at October 31, 2011.

**Table of Contents****Bank Revolving Credit Facility**

The following table summarizes the available credit on the Credit Facility:

	October 31, 2011	January 31, 2011
	<i>(in thousands)</i>	
<b>Maximum borrowings</b>	<b>\$ 450,000</b>	\$ 470,336
<b>Less outstanding balances and reserves:</b>		
Borrowings		137,152
Letters of credit	<b>74,221</b>	63,418
Surety bonds		
Reserve for retirement of debt		46,891
<b>Available credit</b>	<b>\$ 375,779</b>	\$ 222,875

See Note E - Bank Revolving Credit Facility in the Notes to Consolidated Financial Statements in Item 1 of this Form 10-Q for additional information.

**Senior and Subordinated Debt**

The following table summarizes our senior and subordinated debt:

	October 31, 2011	January 31, 2011
	<i>(in thousands)</i>	
<b>Senior Notes:</b>		
3.625% Puttable Equity-Linked Senior Notes due 2011, net of discount	\$	\$ 45,480
3.625% Puttable Equity-Linked Senior Notes due 2014, net of discount	<b>199,050</b>	198,806
7.625% Senior Notes due 2015	<b>178,253</b>	178,253
5.000% Convertible Senior Notes due 2016	<b>50,000</b>	90,000
6.500% Senior Notes due 2017	<b>132,144</b>	132,144
4.250% Convertible Senior Notes due 2018	<b>350,000</b>	
7.375% Senior Notes due 2034	<b>100,000</b>	100,000
<b>Total Senior Notes</b>	<b>1,009,447</b>	744,683
<b>Subordinated Debt:</b>		
Subordinate Tax Revenue Bonds due 2013	<b>29,000</b>	29,000
<b>Total Senior and Subordinated Debt</b>	<b>\$ 1,038,447</b>	\$ 773,683

See Note F - Senior and Subordinated Debt in the Notes to Consolidated Financial Statements in Item 1 of this Form 10-Q for additional information.

**Nonrecourse Debt Financings**

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We use taxable and tax-exempt nonrecourse debt for our real estate projects. Substantially all of our operating and development properties are separately encumbered with nonrecourse mortgage debt which in some limited circumstances is supplemented by nonrecourse notes payable (collectively nonrecourse debt ). For real estate projects financed with tax-exempt debt, we generally utilize variable-rate debt. For construction loans, we generally pursue variable-rate financings with maturities ranging from two to five years. For those real estate projects financed with taxable debt, we generally seek long-term, fixed-rate financing for those operating projects whose loans mature or are projected to open and achieve stabilized operations. The availability of nonrecourse mortgage capital is improving, especially in strong markets, but is still not at the levels before the economic downturn. For those assets that cannot be refinanced at attractive terms, we attempt to extend the maturities with existing lenders.

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We are actively working to refinance and/or extend the maturities of the nonrecourse debt that is coming due in the next 24 months. During the nine months ended October 31, 2011, we completed the following financings:

<b>Purpose of Financing</b>	<b>Amount</b> <i>(in thousands)</i>
Refinancings	\$ 84,000
Construction and development projects <sup>(1)</sup>	345,896
Loan extensions/additional fundings	425,311
	\$ 855,207

(1) Represents the full amount available to be drawn on the loans.

**Cash Flows****Operating Activities**

Net cash provided by operating activities was \$203,470,000 and \$149,462,000 for the nine months ended October 31, 2011 and 2010, respectively. The net increase in cash provided by operating activities in the nine months ended October 31, 2011 compared to the nine months ended October 31, 2010 of \$54,008,000 is the result of the following (in thousands):

Decrease in rents and other revenues received	\$ (57,803)
Decrease in interest and other income received	(26,440)
Increase in cash distributions from unconsolidated entities	7,992
Increase in proceeds from land sales - Land Development Group	4,878
Increase in proceeds from land sales - Commercial Group	22,730
Increase in land development expenditures	(1,173)
Decrease in operating expenditures	25,701
Decrease in restricted cash and escrowed funds used for operating purposes	30,056
Decrease in interest paid	48,067
Net increase in cash provided by operating activities	\$ 54,008

**Table of Contents****Investing Activities**

Net cash used in investing activities was \$163,793,000 and \$718,892,000 for the nine months ended October 31, 2011 and 2010, respectively. Net cash used in investing activities consisted of the following:

	Nine Months Ended October 31,	
	2011	2010
	(in thousands)	
Capital expenditures	\$ (547,531)	\$ (563,880)
Payment of lease procurement costs	(16,907)	(16,024)
Increase in other assets	(10,215)	(40,597)
Decrease (increase) in restricted cash and escrowed funds used for investing purposes:		
<i>Barclays Center</i> , a sports arena complex under construction in Brooklyn, New York	144,743	(164,526)
<i>8 Spruce Street</i> , an unconsolidated mixed-use residential project under construction in Manhattan, New York <sup>(1)</sup>	49,665	(99,836)
<i>Foundry Lofts</i> , an apartment community under construction in Washington, D.C.	19,831	(36,084)
<i>Westchester s Ridge Hill</i> , a retail center under construction in Yonkers, New York	4,349	
<i>DKLB BKLN</i> , an unconsolidated apartment building in Brooklyn, New York <sup>(1)</sup>	571	18,490
<i>Atlantic Yards</i> , a mixed-use development project in Brooklyn, New York	(30,588)	(30,765)
<i>Avenue at Tower City Center</i> , a specialty retail center in Cleveland, Ohio	(3,856)	
<i>John Hopkins - 855 North Wolfe Street</i> , an office building in East Baltimore, Maryland	(2,997)	
Collateral returned for a forward swap on <i>East River Plaza</i> , an unconsolidated retail project in Manhattan, New York		22,930
Other	(109)	(12,065)
<b>Subtotal</b>	<b>181,609</b>	<b>(301,856)</b>
Proceeds from dispositions of full or partial interests in rental properties:		
Disposition of partial interest in 15 retail properties in the New York metropolitan area	166,510	
<i>Waterfront Station - East 4th &amp; West 4th Buildings</i> , office buildings in Washington, D.C.	126,123	
Development project in Washington D.C.	19,348	
<i>Charleston Marriott</i> , a hotel in Charleston, West Virginia	7,480	
Disposition of partial interests in seven buildings in our <i>University Park</i> project in Cambridge, Massachusetts		139,576
Disposition of partial interests in three apartment communities in the Washington D.C. metropolitan area		28,922
<i>101 San Fernando</i> , an apartment community in San Jose, California		20,534
<i>Other</i>		756
<b>Total proceeds from dispositions of full or partial interests in rental properties</b>	<b>319,461</b>	<b>189,788</b>
Change in investments in and advances to affiliates - (investment in) or return of investment:		
Dispositions:		
<i>Metropolitan Lofts</i> , an unconsolidated apartment community in Los Angeles, California	12,590	
<i>Metreon</i> , an unconsolidated specialty retail center in San Francisco, California		17,882
<i>Pebble Creek</i> , an unconsolidated apartment community in Twinsburg, Ohio		2,065
Residential Projects:		
<i>8 Spruce Street</i> , an unconsolidated mixed-use residential project under construction in Manhattan, New York <sup>(1)</sup>	(62,467)	
<i>DKLB BKLN</i> , an unconsolidated apartment building in Brooklyn, New York <sup>(1)</sup>	(11,894)	
<i>Autumn Ridge</i> , primarily refinancing proceeds from an unconsolidated project in Sterling Heights, Michigan		4,886

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<i>The Grand, Lenox Club and Lenox Park</i> , primarily proceeds from additional financing at the unconsolidated entity that owns these apartment projects located in the Washington, D.C. area		4,000
<i>Plymouth Square</i> , primarily refinancing proceeds from an unconsolidated project in Detroit, Michigan		3,467
<i>Cambridge Towers</i> , primarily refinancing proceeds from an unconsolidated project in Detroit, Michigan		3,453
<i>Uptown Apartments</i> , an unconsolidated project in Oakland, California	(2,650)	(3,497)
<i>The Nets</i> , a National Basketball Association member	(22,978)	
Commercial Projects:		
<i>65/80 Landsdowne Street</i> , primarily refinancing proceeds from an unconsolidated office building in Cambridge, Massachusetts	12,059	
<i>Village at Gulfstream Park</i> , an unconsolidated specialty retail center project in Hallandale Beach, California	(10,614)	(9,502)
<i>Metreon</i> , an unconsolidated specialty retail center in San Francisco, California (Prior to disposition during the second quarter of 2010)		(2,024)
Land Development:		
<i>Woodforest</i> , an unconsolidated project in Houston, Texas		(3,850)
Other net (advances) returns of investment of equity method investments and other advances to affiliates	(4,256)	(3,203)
<b>Subtotal</b>	<b>(90,210)</b>	<b>13,677</b>
<b>Net cash used in investing activities</b>	<b>\$ (163,793)</b>	<b>\$ (718,892)</b>

- (1) These properties changed from the full consolidation method of accounting to equity method of accounting on July 1, 2011 due to recapitalization transactions. Decreases in restricted cash amounts represent activity prior to the change to equity method of accounting while changes in investments in and advances to unconsolidated entities represent activity subsequent to the change to equity method of accounting.



**Table of Contents****Financing Activities**

Net cash (used in) provided by financing activities was \$(3,393,000) and \$508,265,000 for the nine months ended October 31, 2011 and 2010, respectively. Net cash (used in) provided by financing activities consisted of the following:

	<b>Nine Months Ended October 31,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(in thousands)</i>	
Proceeds from nonrecourse mortgage debt and notes payable	\$ 265,836	\$ 599,495
Principal payments on nonrecourse mortgage debt and notes payable	(317,206)	(279,769)
Borrowings on bank revolving credit facility	464,575	661,352
Payments on bank revolving credit facility	(601,727)	(619,266)
Payment of Puttable Equity-Linked Senior Notes due 2011	(39,407)	
Proceeds from issuance of Convertible Senior Notes due 2018, net of \$10,625 of issuance costs	339,375	
Payment of transaction costs related to exchanges of Convertible Senior Notes due 2016 for Class A common stock	(3,200)	
Purchase of Senior Notes due 2011 and 2017		(16,569)
Payment of deferred financing costs	(12,414)	(25,155)
Change in restricted cash and escrowed funds and book overdrafts	(1,681)	(1,187)
Proceeds from issuance of Series A preferred stock, net of \$5,544 of issuance costs		44,456
Payment for equity call hedge related to the issuance of Series A preferred stock		(17,556)
Dividends paid to preferred shareholders	(11,550)	(7,957)
Purchase of treasury stock	(1,670)	(711)
Exercise of stock options	177	
Contributions from redeemable noncontrolling interest		181,909
Contributions from noncontrolling interests	3,087	2,526
Distributions to noncontrolling interests	(87,588)	(13,303)
<b>Net cash (used in) provided by financing activities</b>	<b>\$ (3,393)</b>	<b>\$ 508,265</b>

**LEGAL PROCEEDINGS**

We are involved in various claims and lawsuits incidental to our business, and management and legal counsel believe that these claims and lawsuits will not have a material adverse effect on our consolidated financial statements.

**NEW ACCOUNTING GUIDANCE**

The following accounting pronouncements were adopted during the nine months ended October 31, 2011:

In December 2010, the Financial Accounting Standards Board ( FASB ) issued an amendment to the accounting guidance on the disclosure of supplementary pro forma information for business combinations. This guidance specifies that if a public entity is required to present pro forma comparative financial statements for business combinations that occurred during the current reporting period, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance is effective for fiscal years beginning on or after December 15, 2010. The adoption of this guidance on February 1, 2011 did not have an impact on our consolidated financial statement disclosures.

In December 2010, the FASB issued an amendment to the accounting guidance on goodwill and other intangible assets. This guidance specifies when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units with zero or negative carrying amounts, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The guidance is effective for fiscal years beginning after December 15, 2010. The adoption of this guidance on February 1, 2011 did not have a material impact on our consolidated financial statements.

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The following new accounting pronouncements will be adopted on their respective required effective dates:

In September 2011, the FASB issued an amendment to the accounting guidance on testing goodwill for impairment. This guidance provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after performing a qualitative assessment an entity determines that it is not more likely than not that the fair market value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is not necessary. If an entity concludes otherwise, it is then required to perform the first step of the two-step goodwill impairment

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test. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We do not expect the adoption of this accounting guidance to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued an amendment to the accounting guidance for the presentation of comprehensive income. This guidance provides an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, this guidance requires an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This guidance is effective for annual and interim reporting periods beginning after December 15, 2011. Early adoption is permitted. We do not expect the adoption of this accounting guidance to have a material impact on our consolidated financial statements.

In May 2011, the FASB issued amendments to the accounting guidance on fair value measurement and disclosure requirements. This guidance results in common fair value measurement and disclosure requirements for financial statements prepared in accordance with GAAP and International Financial Reporting Standards. As a result, this guidance changes the wording used to describe many of the existing requirements for measuring fair value and for disclosing information about fair value measurements, but for many requirements the intent is not to change the existing application. Some of the guidance clarifies the FASB's intent about the application of existing fair value measurement requirements or may change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This guidance is effective for annual and interim reporting periods beginning after December 15, 2011. Early adoption is not permitted. We do not expect the adoption of the guidance to have a material impact on our consolidated financial statements.

In April 2011, the FASB issued an amendment to the guidance on accounting for transfers and servicing to improve the accounting for repurchase agreements and other agreements that entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The guidance specifies when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements, based upon whether the entity has maintained effective control over the transferred financial assets. This guidance is effective for annual and interim reporting periods beginning on or after December 15, 2011. Early adoption is not permitted. We do not expect the adoption of this accounting guidance to have a material impact on our consolidated financial statements.

## **INFORMATION RELATED TO FORWARD-LOOKING STATEMENTS**

This Form 10-Q, together with other statements and information publicly disseminated by us, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements reflect management's current views with respect to financial results related to future events and are based on assumptions and expectations that may not be realized and are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial or otherwise, may differ from the results discussed in the forward-looking statements. Risk factors discussed in Item 1A of our Form 10-K for the year ended January 31, 2011 and other factors that might cause differences, some of which could be material, include, but are not limited to, the impact of current lending and capital market conditions on our liquidity, ability to finance or refinance projects and repay our debt, the impact of the current economic environment on the ownership, development and management of our real estate portfolio, general real estate investment and development risks, vacancies in our properties, further downturns in the housing market, competition, illiquidity of real estate investments, bankruptcy or defaults of tenants, anchor store consolidations or closings, international activities, the impact of terrorist acts, risks associated with an investment in a professional sports team, our substantial debt leverage and the ability to obtain and service debt, the impact of restrictions imposed by our credit facility and senior debt, exposure to hedging agreements, the level and volatility of interest rates, the continued availability of tax-exempt government financing, the impact of credit rating downgrades, effects of uninsured or underinsured losses, effects of a downgrade or failure of our insurance carriers, environmental liabilities, conflicts of interest, risks associated with the sale of tax credits, risks associated with developing and managing properties in partnership with others, the ability to maintain effective internal controls, compliance with governmental regulations, increased legislative and regulatory scrutiny of the financial services industry, volatility in the market price of our publicly traded securities, inflation risks, litigation risks, as well as other risks listed from time to time in our reports filed with the Securities and Exchange Commission. We have no obligation to revise or update any forward-looking statements, other than imposed by law, as a result of future events or new information. Readers are cautioned not to place undue reliance on such forward-looking statements.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our market risk includes the increased difficulty or inability to obtain construction loans, refinance existing construction loans into long-term fixed-rate nonrecourse financing, refinance existing nonrecourse financing at maturity, obtain renewals or replacement of credit enhancement devices, such as letters of credit, or otherwise obtain funds by selling real estate assets or by raising equity. We also have interest-rate exposure on our current variable-rate debt portfolio. During the construction period, we have historically used variable-rate debt to finance developmental projects. At October 31, 2011, our outstanding variable-rate debt consisted of \$1,781,144,000 of taxable debt and \$424,654,000 of tax-exempt debt. Upon opening and achieving stabilized operations, we have historically procured long-term fixed-rate financing for our rental properties. However, due to the current market conditions, when available, we are currently extending maturities with existing lenders at current market terms. Additionally, we are exposed to interest rate risk upon maturity of our long-term fixed-rate financings.

**Interest Rate Exposure**

At October 31, 2011, the composition of nonrecourse mortgage debt was as follows:

	Operating Properties	Development Projects	Land Projects	Total	Total Weighted Average Rate
	<i>(dollars in thousands)</i>				
Fixed	\$ 3,022,628	\$ 259,551	\$ 5,395	\$ 3,287,574	5.81%
Variable					
Taxable	1,346,999	420,378	13,767	1,781,144	5.01%
Tax-Exempt	408,654		16,000	424,654	1.40%
	\$ 4,778,281	\$ 679,929 <sup>(1)</sup>	\$ 35,162	\$ 5,493,372	5.21%
Total commitment from lenders		\$ 1,428,197	\$ 35,162		

(1) Proceeds from outstanding debt of \$14,022 described above are recorded as restricted cash and escrowed funds. For bonds issued in conjunction with development, the full amount of the bonds is issued at the beginning of construction and must remain in escrow until costs are incurred.

To mitigate short-term variable interest rate risk, we have purchased interest rate hedges for our variable-rate debt as follows:

**Taxable (Priced off of LIBOR Index)**

Period Covered	Caps		Swaps	
	Notional Amount	Average Base Rate	Notional Amount	Average Base Rate
	<i>(dollars in thousands)</i>			
11/01/11-02/01/12	\$ 543,868	4.77%	\$ 1,197,320	3.65%
02/01/12-02/01/13	243,582	3.36%	897,193	4.33%
02/01/13-02/01/14	13,826	6.55%	898,139	4.41%
02/01/14-02/01/15			652,496	5.44%
02/01/15-02/01/16			651,810	5.45%
02/01/16-09/01/17			640,000	5.50%

**Tax-Exempt (Priced off of SIFMA Index)**

Period Covered	Caps	
	Notional Amount	Average Base Rate
	<i>(dollars in thousands)</i>	
11/01/11-02/01/12	\$ 174,094	5.83%
02/01/12-02/01/13	174,094	5.83%
02/01/13-02/01/14	129,069	5.90%
02/01/14-08/15/14	27,855	6.00%

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The tax-exempt caps generally were purchased in conjunction with lender hedging requirements that require the borrower to protect against significant fluctuations in interest rates. Except for those requirements, we generally do not hedge tax-exempt debt because, since 1990, the base rate of this type of financing has averaged 2.70% and has never exceeded 8.00%.

**Forward Swaps**

We periodically enter into forward swaps to protect ourselves against fluctuations in the swap rate at terms ranging between five to ten years associated with forecasted fixed rate borrowings. At the time we secure and lock an interest rate on an anticipated financing, we intend to simultaneously terminate the forward swap associated with that financing. At October 31, 2011, we had no forward swaps outstanding.

**Sensitivity Analysis to Changes in Interest Rates**

Including the effect of the protection provided by the interest rate swaps, caps and long-term contracts in place as of October 31, 2011, a 100 basis point increase in taxable interest rates (including properties accounted for under the equity method, corporate debt and the effect of interest rate floors) would increase the annual pre-tax interest cost for the next 12 months of our variable-rate debt by approximately \$8,267,000 at October 31, 2011. Although tax-exempt rates generally move in an amount that is smaller than corresponding changes in taxable interest rates, a 100 basis point increase in tax-exempt rates (including properties accounted for under the equity method) would increase the annual pre-tax interest cost for the next 12 months of our tax-exempt variable-rate debt by approximately \$6,674,000 at October 31, 2011. This analysis includes a portion of our taxable and tax-exempt variable-rate debt related to construction loans for which the interest expense is capitalized.

From time to time, we and/or certain of our joint ventures (the Joint Ventures) enter into total rate of return swap (TRS) on various tax-exempt fixed-rate borrowings generally held by us and/or within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require that we and/or the Joint Ventures pay a variable rate, generally equivalent to the Security Industry and Financial Markets Association (SIFMA) rate plus a spread. At October 31, 2011, the SIFMA rate was 0.14%. Additionally, we and/or the Joint Ventures have guaranteed the fair value of the underlying borrowing. Any fluctuation in the value of the TRS would be offset by the fluctuation in the value of the underlying borrowing, resulting in minimal financial impact to us and/or the Joint Ventures. At October 31, 2011, the aggregate notional amount of TRS that are designated as fair value hedging instruments is \$260,982,000. The underlying TRS borrowings are subject to a fair value adjustment. In addition, we have TRS with a notional amount of \$172,063,000 that is not designated as fair value hedging instruments, but is subject to interest rate risk.

We estimate the fair value of our hedging instruments based on interest rate market and bond pricing models. At October 31 and January 31, 2011, we reported interest rate caps and floors at fair value of approximately \$26,000 and \$195,000, respectively, in other assets. We also included interest rate swap agreements and TRS with positive fair values of approximately \$7,251,000 and \$4,661,000 at October 31 and January 31, 2011, respectively, in other assets. At October 31 and January 31, 2011, we included interest rate swap agreements and TRS that had a negative fair value of approximately \$165,988,000 and \$156,587,000, respectively, (which includes the forward swaps) in accounts payable, accrued expenses and other liabilities.

We estimate the fair value of our long-term debt instruments by market rates, if available, or by discounting future cash payments at interest rates that approximate the current market. Based on these parameters, the table below contains the estimated fair value of our long-term debt at October 31, 2011.

	Carrying Value	Fair Value (in thousands)	Fair Value with 100 bp Decrease in Market Rates
Fixed	\$ 4,326,021	\$ 4,473,280	\$ 4,740,417
Variable			
Taxable	1,781,144	1,844,117	1,928,936
Tax-Exempt	424,654	417,051	477,804
Total Variable	\$ 2,205,798	\$ 2,261,168	\$ 2,406,740
Total Long-Term Debt	\$ 6,531,819	\$ 6,734,448	\$ 7,147,157

The following tables provide information about our financial instruments that are sensitive to changes in interest rates.



**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)**

October 31, 2011

Long-Term Debt	Expected Maturity Date Year Ending January 31,					Period Thereafter	Total Outstanding 10/31/11	Fair Market Value 10/31/11
	2012	2013	2014	2015	2016			
<i>(dollars in thousands)</i>								
<b>Fixed:</b>								
Fixed-rate debt	\$ 136,496	\$ 315,041	\$ 598,811	\$ 288,726	\$ 343,639	\$ 1,604,861	\$ 3,287,574	\$ 3,507,285
Weighted average interest rate	6.64 %	6.04 %	6.44 %	6.07 %	5.59 %	5.46 %	5.81 %	
Senior & subordinated debt <sup>(1)</sup>			29,000 <sup>(4)</sup>	199,050 <sup>(3)</sup>	178,253	632,144	1,038,447	965,995
Weighted average interest rate	%	%	7.88 %	3.63 %	7.63 %	5.27 %	5.43 %	
<b>Total Fixed-Rate Debt</b>	136,496	315,041	627,811	487,776	521,892	2,237,005	4,326,021	4,473,280
<b>Variable:</b>								
Variable-rate debt	235,527	787,901	92,709	24,607		640,400	1,781,144	1,844,117
Weighted average interest rate <sup>(2)</sup>	3.05 %	3.69 %	6.59 %	3.82 %	%	7.19 %	5.01 %	
Tax-exempt	262	239	91,055	272	290	332,536	424,654	417,051
Weighted average interest rate <sup>(2)</sup>	1.51 %	1.64 %	2.63 %	1.64 %	1.64 %	1.07 %	1.40 %	
Bank revolving credit facility <sup>(1)</sup>								
Weighted average interest rate	%	%	%	%	%	%	%	%
<b>Total Variable-Rate Debt</b>	235,789	788,140	183,764	24,879	290	972,936	2,205,798	2,261,168
<b>Total Long-Term Debt</b>	\$ 372,285	\$ 1,103,181	\$ 811,575	\$ 512,655	\$ 522,182	\$ 3,209,941	\$ 6,531,819	\$ 6,734,448
Weighted average interest rate	4.36 %	4.36 %	6.08 %	5.01 %	6.28 %	5.31 %	5.25 %	

(1) Represents recourse debt.

(2) Weighted average interest rate is based on current market rates as of October 31, 2011.



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(3) Contains the principal amount of the puttable equity-linked senior notes due 2014 less the unamortized discount of \$950 as of October 31, 2011.

(4) The mandatory tender date of the custodial receipts, which represent ownership in the bonds, was used for the expected maturity date in lieu of the maturity date on the face of the bonds.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)**

January 31, 2011

Long-Term Debt	Expected Maturity Date Year Ending January 31,						Total	Fair
	2012	2013	2014	2015	2016	Period Thereafter	Outstanding 1/31/11	Market Value 1/31/11
<i>(dollars in thousands)</i>								
<b>Fixed:</b>								
Fixed-rate debt	\$ 280,274	\$ 345,211	\$ 855,352	\$ 462,257	\$ 361,758	\$ 1,570,594	\$ 3,875,446	\$ 4,087,103
Weighted average interest rate	6.77 %	6.10 %	6.56 %	5.96 %	5.59 %	5.75 %	6.04 %	
Senior & subordinated debt <sup>(1)</sup>	45,480 <sup>(3)</sup>		29,000 <sup>(5)</sup>	198,806 <sup>(4)</sup>	178,253	322,144	773,683	715,625
Weighted average interest rate	3.63 %	%	7.88 %	3.63 %	7.63 %	6.35 %	5.84 %	
<b>Total Fixed-Rate Debt</b>	<b>325,754</b>	<b>345,211</b>	<b>884,352</b>	<b>661,063</b>	<b>540,011</b>	<b>1,892,738</b>	<b>4,649,129</b>	<b>4,802,728</b>
<b>Variable:</b>								
Variable-rate debt	798,146	1,064,953	46,411	12,414		640,220	2,562,144	2,617,433
Weighted average interest rate <sup>(2)</sup>	3.80 %	3.38 %	6.05 %	1.46 %	%	7.18 %	4.50 %	
Tax-exempt	132,430	204,616	91,565	815	869	339,333	769,628	764,981
Weighted average interest rate <sup>(2)</sup>	2.63 %	2.52 %	2.78 %	3.79 %	3.79 %	1.42 %	2.09 %	
Bank revolving credit facility <sup>(1)</sup>		137,152					137,152	137,152
Weighted average interest rate <sup>(2)</sup>	%	5.75 %	%	%	%	%	5.75 %	
<b>Total Variable-Rate Debt</b>	<b>930,576</b>	<b>1,406,721</b>	<b>137,976</b>	<b>13,229</b>	<b>869</b>	<b>979,553</b>	<b>3,468,924</b>	<b>3,519,566</b>
<b>Total Long-Term Debt</b>	<b>\$ 1,256,330</b>	<b>\$ 1,751,932</b>	<b>\$ 1,022,328</b>	<b>\$ 674,292</b>	<b>\$ 540,880</b>	<b>\$ 2,872,291</b>	<b>\$ 8,118,053</b>	<b>\$ 8,322,294</b>
Weighted average interest rate	4.33 %	4.00 %	6.24 %	5.19 %	6.26 %	5.62 %	5.16 %	

(1) Represents recourse debt.

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- (2) Weighted average interest rate is based on current market rates as of January 31, 2011.
  
- (3) Represents the principal amount of the puttable equity-linked senior notes due 2011 of \$46,891 less the unamortized discount of \$1,411 as of January 31, 2011, as adjusted for the adoption of accounting guidance for convertible debt instruments. This unamortized discount is accreted through interest expense, which resulted in an effective interest rate of 7.51%.
  
- (4) Contains the principal amount of the puttable equity-linked senior notes due 2014 less the unamortized discount of \$1,194 as of January 31, 2011.
  
- (5) The mandatory tender date of the custodial receipts, which represent ownership in the bonds, was used for the expected maturity date in lieu of the maturity date on the face of the bonds.

**Table of Contents****Item 4. Controls and Procedures**

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or furnishes under the Securities Exchange Act of 1934 ( Securities Exchange Act ) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this quarterly report, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, was carried out under the supervision and with the participation of the Company's management, which includes the CEO and CFO. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of October 31, 2011.

There have been no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended October 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

In connection with the rules, the Company continues to review and document its disclosure controls and procedures, including the Company's internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and ensuring that the Company's systems evolve with the business.

**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is involved in various claims and lawsuits incidental to its business, and management and legal counsel believe that these claims and lawsuits will not have a material adverse effect on the Company's consolidated financial statements.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) and (b) Not applicable.

(c) Repurchase of equity securities during the quarter.

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Issuer Purchases of Equity Securities	
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
August 1 through August 31, 2011		\$		
September 1 through September 30, 2011	1,121	\$ 11.12		
October 1 through October 31, 2011	1,913	\$ 14.05		
<b>Total</b>	<b>3,034</b>	<b>\$ 12.97</b>		

**Class A Common Stock**

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(1) Class A common stock was repurchased to satisfy the minimum tax withholding requirements relating to restricted stock vesting.

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**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description of Document</b>
*3.1	- Code of Regulations as amended August 11, 2010 (corrected).
+10.1	- Employment Agreement, dated September 22, 2011, by and among David J. LaRue and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on September 26, 2011 (File No. 1-4372).
+10.2	- Employment Agreement, dated September 22, 2011, by and among Robert G. O'Brien and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on September 26, 2011 (File No. 1-4372).
+*10.3	- Agreement regarding death benefits, between Forest City Enterprises, Inc. and David J. LaRue.
*31.1	- Principal Executive Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	- Principal Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	- Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**101	- The following financial information from Forest City Enterprises, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited); (ii) Consolidated Statements of Operations (unaudited); (iii) Consolidated Statements of Comprehensive Income (Loss) (unaudited); (iv) Consolidated Statements of Equity (unaudited); (v) Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Consolidated Financial Statements (unaudited).
+	Management contract or compensatory arrangement required to be filed as an exhibit to this Form 10-Q pursuant to Item 6.
*	Filed herewith.
**	Submitted electronically herewith. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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**SIGNATURES**

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

FOREST CITY ENTERPRISES, INC.  
(Registrant)

Date: December 8, 2011

/s/ ROBERT G. O BRIEN  
Name: Robert G. O Brien  
Title: Executive Vice President and  
Chief Financial Officer

Date: December 8, 2011

/s/ CHARLES D. OBERT  
Name: Charles D. Obert  
Title: Senior Vice President, Corporate Controller  
and Chief Accounting Officer