FOREST CITY ENTERPRISES INC
Form 10-Q
September 08, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT Of 1934**

For the quarterly period ended July 31, 2005

o **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	34-0863886
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Terminal Tower Suite 1100	50 Public Square 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 þ NO o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
YES þ NO o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES o NO þ

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

Class	Outstanding at September 6, 2005
Class A Common Stock, $.33 1/3 par value	74,598,002 shares
Class B Common Stock, $.33 1/3 par value	26,474,570 shares

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Forest City Enterprises, Inc. and Subsidiaries

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Forest City Enterprises, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	July 31, 2005	January 31, 2005
	(in thousands)	
Assets		
Real Estate		
Completed rental properties	**$5,978,279**	$ 5,708,558
Projects under development	**841,403**	634,441
Land held for development or sale	**82,617**	94,907
Total Real Estate	**6,902,299**	6,437,906
Less accumulated depreciation	**(935,617)**	(865,562)
Real Estate, net	**5,966,682**	5,572,344
Cash and equivalents	**124,100**	276,492
Restricted cash	**324,056**	347,267
Notes and accounts receivable, net	**201,894**	212,868
Investments in and advances to affiliates	**391,742**	415,234
Other assets	**438,932**	497,880
Total Assets	**$7,447,406**	$ 7,322,085
Liabilities and Shareholders Equity		
Liabilities		
Mortgage debt, nonrecourse	**$4,886,409**	$ 4,787,191
Notes payable	**80,233**	93,432
Senior and subordinated debt	**599,400**	599,400
Accounts payable and accrued expenses	**590,981**	587,274
Deferred income taxes	**358,536**	354,490
Total Liabilities	**6,515,559**	6,421,787
Minority Interest	**88,165**	95,773
Commitments and Contingencies		
Company-Obligated Trust Preferred Securities		
Shareholders Equity		

Preferred stock without par value; 5,000,000 shares authorized; no shares issued		
Common stock $.33 1/3 par value		
Class A, 96,000,000 shares authorized; 74,551,596 and 74,205,642 shares issued and outstanding, respectively	**24,851**	24,736
Class B, convertible, 36,000,000 shares authorized; 26,496,960 shares issued and outstanding	**8,832**	8,832
	33,683	33,568
Additional paid in capital	**236,894**	230,188
Unearned compensation	**(5,063)**	(3,087)
Retained earnings	**583,389**	552,106
	848,903	812,775
Accumulated other comprehensive loss	**(5,221)**	(8,250)
Total Shareholders Equity	**843,682**	804,525
Total Liabilities and Shareholders Equity	**$7,447,406**	$ 7,322,085

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

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2005	2004	**2005**	2004
	(in thousands, except per share data)			
Revenues from real estate operations	**$312,501**	$265,972	**$620,314**	$504,495
Expenses				
Operating expenses	**187,777**	147,230	**363,526**	283,939
Interest expense	**71,012**	58,785	**140,384**	115,367
Amortization of mortgage procurement costs	**3,504**	5,047	**6,762**	7,009
Loss on early extinguishment of debt	**1,553**		**3,163**	
Provision for decline in real estate	**1,120**		**2,620**	
Depreciation and amortization	**43,120**	37,325	**86,375**	74,062
	308,086	248,387	**602,830**	480,377
Interest income	**6,770**	2,213	**13,739**	4,052
Equity in earnings of unconsolidated entities	**9,880**	43,650	**29,916**	49,894
Gain on disposition of other investments			**606**	
Earnings before income taxes	**21,065**	63,448	**61,745**	78,064
Income tax expense (benefit)				
Current	**(1,587)**	(2,125)	**4,709**	(1,163)
Deferred	**(2,129)**	23,669	**7,073**	26,230
	(3,716)	21,544	**11,782**	25,067
Earnings before minority interest, discontinued operations and cumulative effect of change in accounting principle	**24,781**	41,904	**49,963**	52,997
Minority interest	**(4,521)**	(8,918)	**(7,391)**	(16,105)
Earnings from continuing operations	**20,260**	32,986	**42,572**	36,892
Discontinued operations, net of tax and minority interest				
Operating earnings from Lumber Group		1,771		4,355

Operating earnings (loss) from rental properties	**(96)**	36	**(192)**	223
Loss on disposition of division of Lumber Group		(661)		(661)
Gain on disposition of rental properties		691		12,478
	(96)	1,837	**(192)**	16,395
Cumulative effect of change in accounting principle, net of tax				(11,261)
Net earnings	**$ 20,164**	$ 34,823	**$ 42,380**	$ 42,026
Basic earnings per common share [1]				
Earnings from continuing operations	**$ 0.20**	$ 0.33	**$ 0.42**	$ 0.37
Earnings from discontinued operations, net of tax and minority interest		0.02		0.16
Cumulative effect of change in accounting principle, net of tax				(0.11)
Net earnings	**$ 0.20**	$ 0.35	**$ 0.42**	$ 0.42
Diluted earnings per common share [1]				
Earnings from continuing operations	**$ 0.20**	$ 0.32	**$ 0.41**	$ 0.36
Earnings from discontinued operations, net of tax and minority interest		0.02		0.16
Cumulative effect of change in accounting principle, net of tax				(0.11)
Net earnings	**$ 0.20**	$ 0.34	**$ 0.41**	$ 0.41

(1) Earnings per share and weighted average shares outstanding for the three and six months ended July 31, 2004 have been restated to reflect a two-for-one stock split in July 2005.

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

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended July 31,	
	2005	2004
	(in thousands)	
Net earnings	**$ 20,164**	$ 34,823
Other comprehensive income, net of tax and minority interest:		
Unrealized gains (losses) on investments in securities:		
Unrealized gains (losses) on securities	**21**	(220)
Unrealized derivative net gains:		
Change in unrealized net gains on interest rate contracts	**1,848**	702
Change in fair value of retained interest (Footnote E)		(1,649)
Other comprehensive income, net of tax and minority interest	**1,869**	(1,167)
Comprehensive income	**$ 22,033**	$ 33,656

	Six Months Ended July 31,	
	2005	2004
	(in thousands)	
Net earnings	**$ 42,380**	$ 42,026
Other comprehensive income, net of tax and minority interest:		
Unrealized losses on investments in securities:		
Unrealized losses on securities	**(145)**	(467)
Unrealized derivative net gains:		
Change in unrealized net gains on interest rate contracts	**3,174**	3,567
Change in fair value of retained interest (Footnote E)		(632)
Other comprehensive income, net of tax and minority interest	**3,029**	2,468
Comprehensive income	**$ 45,409**	$ 44,494

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

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Shareholders Equity
(Unaudited)

	Common Stock Class A		Common Stock Class B		Additional Paid-In	Unearned	Retained	Treasury Stock		Accumulated Other Comprehensive (Loss)	
	Shares	Amount	Shares	Amount	Capital	Compensation	Earnings	Shares	Amount	Income	Total
						(in thousands)					
Six Months Ended July 31, 2005											
Balances at January 31, 2005, as previously reported	**37,103**	**$12,368**	**13,249**	**$4,416**	**$246,972**	**$(3,087)**	**$552,106**		**$**	**$(8,250)**	**$804,525**
Two-for-one stock split effective July 11, 2005, applied retroactively	**37,103**	**12,368**	**13,248**	**4,416**	**(16,784)**						
Balances at January 31, 2005, as restated	**74,206**	**$24,736**	**26,497**	**$8,832**	**$230,188**	**$(3,087)**	**$552,106**		**$**	**$(8,250)**	**$804,525**
Net earnings							**42,380**				**42,380**
Other comprehensive income, net of tax										**3,029**	**3,029**
Dividends $.11 per share restated for stock split							**(11,097)**				**(11,097)**
Purchase of treasury stock								**62**	**(1,945)**		**(1,945)**
Exercise of stock options	**256**	**85**			**1,838**			**(62)**	**1,945**		**3,868**
Income tax benefit from stock option exercises and vesting of restricted stock					**2,555**						**2,555**
	90	**30**			**2,827**	**(2,857)**					

Restricted stock issued											
Amortization of unearned compensation						**881**					**881**
Distribution of accumulated equity to minority partners					**(514)**						**(514)**
Balances at July 31, 2005	**74,552**	**$24,851**	**26,497**	**$8,832**	**$236,894**	**$(5,063)**	**$583,389**		**$**	**$(5,221)**	**$843,682**
Six Months Ended July 31, 2004											
Balances at January 31, 2004, as previously reported	36,510	$12,170	13,716	$4,572	$240,317	$(4,919)	$496,537	239	$(1,752)	$ 1,986	$748,911
Two-for-one stock split effective July 11, 2005, applied retroactively	36,510	12,170	13,716	4,572	(16,742)			239			
Balances at January 31, 2004, as restated	73,020	$24,340	27,432	$9,144	$223,575	(4,919)	$496,537	478	$(1,752)	$ 1,986	$748,911
Net earnings							42,026				42,026
Other comprehensive income, net of tax										2,468	2,468
Dividends $.095 per share restated for stock split							(9,509)				(9,509)
Conversion of Class B to Class A shares	804	266	(804)	(266)							
Exercise of stock options					462			(80)	295		757
Income tax benefit from stock option					505						505

exercises											
Amortization of unearned compensation						816					816
Balances at July 31, 2004	73,824	$24,606	26,628	$8,878	$224,542	$(4,103)	$529,054	398	$(1,457)	$ 4,454	$785,974

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

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended July 31,	
	2005	2004
	(in thousands)	
Cash Flows from Operating Activities		
Net Earnings	**$ 42,380**	$ 42,026
Minority interest	**7,391**	16,105
Depreciation and amortization	**86,375**	74,062
Amortization of unearned compensation	**881**	816
Amortization of mortgage procurement costs	**6,762**	7,009
Equity in earnings of unconsolidated entities	**(29,916)**	(49,894)
Cash distributions from operations of unconsolidated entities	**27,418**	18,178
Deferred income taxes	**7,073**	26,230
Gain on disposition of other investments	**(606)**	
Provision for decline in real estate	**2,620**	
Loss on early extinguishment of debt	**3,163**	
Non-cash Operating Expenses:		
Write-off of a portion of enterprise resource planning project	**3,025**	
Write-off of abandoned development projects	**3,361**	3,630
Discontinued operations:		
Loss on early extinguishment of debt		238
Depreciation and amortization	**863**	4,210
Amortization of mortgage procurement costs	**15**	171
Gain on disposition of operating properties		(20,213)
Minority interest		922
Cumulative effect of change in accounting principle		18,628
Sale of land included in projects under development and completed rental properties	**50,823**	(3,927)
Decrease (increase) in land held for development or sale	**12,290**	(1,528)
Decrease (increase) in notes and accounts receivable	**10,974**	(13,447)
(Increase) decrease in other assets	**(9,482)**	11,667
Increase in restricted funds used for operating purposes	**(25,867)**	(21,051)
(Decrease) increase in accounts payable and accrued expenses	**(8,933)**	29,916
Change in Lumber Group assets held for sale		(38,819)
Net cash provided by operating activities	**190,610**	104,929
Cash Flows from Investing Activities		
Capital expenditures	**(530,643)**	(458,076)
Change in escrows to be used for capital expenditures	**(51,569)**	(10,910)
Proceeds from disposition of rental properties and other investments	**16,302**	27,969
Change in investments in and advances to affiliates	**25,476**	(38,987)

Net cash used in investing activities	**(540,434)**	(480,004)
Cash Flows from Financing Activities		
Proceeds from issuance of senior notes		100,000
Payment of senior notes issuance costs		(3,808)
Proceeds from borrowings under the long-term credit facility		128,000
Payments on long-term credit facility		(56,250)
Proceeds from nonrecourse mortgage debt	**456,155**	419,285
Principal payments on nonrecourse mortgage debt	**(290,100)**	(124,301)
Proceeds from notes payable	**4,441**	19,681
Payments on notes payable	**(17,640)**	(29,788)
Change in restricted cash and book overdrafts	**85,925**	(122,531)
Payment of deferred financing costs	**(18,191)**	(6,752)
Exercise of stock options	**3,868**	757
Purchase of treasury stock	**(1,945)**	
Dividends paid to shareholders	**(10,082)**	(9,002)
(Decrease) increase in minority interest	**(14,999)**	1,885
Change in Lumber Group assets held for sale		39,666
Net cash provided by financing activities	**197,432**	356,842
Net decrease in cash and equivalents	**(152,392)**	(18,233)
Cash and equivalents at beginning of period	**276,492**	107,491
Cash and equivalents at end of period	**$ 124,100**	$ 89,258

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

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (continued)
(Unaudited)

Supplemental Non-Cash Disclosures:

The table below represents the effect of the following non-cash transactions for the six months ended July 31:

	Six months ended July 31,	
	2005	2004
	(in thousands)	
Operating Activities		
Decrease in notes and accounts receivable	**$**	$ 39,977
Increase in land held for development or sale		(12,534)
Decrease (increase) in other assets	**70,000**	(67,630)
Decrease in deferred taxes		(3,038)
Increase in accounts payable and accrued expenses	**1,015**	42,718
Total effect on operating activities	**$ 71,015**	$ (507)
Investing Activities		
Reduction in investments in and advances to affiliates	**$**	$ 62,968
Increase in completed rental properties		(641,897)
Total effect on investing activities	**$**	$ (578,929)
Financing Activities		
Increase in notes and loans payable	**$**	$ 17,088
(Decrease) increase in nonrecourse mortgage debt	**(70,000)**	557,126
Increase in restricted cash		(5,661)
Increase in minority interest		11,390
Change in dividends declared but not yet paid	**(1,015)**	(507)
Total effect on financing activities	**$ (71,015)**	$ 579,436

2005

Retired $70,000,000 Stapleton Revenue Bonds consolidated by the Company in accordance with FIN No. 46 (R), but owned by a third party special purpose entity (See Footnote E).

Dividends declared but not yet paid.

2004

Change in consolidation methods due to FIN No. 46 (R).

Change to full consolidation method of accounting from equity method due to acquisition of partners interests in four properties: *Lenox Park, Lenox Club* and *Pavilion* in the Residential Group and *Tangerine* in the Land Development Group.

Modification of certain provisions of the Company s arrangement with its partner in the New York operations for certain property partnerships.

Dividends declared but not yet paid.

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

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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, 2005, including the Report of Independent Registered Public Accounting Firm. 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 (consisting of normal recurring accruals) 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.

New Accounting Standards

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections a replacement of Accounting Principles Board (APB) Opinion No. 20 and FASB Statement No. 3. This statement changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This statement requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company plans to adopt SFAS No. 154 February 1, 2006. The Company does not expect this statement to have a material impact on its consolidated financial statements.

In March 2005, the FASB issued FASB Staff Position FIN 46 (R)-5, Implicit Variable Interests Under FASB Interpretation No. (FIN) 46 (R), Consolidation of Variable Interest Entities to address whether a company has an implicit variable interest in a variable interest entity (VIE) or potential VIE when specific conditions exist. The guidance describes an implicit variable interest as an implied financial interest in an entity that changes with changes in the fair market value of the entity s net assets exclusive of variable interests. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing and/or receiving of variability indirectly from the entity (rather than directly). The Company does not expect this statement to have a material impact on its consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (R) Share-Based Payment (SFAS No. 123 (R)). This Statement is a revision to SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), and supersedes APB No. 25 Accounting for Stock Issued to Employees (APB No. 25). SFAS No. 123 (R) requires the measurement of the cost of employee services to be rendered in exchange for an award of equity instruments be calculated based on the fair value of the award on the date of grant, as defined. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. In April 2005, the Securities and Exchange Commission (SEC) adopted a rule which amended the compliance dates for SFAS No. 123 (R) such that public companies will now be required to implement SFAS No. 123 (R) by their first fiscal year beginning after June 15, 2005. The Company plans to adopt SFAS No. 123 (R) effective February 1, 2006 and is currently assessing the impact of the adoption.

In June 2005, the Emerging Issues Task Force (EITF) Issue 04-5, Investor s Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights was ratified by the FASB. This Issue addresses what rights held by the limited partner(s) preclude consolidation in circumstances in which the sole general partner would consolidate the limited partnership in accordance with generally accepted accounting principles. The assessment of limited partners rights and their impact on the presumption of control of the limited partnership by the sole general partner should be made when the investor becomes the sole general partner and should be reassessed if there is a change in terms or the exercise of the rights of the limited partners, the sole general partner increases or decreases its ownership, or there is an increase or decrease in the number of outstanding limited partner interests. For pre-existing agreements that are not modified, the consensus is effective as of the beginning of the first fiscal reporting period beginning after December 15, 2005. For all new and modified agreements, the consensus was effective on June 29, 2005. The Company has adopted EITF 04-5 for all new and modified agreements. The Company plans to adopt the consensus for all existing agreements effective February 1, 2006 and is currently assessing the impact of the adoption.

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Forest City Enterprises, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

A. Accounting Policies (continued)

Variable Interest Entities

As of July 31, 2005 the Company determined that it is the primary beneficiary of 30 VIEs representing 19 properties (20 VIEs representing 9 properties in Residential Group, 9 VIEs/properties in Commercial Group, and 1 VIE/property in Land Development Group). As of July 31, 2005 the Company held variable interest in 41 VIEs for which it is not the primary beneficiary. The maximum exposure to loss as a result of the Company s involvement with these unconsolidated VIEs is limited to its recorded investments in those VIEs of approximately $83,963,000 at July 31, 2005, which is recorded as investments in and advances to affiliates. In addition, the Company has various VIEs that were consolidated prior to the implementation of FIN No. 46 (R) Consolidation of Variable Interest Entities (FIN No. 46 (R)) that remain consolidated under FIN No. 46 (R). These 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, supported-living communities and land development.

Upon implementation of FIN No. 46 (R) on February 1, 2004, the Company recorded a charge of $18,628,000 ($11,261,000 net of tax) for the six months ended July 31, 2004 for the cumulative effect of change in accounting principle which resulted in a reduction of net earnings. This charge consisted primarily of the Company s share of accumulated depreciation and amortization expense of the newly-consolidated VIEs which were previously accounted for on the cost method.

The total assets, nonrecourse mortgage debt, total liabilities and minority interest of the 30 VIEs consolidated due to the implementation of FIN No. 46 (R) for which the Company is the primary beneficiary are as follows as of July 31, 2005 (in thousands):

Total assets	$968,000
Nonrecourse mortgage debt	$861,000
Total liabilities (including nonrecourse mortgage debt)	$924,000
Minority interest	$ 44,000

In addition to the VIEs described above, the Company has also determined that it is the primary beneficiary of a VIE which holds secured borrowings of $29,000,000 (Note C) as of July 31, 2005.

Restricted Cash

Restricted cash represents legally restricted deposits with financial institutions for taxes and insurance, security deposits, capital replacement, improvement and operating reserves, bond funds, development escrows, construction escrows and collateral on certain financial instruments.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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, estimates of useful lives for long-lived assets, reserves for collection on accounts and notes receivable and other investments, provisions for decline in real estate and expected losses on VIEs. Actual results could differ.

As a result of a State of Ohio tax law change enacted on June 30, 2005 that replaced the Ohio income-based franchise tax and the Ohio personal property tax with a commercial activity tax, there was a decrease in the Company s effective state tax rate. The impact of tax rate change of approximately $10,000,000 is reflected as a deferred tax benefit in the Consolidated Statements of Earnings in three months ended July 31, 2005 and as a reduction of the cumulative deferred tax liability.

Stock-Based Compensation

The Company follows APB No. 25 and related interpretations to account for stock-based compensation. As such, compensation cost (for stock options is measured using the intrinsic value method, that is, the excess, if any, of the quoted market price of the Company s stock on the date of grant over the amount the optionee is required to pay for the stock.

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Forest City Enterprises, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

A. Accounting Policies (continued)

During the six months ended July 31, 2005, the Company granted 789,400 Class A fixed stock options under the 1994 Stock Plan to key employees and nonemployee Directors of the Company. The options have a term of 10 years, graded vesting over four years and a weighted average exercise price of $31.76. All options granted under the 1994 Stock Plan, including those issued during the six months ended July 31, 2005, had an exercise price equal to the market value of the underlying common stock on the date of the grant. Therefore, no stock-based compensation costs have been reflected in net earnings for stock options.

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock options.

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2005	2004	**2005**	2004
Net earnings *(in thousands)*				
As reported	**$20,164**	$34,823	**$ 42,380**	$ 42,026
Deduct stock-based employee compensation expense for stock options determined under the fair value based method, net of tax	**(1,016)**	(828)	**(1,677)**	(1,655)
Pro forma	**$19,148**	$33,995	**$ 40,703**	$ 40,371
Basic earnings per share				
As reported	**$ .20**	$ .35	**$ .42**	$ .42
Pro forma	**$ .19**	$ .34	**$ .40**	$ .40
Diluted earnings per share				
As reported	**$ .20**	$ .34	**$ .41**	$ .41
Pro forma	**$ .19**	$ .33	**$ .40**	$ .40

The Company also granted 90,000 shares of restricted Class A common stock to certain key employees during the six months ended July 31, 2005. The restricted stock was issued out of authorized and unissued shares with rights to vote the shares and receive dividends while being subject to restrictions on disposition, transferability and risk of forfeiture. The shares become nonforfeitable over a period of four years. The market value of the restricted stock on the date of grant of $2,857,000 was recorded as unearned compensation within shareholders equity and will be charged to expense over the respective vesting period. Stock-based compensation costs relating to restricted stock awards, including the restricted stock issued in April 2005, were charged to net earnings in the amount of $308,000 ($189,000 net of tax) and $508,000 ($307,000 net of tax) during the three months ended July 31, 2005 and 2004, respectively and $881,000 ($541,000 net of tax) and $816,000 ($493,000 net of tax) for the six months ended July 31, 2005 and 2004, respectively. The unearned compensation related to all restricted stock awards reported as a reduction of shareholders equity in the accompanying consolidated financial statements amounted to $5,063,000 and $3,087,000 at July 31, 2005 and January 31, 2005, respectively. In connection with the vesting of restricted stock during the six months ended July 31, 2005, the Company repurchased into treasury 61,584 shares of Class A common stock to satisfy the related tax withholding requirements. These shares, which were placed in treasury with an aggregate cost basis of $1,945,000, were all reissued during the six months ended July 31, 2005 to option holders who exercised their options during the period.

Accounting for Derivative Instruments and Hedging Activities

During the three and six months ended July 31, 2005 the Company recorded interest expense of approximately $27,000 and $32,000, respectively, in the Consolidated Statements of Earnings, which represented the total ineffectiveness of all cash flow hedges. During the three and six months ended July 31, 2004, the Company recorded interest expense of approximately $27,000 in the Consolidated Statements of Earnings, which represented the total ineffectiveness of all cash flow hedges. The amount of hedge ineffectiveness relating to hedges designated and qualifying as fair value hedges under SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, was not material. There were no derivative losses reclassified into earnings from other comprehensive income (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 for the six months ended July 31, 2005 and 2004. As of July 31, 2005, the Company expects that within the next twelve months it will reclassify amounts recorded in accumulated OCI into earnings as interest expense of approximately $4,236,000, net of tax.

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Forest City Enterprises, Inc. and Subsidiaries
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A. Accounting Policies (continued)

From time to time, certain of the Company s joint ventures (the Joint Ventures) enter into total rate of return swaps (TRS) on various tax-exempt fixed-rate borrowings generally held 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 the Joint Ventures pay a variable-rate, generally equivalent to the Bond Market Association (BMA) rate. Additionally, the Joint Ventures have guaranteed the principal balance of the underlying borrowing. Any fluctuation in the value of the guarantee would be offset by the fluctuation in the value of the underlying borrowing, resulting in no financial impact to the Joint Ventures or the Company. At July 31, 2005, the aggregate notional amount of TRS in which the Joint Ventures have an interest is approximately $288,770,000. The fair value of such TRS is immaterial at July 31, 2005. The Company believes the economic return and related risk associated with a TRS is generally comparable to that of nonrecourse variable-rate mortgage debt.

The Company estimates the fair value of its hedging instruments based on interest rate market pricing models. At July 31 and January 31, 2005, interest rate caps were reported at fair value of approximately $2,325,000 and $1,405,000, respectively, in other assets in the Consolidated Balance Sheets. The fair value of interest rate swap and floor agreements that had a positive fair value at July 31, 2005 are recorded as an unrealized gain of $2,958,000 and is included in other assets in the Consolidated Balance Sheets. The fair value of interest rate swap and floor agreements that had a negative fair value at January 31, 2005 are recorded as an unrealized loss of $1,394,000 and is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

Other Comprehensive Income (Loss)

Net unrealized gains or losses on securities, net of tax and minority interest, are included in OCI and represent the difference between the market value of investments in unaffiliated companies that are available for sale at the balance sheet date and the Company s cost. Also included in OCI is the Company s portion of the unrealized gains and losses, net of tax and minority interest, on the effective portions of derivative instruments designated and qualified as cash flow hedges. The amount of income tax benefit related to accumulated OCI was $3,287,000 and $5,397,000 as of July 31, 2005 and January 31, 2005, respectively.

The following table summarizes the components of accumulated other comprehensive loss, net of tax and minority interest.

	July 31, 2005	**January 31, 2005**
	(in thousands)	
Unrealized gain on securities	**$ 67**	$ 213
Unrealized losses on interest rate contracts	**(5,288)**	(8,463)
Accumulated Other Comprehensive Loss	**$ (5,221)**	$ (8,250)

Reclassification

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year s presentation. Effective July 31, 2005 the Company changed from the direct method of cash flow presentation to the indirect method to be consistent with the disclosure common throughout the real estate industry. The prior period cash flow has been revised to conform to the indirect method. The direct method reports major classes of gross cash receipts and gross cash payments versus the indirect method which reconciles net earnings to net cash used in or provided by operating activities.

B. Discontinued Operations, Gain on Disposition of Rental Properties and Division and Provision for Decline in Real Estate

Discontinued Operations

Pursuant to the definition of a component of an entity in Statement of Financial Accounting Standards (SFAS) Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144) all earnings of discontinued operations sold or held for sale, assuming no significant continuing involvement, have been reclassified in the Consolidated Statements of Earnings. The Company considers assets as held for sale when the transaction has been approved and there are no significant contingencies related to the sale that may prevent the transaction from closing.

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Forest City Enterprises, Inc. and Subsidiaries
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(Unaudited)

The following table lists the formerly consolidated rental properties included in discontinued operations:

Property	Location	Square Feet/ Number of Units	Quarter/ Year Disposed	Three Months Ended 7/31/2005	Six Months Ended 7/31/2005	Three Months Ended 7/31/2004	Six Months Ended 7/31/2004
Commercial Group:							
Flatbush Avenue	Brooklyn, New York	142,000 square feet	Q-3 2004			Yes	Yes
Pavilion	San Jose, California	250,000 square feet	Q-3 2004			Yes	Yes
Hunting Park	Philadelphia, Pennsylvania	125,000 square feet	Q-2 2004			Yes	Yes
Residential Group:							
Cherrywood Village	Denver, Colorado	360 units	Q-3 2005(1)	Yes	Yes	Yes	Yes
Ranchstone	Denver, Colorado	368 units	Q-3 2005(1)	Yes	Yes	Yes	Yes
Arboretum Place	Newport News, Virginia	184 units	Q-4 2004			Yes	Yes
Bridgewater	Hampton, Virginia	216 units	Q-4 2004			Yes	Yes
Colony Woods	Bellevue, Washington	396 units	Q-4 2004			Yes	Yes
Silver Hill	Newport News, Virginia	153 units	Q-4 2004			Yes	Yes
Trellis at Lee s Mill	Newport News, Virginia	176 units	Q-4 2004			Yes	Yes
Regency Towers	Jackson, New Jersey	372 units	Q-3 2004			Yes	Yes
Woodlake	Silver Spring, Maryland	534 units	Q-1 2004				Yes

(1) *Cherrywood Village* and *Ranchstone* were sold for a gain on August 11, 2005 and had no

material contingencies as of July 31, 2005.

In addition, the Company s Lumber Group strategic business unit was included in discontinued operations for the three and six months ended July 31, 2004. Lumber Group is a lumber wholesaler that was sold to its employees on November 12, 2004. Also included in discontinued operations is Babin Building Centers, Inc. (Babin), a division of Lumber Group, which was sold in July 2004. Babin sold building materials to the construction industry and to home remodelers.

Substantially all of the assets of the Lumber Group were sold for $39,085,902, $35,000,000 of which was paid in cash at closing. Pursuant to the terms of a note receivable with a 6% interest rate from the buyer, the remaining purchase price will be paid over five years with payments commencing November 12, 2006. In the year ended January 31, 2005, the Company reported a gain on disposition of this segment of approximately $20,920,000 ($11,501,000, net of tax) net of $1,093,000 loss related to the sale of Babin. The Company has deferred a gain of $4,085,902 (approximately $2,400,000, net of tax) relating to the note receivable due, in part, to the subordination to the buyer s senior financing. The gain and any interest income will be recognized as the note receivable principal and interest are collected.

The following table summarizes the assets and liabilities held for sale at July 31, 2005 related to *Cherrywood Village* and *Ranchstone* (in thousands). There were no assets or liabilities classified as held for sale at January 31, 2005.

	July 31, 2005
Assets	
Real estate	**$ 57,569**
Cash and equivalents	**51**
Restricted cash	**474**
Other assets	**276**
Total Assets	**$ 58,370**
Liabilities	
Mortgage debt, nonrecourse	**$ 37,201**
Accounts payable and accrued expenses	**873**
Total Liabilities	**$ 38,074**

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B. Discontinued Operations, Gain on Disposition of Rental Properties and Division and Provision for Decline in Real Estate (continued)

The following table presents operating results related to discontinued operations for the three and six months ended July 31, 2005 and 2004. There were no operations for Lumber Group during fiscal 2005.

	Three Months Ended July 31,			
	2005	2004		
	Rental Properties	**Lumber Group**	**Rental Properties**	**Total**
	(in thousands)		*(in thousands)*	
Revenues	**$1,554**	$34,256	$ 8,029	$42,285
Expenses				
Operating expenses	**735**	29,532	3,567	33,099
Interest expense	**535**	1,273	2,511	3,784
Amortization of mortgage procurement costs	**7**		86	86
Depreciation and amortization	**433**	424	1,716	2,140
	1,710	31,229	7,880	39,109
Interest income			29	29
Gain (loss) on disposition of rental properties and division		(1,093)	1,807	714
Earnings (loss) before income taxes	**(156)**	1,934	1,985	3,919
Income tax expense (benefit)				
Current	**(19)**	710	435	1,145
Deferred	**(41)**	114	42	156
	(60)	824	477	1,301
Earnings (loss) before minority interest	**(96)**	1,110	1,508	2,618
Minority interest			781	781
Net earnings (loss) from discontinued operations	**$ (96)**	$ 1,110	$ 727	$ 1,837

	Six Months Ended July 31,		
	2005	2004	
	Rental	**Lumber**	**Rental**

	Properties	Group	Properties	Total
	(in thousands)		*(in thousands)*	
Revenues	**$3,044**	$74,380	$ 16,511	$90,891
Expenses				
Operating expenses	**1,408**	63,795	7,060	70,855
Interest expense	**1,071**	2,322	5,147	7,469
Amortization of mortgage procurement costs	**15**		171	171
Loss on early extinguishment of debt			238	238
Depreciation and amortization	**863**	878	3,332	4,210
	3,357	66,995	15,948	82,943
Interest income		13	63	76
Gain (loss) on disposition of rental properties and division		(1,093)	21,306	20,213
Earnings (loss) before income taxes	**(313)**	6,305	21,932	28,237
Income tax expense (benefit)				
Current	**(37)**	1,402	490	1,892
Deferred	**(84)**	1,209	7,819	9,028
	(121)	2,611	8,309	10,920
Earnings (loss) before minority interest	**(192)**	3,694	13,623	17,317
Minority interest			922	922
Net earnings (loss) from discontinued operations	**$ (192)**	$ 3,694	$ 12,701	$16,395

Forest City Enterprises, Inc. and Subsidiaries
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B. Discontinued Operations, Gain on Disposition of Rental Properties and Division and Provision for Decline in Real Estate (continued)

Gain on Disposition of Rental Properties and Division

The following table summarizes the gain (loss) on disposition of properties and division for the three and six months ended July 31, 2005 and 2004.

		Three Months Ended July 31,		**Six Months Ended July 31,**	
		2005	2004	**2005**	2004
		(in thousands)		*(in thousands)*	
Discontinued Operations:					
Woodlake (Apartments)	Silver Spring, Maryland	$	$	$	$ 19,499
Hunting Park (Specialty Retail Center)	Philadelphia, Pennsylvania		1,807		1,807
Babin Building Centers, Inc. (Division of Lumber Group)	Cleveland, Ohio		(1,093)		(1,093)
Total		$	$ 714	$	$ 20,213

Investments accounted for on the equity method are not subject to the provisions of SFAS No. 144, and therefore the gains or losses on the sales of equity method properties are reported in continuing operations when sold. The following table summarizes the Company s proportionate share of gains on equity method investments disposed of during the three and six months ended July 31, 2005 and 2004, which are included in equity in earnings of unconsolidated entities in the Consolidated Statements of Earnings.

		Three Months Ended July 31,		**Six Months Ended July 31,**	
		2005	2004	**2005**	2004
		(in thousands)		*(in thousands)*	
Showcase (Specialty Retail Center)	Las Vegas, Nevada	**$**	$	**$ 13,145**	$
Colony Place (Apartments)	Fort Myers, Florida			**5,352**	
Chapel Hill Mall (Regional Mall)	Akron, Ohio		27,943		27,943
Chapel Hill Suburban (Specialty Retail Center)	Akron, Ohio		915		915
Manhattan Town Center Mall (Regional Mall)	Manhattan, Kansas		3,138		3,138
Total		**$**	$ 31,996	**$ 18,497**	$ 31,996

Provision for Decline in Real Estate

The Company reviews its investment portfolio to determine if its carrying costs will be recovered from future undiscounted cash flows whenever events or changes indicate that recoverability of long-lived assets may not be assured. In cases where the Company does not expect to recover its carrying costs, an impairment loss is recorded as a provision for decline in real estate for assets in its real estate portfolio pursuant to the guidance established in SFAS No. 144.

During the three months ended July 31, 2005, the Company recorded a provision for decline in real estate of $1,120,000 related to *Sterling Glen of Forest Hills*, an 84-unit supported living residential community located in Queens, New York. During the three months ended April 30, 2005, the Company recorded a provision for decline in real estate of $1,500,000 related to the *Ritz Carlton*, a 206 room commercial hotel located in Cleveland, Ohio. Given the estimated future cash flows that are expected to be derived from these properties, the Company believes that an impairment indicator existed at April 30, 2005 for the *Ritz Carlton* and at July 31, 2005 for *Sterling Glen of Forest Hills.* The provision represents a write down to the estimated fair value, less cost to sell, of these properties. There was no provision for decline in real estate for the three or six months ended July 31, 2004.

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C. Senior and Subordinated Debt

Senior Notes

Along with its wholly-owned subsidiaries Forest City Enterprises Capital Trust I (Trust I) and Forest City Enterprises Capital Trust II (Trust II), the Company filed an amended shelf registration statement with the SEC on May 24, 2002. This shelf registration statement amended the registration statement previously filed with the SEC in December 1997. This registration statement is intended to provide the Company flexibility to raise funds from the offering of Class A common stock, preferred stock, depositary shares and a variety of debt securities, warrants and other securities. Trust I and Trust II have not issued securities to date and, if issued, would represent the sole net assets of the trusts. The Company has $292,180,000 available under its shelf registration at July 31, 2005.

On January 25, 2005, the Company issued $150,000,000 of 6.50% senior notes due February 1, 2017 in a public offering under its shelf registration statement. The proceeds from this offering (net of approximately $4,300,000 of offering costs) were used to repay the outstanding balance under the Company s revolving line of credit (Note D) and for general working capital purposes. Accrued interest is payable semi-annually on February 1 and August 1, commencing on August 1, 2005. These senior notes may be redeemed by the Company, at any time on or after February 1, 2010 at redemption prices of 103.25% beginning February 1, 2010 and systematically reduced to 100% in the years thereafter. However, if the Company completes one or more public equity offerings prior to February 1, 2008, up to 35% of the original principal amount of the notes may be redeemed using all or a portion of the net proceeds within 75 days of the completion of the public equity offering at 106.50% of the principal amount of the notes.

On February 10, 2004, the Company issued $100,000,000 of 7.375% senior notes due February 1, 2034 in a public offering under its shelf registration statement. The proceeds from this offering (net of $3,808,000 of offering costs) were used to repay the outstanding term loan balance of $56,250,000 under the long-term credit facility (Note D) and for general working capital purposes. Accrued interest is payable quarterly on February 1, May 1, August 1, and November 1. These senior notes may be redeemed by the Company, in whole or in part, at any time on or after February 10, 2009 at a redemption price equal to 100% of their principal amount plus accrued interest.

On May 19, 2003, the Company issued $300,000,000 of 7.625% senior notes due June 1, 2015 in a public offering under its shelf registration statement. The proceeds from this offering (net of $8,151,000 of offering costs) were used to redeem all of the outstanding 8.5% senior notes originally due in 2008 at a redemption price equal to 104.25%, or $208,500,000. The remaining proceeds were used to repay the balance outstanding under the Company s revolving line of credit and for general working capital purposes. Accrued interest is payable semi-annually on December 1 and June 1. These senior notes may be redeemed by the Company, at any time on or after June 1, 2008 at a redemption price of 103.813% beginning June 1, 2008 and systematically reduced to 100% in years thereafter. However, if the Company completes one or more public equity offerings prior to June 1, 2006, up to 35% of the original principal amount of the notes may be redeemed using all or a portion of the net proceeds within 75 days of the completion of the public equity offering at 107.625% of the principal amount of the notes.

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 long-term credit facility. The indenture governing the senior notes contains covenants providing, among other things, limitations on incurring additional debt and payment of dividends.

Subordinated Debt

In May 2003, the Company purchased $29,000,000 of subordinate tax revenue bonds that were contemporaneously transferred to a custodian, which in turn issued custodial receipts that represent ownership in the bonds to unrelated third parties. The Company evaluated the transfer pursuant to the provisions of SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140) and has determined that the transfer does not qualify for sale accounting treatment principally because the Company has guaranteed the payment of principal and interest in the unlikely event that there is insufficient tax revenue to support the bonds when the custodial receipts are subject to mandatory tender on December 1, 2013. As such, the book value (which approximates amortized costs) of the bonds was recorded as a secured borrowing with a liability reported as senior and subordinated debt and held-to-maturity securities reported as other assets in the Consolidated Balance Sheets. The Company does not participate in and therefore did not report any cash flows related to this borrowing.

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In November 2000, the Company issued $20,400,000 of redevelopment bonds in a private placement. The bonds bear interest at 8.25% and are due September 15, 2010. Interest is payable semi-annually on March 15 and September 15. This debt is unsecured and subordinated to the senior notes and the long-term credit facility.

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D. Long-Term Credit Facility

On April 7, 2005, the Company amended its long-term credit facility. The amendment to the credit facility extended the maturity by one year to March 2008, lowered the borrowing rate to 1.95% over the London InterBank Offered Rate (LIBOR), eliminated the higher rate tier on the last $50,000,000 of borrowings and contained an accordion provision that allows the Company to increase the availability under the revolving line of credit by $100,000,000 to $550,000,000 during the next 24 months. The amendment also lowered the Company s unused commitment fee from 37.5 basis points on any unused portion to 25 basis points if the revolver usage is less than 50% and 15 basis points if the revolver usage is greater than 50%. The amendment also increased the combined availability of letters of credit or surety bonds by $10,000,000 to $60,000,000 ($42,383,286 in letters of credit and $-0- in surety bonds outstanding at July 31, 2005) and adds a swing line availability of $40,000,000 for up to three business days.

The amended credit facility provides, among other things, for 1) at the Company s election, interest rates of 1.95% over LIBOR or $^1/2$% over the prime rate; 2) maintenance of debt service coverage ratios and specified levels of net worth and cash flows (as defined in the credit facility); and 3) restrictions on dividend payments and stock repurchases. There was no balance outstanding at July 31, 2005 or January 31, 2005 related to the revolving line of credit.

E. Financing Arrangements

Secured Borrowings

In 2001, Stapleton Land, LLC, a subsidiary of Forest City Rental Properties Corporation, purchased $75,000,000 in Tax Increment Financing (TIF) bonds and $70,000,000 in revenue bonds (for an aggregate of $145,000,000, collectively the Bonds) from the Park Creek Metropolitan District (the District). The Bonds were immediately sold to Lehman Brothers, Inc. (Lehman) and were subsequently acquired by a qualified special purpose entity (the Trust), which in turn issued trust certificates to third parties. The District had a call option on the revenue bonds that began in August 2004 and had a call option on the TIF bonds that began in August 2003 (see below). In the event the Bonds were not removed from the Trust, the Company had the obligation to repurchase the Bonds from the Trust. Upon removal of the Bonds from the Trust, Stapleton Land, LLC was entitled to the difference between the interest paid on the Bonds and the cumulative interest paid to the certificate holders less trustee fees, remarketing fees, and credit enhancement fees (the Retained Interest).

The Company assessed its transfer of the Bonds to Lehman at inception and determined that it qualified for sale accounting treatment pursuant to the provisions of SFAS No. 140 because the Company did not maintain control over the Trust, and the Bonds were legally isolated from the Company s creditors. At inception, the Retained Interest had no determinable fair value as the cash flows were not practical to estimate because of the uncertain nature of the tax base still under development. In accordance with SFAS No. 140, no gain or loss was recognized on the sale of the Bonds to Lehman. As a result, the Retained Interest was recorded at zero with all future income to be recorded under the cost recovery method. The Company separately assessed the obligation to redeem the Bonds from the Trust pursuant to the provisions of SFAS No. 140 and concluded the liability was not material. The original principal outstanding under the securitization structure described above was $145,000,000, which was not recorded in the Consolidated Balance Sheets.

The Company reassessed the fair value and adjusted the amount of the Retained Interest through OCI on a quarterly basis. The Company measured its Retained Interest in the Trust at its estimated fair value based on the present value of the expected future cash flows, which were determined based on the expected future cash flows from the underlying Bonds and from expected changes in the rates paid to the certificate holders discounted at market yield, which considered the related risk. The difference between the amortized cost of the Retained Interest (approximately zero) and the fair value was recorded, net of the related tax and minority interest, in shareholders equity as a change in accumulated OCI. The quarterly fair value calculations were determined based on the application of key assumptions determined at the time of transfer including an estimated weighted average life of approximately two years and a 6.50% residual cash flows discount rate.

In August 2004, the $75,000,000 TIF bonds were defeased and removed from the Trust with the proceeds of a new $75,000,000 bond issue by the Denver Urban Renewal Authority (DURA), and the $70,000,000 revenue bonds, which bear interest at a rate of 8.5%, were removed from the Trust through a third party purchase. Upon removal of the $70,000,000 revenue bonds from the Trust, the third party deposited the bonds into a special-purpose entity (the Entity). As the TIF and revenue bonds were successfully removed from the Trust, the amounts previously recorded in OCI were recognized by Stapleton Land, LLC as interest income during the year ended January 31, 2005. Stapleton Land, LLC is not obligated to pay, nor is it entitled to, any further amounts related to this Retained Interest.

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E. Financing Arrangements (continued)

Also in August 2004, the Entity issued two types of securities, 1) Puttable Floating Option Tax-Exempt Receipts (P-FLOATs) which bear interest at a short-term floating rate as determined by the remarketing agent and 2) Residual Interest Tax-Exempt Securities Receipts (RITES), which receive the residual interest from the revenue bonds after the P-FLOAT interest and various program fees have been paid. The P-FLOATs were sold to third parties. Stapleton Land II, LLC, a consolidated affiliate of the Company, acquired the RITES for a nominal amount and provided credit enhancement to the trustor of the Entity including an initial collateral contribution of $10,000,000. The Company has consolidated the secured borrowing given its obligation to absorb the majority of the expected losses. The book value (which approximates amortized cost) of the P-FLOATs, which were terminated in July 2005, was reported as nonrecourse mortgage debt. The revenue bonds were reported as other assets and the collateral of $-0- and $12,094,000 was reported as restricted cash in the Consolidated Balance Sheets at July 31, 2005 and January 31, 2005, respectively. For the three and six months ended July 31, 2005, the Company recorded approximately $1,195,000 and $2,670,000, respectively, of interest income and $503,000 and $1,162,000, respectively, of interest expense related to this secured borrowing in the Consolidated Statement of Earnings. Of the interest income amounts recorded for the three and six months ended July 31, 2005, approximately $1,117,000 and $2,588,000, respectively, are interest income on the RITES and $78,000 and $82,000, respectively, are interest income on the collateral.

On July 13, 2005, the District issued $63,000,000 Senior Limited Property Tax Supported Revenue Refunding Bonds (Senior Limited Bonds), Series 2005 and $65,000,000 Senior Subordinate Limited Property Tax Supported Revenue Refunding and Improvement Bonds (Senior Subordinate Bonds), Series 2005. Proceeds from the issuance of the 2005 Bonds were used to redeem the $70,000,000 revenue bonds held by the Entity, which were then removed from the Company s Consolidated Balance Sheet. The Entity, in turn, redeemed the outstanding P-FLOATs. As holder of the RITES, Stapleton Land II, LLC was entitled to the remaining capital balances of the Entity after payment of P-FLOAT interest and other program fees. The District used additional proceeds of $30,271,000 to repay Developer Advances and accrued interest to Stapleton Land, LLC. Stapleton Land II, LLC was refunded $12,060,000 of collateral provided as credit enhancement under this secured borrowing.

On July 13, 2005 Stapleton Land II, LLC entered into an agreement whereby it will receive a 1% fee on the underlying $65,000,000 Senior Subordinate Bonds and provided collateral of $10,000,000 as credit enhancement. For the three and six months ended July 31, 2005, the Company recorded approximately $34,000 of interest income related to this fee in the Consolidated Statement of Earnings. The counterparty owns the underlying Senior Subordinate Bonds and can exercise its rights requiring payment from Stapleton Land II, LLC upon an event of default of the Senior Subordinate Bonds, a refunding of the Senior Subordinate Bonds, or failure of the Stapleton Land II, LLC to post required collateral. The agreement is scheduled to expire on July 1, 2009. The maximum potential amount of payments Stapleton Land II, LLC could be required to make under the agreement is the par value of the bonds. The Company does not have any rights or obligations to acquire the $65,000,000 Senior Subordinate Bonds under this agreement. At July 31, 2005, the fair value of this agreement, which is deemed to be a derivative financial instrument, was immaterial. Subsequent changes in fair value, if any, will be marked to market through earnings.

Other Financing Arrangements

In May 2004, a third party purchased $200,000,000 in tax increment revenue bonds issued by DURA, with a fixed-rate coupon of 8.0% and maturity date of October 1, 2024, which were used to fund the infrastructure costs associated with phase II of the Stapleton development project. The DURA bonds were transferred to a trust that issued floating rate trust certificates. Stapleton Land, LLC entered into an agreement with the third party to purchase the DURA bonds from the Trust if they are not repurchased or remarketed between June 1, 2007 and June 1, 2009. Stapleton Land, LLC will receive a fee upon removal of the DURA bonds from the Trust equal to the 8.0% coupon rate, less the BMA index (fixed at 2.85% through June 1, 2007), plus 40 basis points, less all fees and expenses due to the third party (collectively, the Fee).

The Company has concluded that the trust described above is considered a qualified special purpose entity pursuant to the provisions of SFAS No. 140 and thus is excluded from the scope of FIN No. 46 (R). As a result, the DURA bonds and the activity of the trust have not been recorded in the consolidated financial statements. The purchase obligation and the Fee have been accounted for as a derivative with changes in fair value recorded through earnings.

The fair market value of the purchase obligation and the Fee is determined based on the present value of the estimated amount of future cash flows considering possible variations in the amount and/or timing. For the three and six months ended July 31, 2005, the Company reported interest income of approximately $1,024,000 and $1,504,000, respectively, related to the Fee in the Consolidated Statement of Earnings. The fair value of approximately $2,317,000 at July 31, 2005 and $813,000 at January 31, 2005 is recorded in other assets in the Consolidated Balance Sheets.

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E. Financing Arrangements (continued)

Also in May 2004, Stapleton Land, LLC entered into a TRS and an interest rate swap both with notional amounts of $75,000,000. Stapleton Land, LLC receives a rate of 6.3% and pays BMA plus 60 basis points on the TRS (Stapleton Land, LLC paid BMA plus 160 basis points for the first 6 months under this agreement). On the interest rate swap, Stapleton Land, LLC pays a rate of 2.85% and receives BMA. Stapleton Land, LLC does not hold the underlying borrowings on this TRS. (See Accounting for Derivative Instruments and Hedging Activities in Note A).

Stapleton Land, LLC has committed to fund $24,500,000 to the Park Creek Metropolitan District to be used for certain infrastructure projects. The first $4,500,000 is due in August 2007. The remaining balance is due no later than May 2009.

F. Stock Split

On June 21, 2005 the Board of Directors declared a two-for-one stock split of the Company s Class A and Class B common stock effective July 11, 2005 to shareholders of record on June 27, 2005. The stock split is given retroactive effect to the beginning of the earliest period presented in the accompanying Consolidated Balance Sheets and Consolidated Statements of Shareholders Equity by transferring the par value of the additional shares issued from the additional paid-in-capital account to the common stock accounts. All share and per share data included in this quarterly report have been restated to reflect the stock split.

G. Dividends

The Company pays quarterly cash dividends on shares of Class A and Class B common stock. The first quarterly dividend of $.05 per share (post-split) on both Class A and Class B common stock was declared on March 24, 2005 and was paid on June 15, 2005 to shareholders of record at the close of business on June 1, 2005.

The second quarterly cash dividend of $.06 per share (post-split) on both Class A and Class B common stock was declared on June 21, 2005 and will be paid on September 15, 2005 to shareholders of record at the close of business on September 1, 2005.

H. Earnings per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for earnings from continuing operations.

	Earnings from Continuing Operations (Numerator) *(in thousands)*	Weighted Average Common Shares Outstanding (Denominator)	Per Common Share
Three Months Ended July 31, 2005:			
Basic earnings per share	**$20,260**	**100,944,277**	**$ 0.20**
Effect of dilutive securities stock options		**1,549,822**	
Diluted earnings per share	**$20,260**	**102,494,099**	**$ 0.20**

July 31, 2004:

Basic earnings per share	$32,986	100,052,644	$ 0.33
Effect of dilutive securities stock options		1,682,490	(0.01)
Diluted earnings per share	$32,986	101,735,134	$ 0.32
Six Months Ended			
July 31, 2005:			
Basic earnings per share	**$42,572**	**100,855,367**	**$ 0.42**
Effect of dilutive securities stock options		**1,541,345**	**(0.01)**
Diluted earnings per share	**$42,572**	**102,396,712**	**$ 0.41**
July 31, 2004:			
Basic earnings per share	$36,892	100,033,160	$ 0.37
Effect of dilutive securities stock options		1,704,702	(0.01)
Diluted earnings per share	$36,892	101,737,862	$ 0.36

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I. Investments in and Advances to Affiliates

Included in investments in and advances to affiliates are unconsolidated investments in entities which the Company does not control and/or is not deemed to be the primary beneficiary, and which are accounted for under the equity method of accounting, as well as advances to other partners.

Following is a reconciliation of members and partners equity to the Company s carrying value in the accompanying Consolidated Balance Sheets:

	July 31, 2005	January 31, 2005
	(in thousands)	
Members and partners equity as below	**$622,751**	$ 619,670
Equity of other members and partners	**474,543**	453,333
Company s investment in partnerships	**148,208**	166,337
Advances to other affiliates [1]	**243,534**	248,897
Total Investments in and Advances to Affiliates	**$391,742**	$ 415,234

(1) As is customary within the real estate industry, the Company invests in certain projects through joint ventures. The Company provides funding for certain of its partners equity contributions. The most significant partnership for which the Company provides funding relates to Forest City Ratner Companies, representing the Commercial Group s New

York City operations. The Company consolidates its investments in these projects. The Company s partner is the President and Chief Executive Officer of Forest City Ratner Companies and is the cousin to five executive officers of the Company. At July 31, 2005 and January 31, 2005, amounts advanced for projects on behalf of this partner, collateralized solely by each respective partnership interest were $57,081 and $63,213, respectively, of the $243,534 and $248,897 presented above for Advances to other affiliates. These advances entitle the Company to a preferred return on and of the outstanding balances, which are payable solely from cash flows of each respective property.

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

	(Combined 100%)	
	July 31, 2005	January 31, 2005
	(in thousands)	
Balance Sheet:		
Completed rental properties	**$1,798,858**	$1,879,706
Projects under development	**757,118**	564,712
Land held for development or sale	**198,782**	177,080
Accumulated depreciation	**(511,378)**	(497,566)
Restricted cash	**352,327**	362,583
Other assets	**513,637**	542,567
Total Assets	**$3,109,344**	$3,029,082
Mortgage debt, nonrecourse	**$2,054,780**	$2,012,578
Other liabilities	**431,813**	396,834
Members and partners equity	**622,751**	619,670
Total Liabilities and Members /Partners Equity	**$3,109,344**	$3,029,082

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Forest City Enterprises, Inc. and Subsidiaries
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I. Investments in and Advances to Affiliates (continued)

	(Combined 100%)			
	Three Months Ended July 31,		**Six Months ended July 31,**	
	2005	2004	**2005**	2004
	(in thousands)		*(in thousands)*	
Operations:				
Revenues	**$ 157,765**	$ 134,372	**$ 329,255**	$ 254,824
Operating expenses	**(96,667)**	(76,527)	**(203,260)**	(145,533)
Interest expense	**(39,602)**	(24,164)	**(65,926)**	(48,972)
Provision for decline in real estate			**(704)**	
Depreciation and amortization	**(18,391)**	(14,503)	**(58,255)**	(28,348)
Interest income	**4,463**	332	**6,950**	637
Gain on disposition of rental properties [2]		61,427	**81,708**	61,427
Net earnings (pre-tax) [3]	**$ 7,568**	$ 80,937	**$ 89,768**	$ 94,035
Company s portion of net earnings (pre-tax)	**$ 9,880**	$ 43,650	**$ 29,916**	$ 49,898

(2) The following table shows the detail of gain on disposition of rental properties that were held by equity method investments:

		Three Months Ended July 31,		Six Months Ended July 31,	
		2005	2004	**2005**	2004
Showcase (Specialty Retail Center)	(Las Vegas, Nevada)	**$**	$	**$ 71,005**	$
Colony Place (Apartments)	(Fort Myers, Florida)			**10,703**	
Chapel Hill Mall (Regional Mall)	(Akron, Ohio)		56,455		56,455
Chapel Hill Suburban (Specialty Retail Center)	(Akron, Ohio)		1,831		1,831
Manhattan Mall (Regional Mall)	(Manhattan, Kansas)		3,141		3,141
		$	$ 61,427	**$ 81,708**	$ 61,427

Total gain on disposition of equity method rental properties				
Company s portion of gain on disposition of equity method rental properties	**$**	$ 31,996	**$ 18,497**	$ 31,996

(3) Included in the amounts above are the following amounts for the three and six months ended July 31, 2005 related to the New Jersey Nets (the Nets). The Nets, a franchise of the National Basketball Association in which the Company has been an equity investor since August 16, 2004, is a reportable segment of the Company. Summarized financial information for this equity method investment is as follows:

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2005	2004	**2005**	2004
Operations:				
Revenues	$ 13,870	$	**$** 51,435	$
Operating expenses	(18,499)		(53,554)	
Interest expense	(2,546)		(4,671)	
Depreciation and amortization	(3,782)		(24,519)	
Interest income	262		521	

Net loss (pre-tax)	**$** (10,695)	$	**$** (30,788)	$
Company s portion of net loss (pre-tax)	**$** (4,620)	$	**$** (13,216)	$
Income tax benefit	1,708		5,108	
Company s portion of net loss (net of tax)	**$** (2,912)	$	**$** (8,108)	$

J. <u>Segment Information</u>
The Company uses an additional measure, along with net earnings, to report its operating results. This non-Generally Accepted Accounting Principles (GAAP) measure, referred to as Earnings Before Depreciation, Amortization and Deferred Taxes (EBDT) is defined as net earnings excluding the following items: i) gain (loss) on disposition of rental properties, division 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 from real estate operations of Forest City Rental Properties Corporation, a wholly-owned subsidiary of Forest City Enterprises, Inc., for depreciation, amortization, amortization of mortgage procurement costs and deferred income taxes; iv) provision for decline in real estate (net of tax); v) extraordinary items (net of tax); and vi) cumulative effect of change in accounting principle (net of tax). Although net earnings under GAAP is useful in assessing the overall performance of the Company on a consolidated basis, net earnings does not provide the management team and chief operating decision maker with a clear measure of each segment s core operating performance. 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

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J. Segment Information (continued)

Company s Chief Executive Officer (CEO), 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 tells the CEO how profitable a real estate segment is simply by operating for the sole purpose of collecting rent, paying operating expenses and servicing its debt. In contrast, the Company s reported GAAP financial statements include numerous accounting items which have been excluded from EBDT and disclosed in its filings that the Company believes are not consistent with its chief operating decision maker s review of financial performance and allocation of resources amongst its segments.

The following tables summarize financial data for the following strategic business units: Commercial Group, Residential Group, Land Development Group and the following additional segments: The Nets (an equity method investment) and Corporate Activities. All amounts are presented in thousands.

	July 31, 2005	January 31, 2005	**Three Months Ended July 31, 2005**	2004	**Six Months Ended July 31, 2005**	2004
	Identifiable Assets		Expenditures for Additions to Real Estate			
Commercial Group	**$5,000,608**	$4,683,977	**$206,026**	$166,053	**$373,320**	$280,100
Residential Group	**2,087,769**	2,045,864	**75,210**	57,013	**133,901**	168,921
Land Development Group	**210,742**	289,702	**10,533**	2,311	**18,333**	14,584
The Nets	**33,931**	41,861				
Corporate Activities	**114,356**	260,681	**285**	1,434	**1,514**	1,742
Other (1)				150		302
	$7,447,406	$7,322,085	**$292,054**	$226,961	**$527,068**	$465,649

	Three Months Ended July 31, 2005	2004	**Six Months Ended July 31, 2005**	2004	**Three Months Ended July 31, 2005**	2004	**Six Months Ended July 31, 2005**	2004
	Revenues from Real Estate Operations				Operating Expenses			
Commercial Group	**$233,838**	$194,625	**$453,537**	$356,039	**$129,823**	$ 95,945	**$241,608**	$179,432
Residential Group	**54,843**	49,459	**107,303**	95,239	**36,626**	32,605	**70,462**	59,926
Land Development Group	**23,820**	21,888	**59,474**	53,217	**13,744**	11,711	**34,699**	30,950
The Nets					**7,584**	6,969	**16,757**	13,631

Corporate Activities								
	$312,501	$265,972	**$620,314**	$504,495	**$187,777**	$147,230	**$363,526**	$283,939

	Interest Income				Interest Expense			
Commercial Group	**$ 904**	$ 354	**$ 2,261**	$1,214	**$45,395**	$38,918	**$ 89,787**	$ 76,716
Residential Group	**798**	568	**1,689**	1,163	**12,491**	8,943	**24,876**	18,703
Land Development Group	**4,615**	1,271	**8,817**	1,581	**1,848**	1,863	**4,135**	2,719
The Nets								
Corporate Activities	**453**	20	**972**	94	**11,278**	9,061	**21,586**	17,229
	$6,770	$2,213	**$13,739**	$4,052	**$71,012**	$58,785	**$140,384**	$115,367

	Depreciation and Amortization Expense			
Commercial Group	**$31,478**	$25,761	**$64,102**	$53,544
Residential Group	**11,302**	11,369	**21,618**	19,993
Land Development Group	**78**	(87)	**137**	(43)
The Nets				
Corporate Activities	**262**	282	**518**	568
	$43,120	$37,325	**$86,375**	$74,062

	Earnings Before Income Taxes (EBIT) [2]				Earnings Before Depreciation, Amortization & Deferred Taxes (EBDT)			
Commercial Group	**$ 29,793**	$ 32,526	**$ 59,070**	$ 45,779	**$ 53,431**	$52,476	**$107,541**	$ 91,342
Gain on disposition of equity method property		31,996	**13,145**	31,996				
Provision for decline in real			**(1,500)**					

estate								
Provision for decline in real estate recorded on equity method			**(704)**					
Residential Group	**(3,455)**	(1,289)	**(5,242)**	1,016	**15,709**	16,905	**31,476**	33,671
Gain on disposition of equity method property			**5,352**					
Provision for decline in real estate	**(1,120)**		**(1,120)**					
Land Development Group	**19,138**	16,508	**43,243**	30,606	**9,988**	7,734	**24,699**	15,838
The Nets	**(4,620)**		**(13,216)**		**(2,912)**		**(8,108)**	
Corporate Activities	**(18,671)**	(16,293)	**(37,889)**	(31,333)	**(11,289)**	(7,891)	**(23,019)**	(19,090)
Gain on disposition of other investments			**606**					
Other [(1)]						1,771		4,355
	$ 21,065	$ 63,448	**$ 61,745**	$ 78,064	**$ 64,927**	$70,995	**$132,589**	$126,116

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J. Segment Information (continued)

Reconciliation of Earnings Before Depreciation, Amortization and Deferred Taxes (EBDT) to Net Earnings by Segment:

	Commercial Group	Residential Group	Land Development Group	The Nets	Corporate Activities	Other [1]	Total
Three Months Ended July 31, 2005							
EBDT	**$ 53,431**	**$ 15,709**	**$ 9,988**	**$ (2,912)**	**$ (11,289)**	**$**	**$ 64,927**
Depreciation and amortization Real Estate Groups	**(31,841)**	**(13,637)**	**(54)**				**(45,532)**
Amortization of mortgage procurement costs Real Estate Groups	**(2,201)**	**(694)**					**(2,895)**
Deferred taxes Real Estate Groups	**893**	**1,201**	**1,723**		**(1,154)**		**2,663**
Straight-line rent adjustment	**1,996**	**(9)**					**1,987**
Gain on disposition of other investments, net of tax					**6**		**6**
Provision for decline in real estate, net of tax and minority interest	**(13)**	**(659)**					**(672)**
Provision for decline in real estate recorded on equity method, net of tax	**(7)**						**(7)**
Gain on disposition recorded on equity method, net of tax	**119**	**49**					**168**
Discontinued operations, net of tax and minority interest: [3]							
Depreciation and amortization Real Estate Groups		**(433)**					**(433)**
Amortization of mortgage		**(7)**					**(7)**

procurement costs Real Estate Groups							
Deferred taxes Real Estate Groups		**(41)**					**(41)**
Net earnings	**$ 22,377**	**$ 1,479**	**$ 11,657**	**$ (2,912)**	**$ (12,437)**	**$**	**$ 20,164**
Three Months Ended July 31, 2004							
EBDT	$ 52,476	$ 16,905	$ 7,734	$	$ (7,891)	$ 1,771	$ 70,995
Depreciation and amortization Real Estate Groups	(28,509)	(13,408)	84				(41,833)
Amortization of mortgage procurement costs Real Estate Groups	(3,413)	(801)					(4,214)
Deferred taxes Real Estate Groups	(7,613)	(1,400)	1,711		(2,123)		(9,425)
Straight-line rent adjustment	1,093	(25)					1,068
Gain on disposition recorded on equity method, net of tax	19,341						19,341
Discontinued operations, net of tax and minority interest: (3)							
Depreciation and amortization Real Estate Groups	(277)	(1,351)					(1,628)
Amortization of mortgage procurement costs Real Estate Groups	(56)	(19)					(75)
Deferred taxes Real Estate Groups	(148)	394					246
Straight-line rent adjustment	318						318
Loss on disposition of division, net of tax						(661)	(661)
Gain on disposition of rental properties	691						691
Net earnings	**$ 33,903**	**$ 295**	**$ 9,529**	**$**	**$ (10,014)**	**$ 1,110**	**$ 34,823**
Six Months Ended July 31, 2005							

EBDT	**$107,541**	**$ 31,476**	**$ 24,699**	**$(8,108)**	**$(23,019)**	**$**	**$132,589**
Depreciation and amortization Real Estate Groups	**(64,989)**	**(26,280)**	**(105)**				**(91,374)**
Amortization of mortgage procurement costs Real Estate Groups	**(4,286)**	**(1,332)**					**(5,618)**
Deferred taxes Real Estate Groups	**(5,435)**	**(653)**	**960**		**(1,820)**		**(6,948)**
Straight-line rent adjustment	**4,997**	**(14)**					**4,983**
Gain on disposition of other investments, net of tax					**372**		**372**
Provision for decline in real estate, net of tax and minority interest	**(920)**	**(659)**					**(1,579)**
Provision for decline in real estate recorded on equity method, net of tax	**(432)**						**(432)**
Gain on disposition recorded on equity method, net of tax	**8,064**	**3,285**					**11,349**
Discontinued operations, net of tax and minority interest: (3)							
Depreciation and amortization Real Estate Groups		**(863)**					**(863)**
Amortization of mortgage procurement costs Real Estate Groups		**(15)**					**(15)**
Deferred taxes Real Estate Groups		**(84)**					**(84)**
Net earnings	**$ 44,540**	**$ 4,861**	**$ 25,554**	**$(8,108)**	**$(24,467)**	**$**	**$ 42,380**
Six Months Ended July 31, 2004							
EBDT	$ 91,342	$ 33,671	$ 15,838	$	$(19,090)	$4,355	$126,116
Depreciation and amortization Real Estate Groups	(58,306)	(25,178)	50				(83,434)
Amortization of mortgage	(4,666)	(1,498)					(6,164)

procurement costs Real Estate Groups							
Deferred taxes Real Estate Groups	(8,927)	(3,178)	1,560		(181)		(10,726)
Straight-line rent adjustment	(1,103)	(68)					(1,171)
Cumulative effect of change in accounting principle, net of tax	(477)	(10,784)					(11,261)
Gain on disposition recorded on equity method, net of tax	19,341						19,341
Discontinued operations, net of tax and minority interest: (3)							
Depreciation and amortization Real Estate Groups	(631)	(2,526)					(3,157)
Amortization of mortgage procurement costs Real Estate Groups	(111)	(38)					(149)
Deferred taxes Real Estate Groups	(273)	454					181
Straight-line rent adjustment	633						633
Loss on disposition of division, net of tax						(661)	(661)
Gain on disposition of rental properties	691	11,787					12,478
Net earnings	**$ 37,513**	**$ 2,642**	**$ 17,448**	**$**	**$ (19,271)**	**$ 3,694**	**$ 42,026**

(1) Expenditures for additions to real estate, EBDT and net earnings presented under the caption Other relates to the Lumber Group, which was sold in November 2004 and is no longer a reportable segment.

(2)

See Consolidated Statements of Earnings on page 3 for reconciliation of EBIT to net earnings.

(3) See Note B Discontinued Operations starting on page 11 for more information.

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K. Subsequent Event

On August 11, 2005, the Company sold *Cherrywood Village* and *Ranchstone* apartment communities. *Cherrywood Village* and *Ranchstone* are 360-unit and 368-unit apartment communities, respectively, located in Denver, Colorado. The $67,500,000 transaction was structured as a tax-deferred exchange and will result in an estimated gain of approximately $9,500,000 ($5,800,000 net of tax).

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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, 2005.

RESULTS OF OPERATIONS

We report our results of operations by each of our three strategic business units as we believe this provides the most meaningful understanding of our financial performance. In addition to our three strategic business units, we have two additional segments: the Nets and Corporate Activities.

Overview

We principally engage in the ownership, development, management and acquisition of commercial and residential real estate throughout the United States. We operate through three strategic business units. The Commercial Group, our largest business unit, owns, develops, acquires and operates regional malls, specialty/urban retail centers, office buildings, hotels and mixed-use projects. The Residential Group owns, develops, acquires and operates residential rental property, including upscale and middle-market apartments, adaptive re-use developments and supported-living communities. New York City operations through our partnership with Forest City Ratner Companies are part of the Commercial Group or Residential Group depending on the nature of the operations. Real Estate Groups are the combined Commercial and Residential Groups. 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 Nets, a franchise of the National Basketball Association (NBA) in which we are an equity investor, is a reportable segment of the Company.

We have approximately $7.4 billion of assets in 20 states and the District of Columbia at July 31, 2005. Our core markets include New York City/Philadelphia metropolitan area, Denver, Boston, Greater Washington D.C./Baltimore metropolitan area and California. As a result of an ongoing effort to increase property concentration in the core markets, these markets now account for 71 percent of the cost of our portfolio at July 31, 2005. We have offices in Boston, Chicago, Denver, Los Angeles, New York City, San Francisco, Washington, D.C. and our corporate headquarters are in Cleveland, Ohio.

Significant milestones occurring during the second quarter of 2005 included:

- The opening of one residential community, *Metro 417*, in Los Angeles, California and the acquisition of the *Ballston Common Office Center* in Arlington, Virginia;

- Closing $254 million in mortgage financing transactions at attractive interest rates; and

- Executed a two-for-one stock split effective as of July 11, 2005.

We have a track record of past successes and a strong pipeline of future opportunities. With a balanced portfolio concentrated in the product types and geographic markets that offer many unique, financially rewarding opportunities, we appear to be well positioned for future growth.

Net Earnings Net earnings for the three months ended July 31, 2005 were $20,164,000 versus $34,823,000 for the three months ended July 31, 2004. This current quarter variance compared to last year is primarily attributable to the 2004 gains on dispositions of three equity method investments recorded during the three months ended July 31, 2004 that did not recur in the current year. Gains on disposition during the three months ended July 31, 2004 of $31,996,000, or $19,341,000 net of tax, were recorded for the dispositions of *Manhattan Town Center Mall*, a regional mall located in Manhattan, Kansas, *Chapel Hill Suburban*, a specialty retail center located in Akron, Ohio and *Chapel Hill Mall*, a regional mall located in Akron, Ohio. We also recorded a current quarter loss of $2,912,000, net of tax, on our equity investment in the Nets which we did not own during the second quarter of 2004, a one-time expense related to our enterprise resource planning project of $1,856,000, net of tax, an increase in interest expense of $1,496,000, net of tax, as a result of the issuance of $150,000,000 senior notes in January of 2005 and the Lumber Group reported net earnings in the second quarter of last year of $1,110,000 with no corresponding amount in the current quarter due to the sale of Lumber Group in November of 2004. These unfavorable variances were partially offset by a favorable change in our effective tax rate due to a change in the rate in the State of Ohio resulting in a one-time reduction of deferred income taxes of approximately $10,000,000 recorded in the three months ended July 31, 2005.

Net earnings for the six months ended July 31, 2005 were $42,380,000 versus $42,046,000 for the six months ended July 31, 2004. The favorable variance for this year compared to the prior year is primarily attributable to an increase in earnings from Commercial Group land sales and development fees of $15,114,000, net of tax and minority interest, primarily at *Galleria at Sunset* in Las Vegas, *Twelve MetroTech Center* in Brooklyn and *Simi Valley Town Center* in Simi Valley, California, $8,106,000 related to land sales reported in the Land Development Group, a favorable change in our effective tax rate due to a change in the rate in the State of Ohio resulting in a one-time reduction of deferred income taxes of approximately $10,000,000 and the prior year charge for cumulative effect of change in accounting principle as a result of our implementation of FIN No. 46 (R) of $11,261,000, net of tax, which did not recur. These favorable variances are offset by the current year loss on our equity investment in the Nets of $8,108,000, net of tax, which we did not own during the first half of 2004, a one-time expense related to our enterprise resource planning project of $1,856,000, net of tax, an increase in interest expense of $2,991,000, net of tax, as a result of the issuance of $150,000,000 senior notes in January of 2005, the 2004 gains on disposition of $12,478,000, net of tax, of two properties, *Hunting Park*, a specialty retail center located in Philadelphia, Pennsylvania and *Woodlake*, a 534-unit apartment community located in Silver Spring, Maryland, development fee revenue of $4,114,000 at *Twelve MetroTech Center* that was recognized in 2004 and the Lumber Group net earnings in the first half of last year of $3,694,000 with no corresponding amount in the current year due to the sale of Lumber Group in November of 2004. Also included in net earnings is a decrease of $7,992,000, net of tax, compared to the same period last year as a result of the first quarter 2005 dispositions of two equity method properties of *Showcase*, a specialty retail center located in Las Vegas Nevada, and *Colony Place*, an apartment community located in Fort Myers, Florida at a gain of $11,349,000, which only partially offset prior year gains of $19,341,000 related to sales of three equity method properties, *Manhattan Town Center Mall, Chapel Hill Suburban* and *Chapel Hill Mall.*

Summary of Segment Operating Results The following tables present a summary of revenues from real estate operations, interest income, equity in earnings of unconsolidated entities, operating expenses and interest expense incurred by each segment for the three and six months ended July 31, 2005 and 2004, respectively. See discussion of these amounts by segment in the narratives following the tables.

	Three Months Ended July 31,			**Six Months Ended July 31,**		
	2005	2004	Variance	**2005**	2004	Variance
		(in thousands)			*(in thousands)*	
Revenues from Real Estate Operations						
Commercial Group	**$ 233,838**	$ 194,625	$ 39,213	**$ 453,537**	$ 356,039	$ 97,498
Residential Group	**54,843**	49,459	5,384	**107,303**	95,239	12,064
Land Development Group	**23,820**	21,888	1,932	**59,474**	53,217	6,257
The Nets						
Corporate Activities						
Total Revenues from Real Estate Operations	**$ 312,501**	$ 265,972	$ 46,529	**$ 620,314**	$ 504,495	$ 115,819
Interest Income						
Commercial Group	**$ 904**	$ 354	$ 550	**$ 2,261**	$ 1,214	$ 1,047
Residential Group	**798**	568	230	**1,689**	1,163	526
Land Development Group	**4,615**	1,271	3,344	**8,817**	1,581	7,236
The Nets						
Corporate Activities	**453**	20	433	**972**	94	878
Total Interest Income	**$ 6,770**	$ 2,213	$ 4,557	**$ 13,739**	$ 4,052	$ 9,687
Equity in Earnings (Loss) of Unconsolidated Entities						

Commercial Group	**$ 6,452**	$ 34,515	$ (28,063)	**$ 20,103**	$ 35,862	$ (15,759)
Residential Group	**1,541**	2,255	(714)	**8,904**	4,496	4,408
Land Development Group	**6,507**	6,880	(373)	**14,125**	9,536	4,589
The Nets	**(4,620)**		(4,620)	**(13,216)**		(13,216)
Corporate Activities						
Total Equity in Earnings (Loss) of Unconsolidated Entities	**$ 9,880**	$ 43,650	$ (33,770)	**$ 29,916**	$ 49,894	$ (19,978)
Operating Expenses						
Commercial Group	**$ 129,823**	$ 95,945	$ 33,878	**$ 241,608**	$ 179,432	$ 62,176
Residential Group	**36,626**	32,605	4,021	**70,462**	59,926	10,536
Land Development Group	**13,744**	11,711	2,033	**34,699**	30,950	3,749
The Nets						
Corporate Activities	**7,584**	6,969	615	**16,757**	13,631	3,126
Total Operating Expenses	**$ 187,777**	$ 147,230	$ 40,547	**$ 363,526**	$ 283,939	$ 79,587
Interest Expense						
Commercial Group	**$ 45,395**	$ 38,918	$ 6,477	**$ 89,787**	$ 76,716	$ 13,071
Residential Group	**12,491**	8,943	3,548	**24,876**	18,703	6,173
Land Development Group	**1,848**	1,863	(15)	**4,135**	2,719	1,416
The Nets						
Corporate Activities	**11,278**	9,061	2,217	**21,586**	17,229	4,357
Total Interest Expense	**$ 71,012**	$ 58,785	$ 12,227	**$ 140,384**	$ 115,367	$ 25,017

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Commercial Group

Revenues from Real Estate Operations Revenues from real estate operations for the Commercial Group increased by $39,213,000 or 20.1%, for the three months ended July 31, 2005 over the same period in the prior year. This increase was primarily the result of:

Increase of $13,033,000 related to new property openings, as noted in the table below;

Increase in our hotel portfolio of $4,383,000 primarily related to an increase in occupancy at certain hotels; and

Increase of $31,701,000 related to commercial land sales primarily at *Simi Valley Town Center* in Simi Valley, California, *Bolingbrook* in Bolingbrook, Illinois and Salt Lake City.

These increases were partially offset by the following decrease:

Decrease of $11,773,000 related to development fee revenue primarily at *Twelve MetroTech Center* located in Brooklyn, New York that was recognized in the prior year and did not recur.

The balance of the remaining increase in revenues from real estate operations of approximately $1,869,000 was generally due to fluctuations in mature properties.

Revenues from real estate operations for the Commercial Group increased by $97,498,000, or 27.4%, for the six months ended July 31, 2005 over the same period in the prior year. This increase was primarily the result of:

Increase of $28,016,000 related to new property openings, as noted in the table below;

Increase in our hotel portfolio of $6,866,000 primarily related to an increase in occupancy at certain hotels;

Increase of $61,937,000 related to commercial land sales primarily at *Twelve MetroTech Center* in Brooklyn, New York, *Simi Valley Town Center, Bolingbrook* and Salt Lake City; and

Increase of $4,528,000 related to the net gain on the sale of a development project in Las Vegas, Nevada.

These increases were partially offset by the following decrease:

Decrease of $12,979,000 related to development fee revenue primarily at *Twelve MetroTech Center* that was recognized in the prior year and did not recur.

The balance of the remaining increase in revenues from real estate operations of approximately $9,130,000 was generally due to fluctuations in mature properties.

Operating and Interest Expenses Operating expenses increased $33,878,000, or 35.3%, for the three months ended July 31, 2005 over the same period in the prior year. This increase was primarily the result of:

Increase of $2,080,000 related to new property openings, as noted in the table below;

Increase in our hotel portfolio of $2,665,000 primarily related to an increase in occupancy in our New York hotel portfolio;

Increase of $22,409,000 related to commercial land sales primarily at *Simi Valley Town Center*, *Bolingbrook,* and Salt Lake City*;*

Increase of approximately $1,542,000 related to the Commercial Group s allocated share of a write-off of a portion of our enterprise resource planning project; and

Increase of $1,437,000 related to promotional costs for new development projects.

The balance of the remaining increase in operating expenses of approximately $3,745,000 was generally due to fluctuations in mature properties and general operating activities.

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Operating expenses increased $62,176,000, or 34.7%, for the six months ended July 31, 2005 over the same period in the prior year. This increase was primarily the result of:

- Increase of $8,106,000 related to new property openings as noted in the table below;
- Increase in our hotel portfolio of $4,638,000 primarily related to an increase in occupancy in our New York hotel portfolio;
- Increase of $37,819,000 related to commercial land sales primarily at *Twelve MetroTech Center, Bolingbrook, Simi Valley Town Center* and Salt Lake City*;*
- Increase of approximately $1,542,000 related to the Commercial Group s allocated share of a write-off of a portion of our enterprise resource planning project; and
- Increase in development project write-offs of $783,000; and
- Increase of $1,688,000 related to promotional costs for new development projects.

The balance of the remaining increase in operating expenses of approximately $7,600,000 was generally due to fluctuations in mature properties and general operating activities.

Interest expense for the Commercial Group increased by $6,477,000, or 16.6%, during the three months ended July 31, 2005 compared the same period in the prior year. Interest expense for the Commercial Group increased by $13,071,000, or 17.0%, during the six months ended July 31, 2005. The increase is primarily attributed to openings of the properties in the table listed below.

The following table presents the significant increase in revenue from real estate operations and operating expenses incurred by the Commercial Group for newly-opened properties for the three and six months ended July 31, 2005 compared to the same period in the prior year (dollars in thousands):

				Three Months Ended July 31, 2005		Six Months Ended July 31, 2005	
Property	**Location**	**Quarter/Year Opened**	**Square Feet**	**Revenue from Real Estate Operations**	**Operating Expenses**	**Revenue from Real Estate Operations**	**Operating Expenses**
Retail Centers:							
Saddle Rock Village	Aurora, CO	Q1-2005	359,000	$ 193	$ 118	$ 280	$ 147
Quartermaster Plaza	Philadelphia, PA	Q3-2004	459,000	2,267	507	3,670	909
Victoria Gardens	Rancho Cucamonga, CA	Q3-2004	1,034,000	5,585	802	11,243	3,915
Atlantic Terminal	Brooklyn, NY	Q2-2004	373,000	1,829	(470)	3,787	406
Brooklyn Commons	Brooklyn, NY	Q2-2004	151,000		(109)	550	(88)
Office Buildings:							

Ballston Common Office Center	Arlington, VA	Q2-2005	176,000	1,426	637	1,426	637
Twelve MetroTech Center	Brooklyn, NY	Q4-2004	177,000		116		275
University of Pennsylvania	Philadelphia, PA	Q4-2004	123,000	1,506	187	3,044	386
2 Hanson Place	Brooklyn, NY	Q2-2004	399,000	227	292	4,016	1,519
Total				$ 13,033	$ 2,080	$ 28,016	$ 8,106

Residential Group

Revenues from Real Estate Operations Revenues from real estate operations for the Residential Group increased by $5,384,000, or 10.9%, during the three months ended July 31, 2005 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $1,418,000 related to new property openings, as noted in the table below;

Increase of $805,000 related to a land sale at *Tobacco Row*;

Increase of $1,481,000 related to an increase in occupancy primarily at the following properties: *Mount Vernon Square* in Alexandria, Virginia, *Grand* in North Bethesda, Maryland, *One Franklintown* in Philadelphia, Pennsylvania and *Sterling Glen of Darien*, in Darien, Connecticut; and

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Increase of $516,000 related to military housing fee income from the new management of U.S. Navy family housing at Hawaii s Pearl Harbor.

The balance of the remaining increase of approximately $1,164,000 was generally due to fluctuations in mature properties.

Revenues from real estate operations for the Residential Group increased by $12,064,000, or 12.7%, during the six months ended July 31, 2005 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $3,363,000 related to new property openings, as noted in the table below;

Increase of $805,000 related to a land sale at *Tobacco Row*;

Increase of $2,324,000 due to the consolidation of three properties previously accounted for on the equity method of accounting as the result of the buyout of a partner on these properties;

Increase of $2,555,000 related to an increase in occupancy primarily at the following properties: *Mount Vernon Square*, *Grand*, *One Franklintown*, and *Sterling Glen of Darien*; and

Increase of $1,191,000 related to military housing fee income from the new management of U.S. Navy family housing at Hawaii s Pearl Harbor.

The balance of the remaining increase of approximately $1,826,000 was generally due to fluctuations in mature properties.

Operating and Interest Expenses Operating expenses for the Residential Group increased by $4,021,000, or 12.3% during the three months ended July 31, 2005 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $935,000 related to new property openings, as noted in the table below;

Increase of $291,000 related to a land sale at *Tobacco Row*; and

Increase of $908,000 related to Residential Group s allocated share of a write-off of a portion of our enterprise resource planning project.

The balance of the remaining increase of approximately $1,887,000 was generally due to fluctuations in mature properties and general operating activities.

Operating expenses for the Residential Group increased by $10,536,000, or 17.6% during the six months ended July 31, 2005 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $2,121,000 related to new property openings, as noted in the table below;

Increase of $291,000 related to a land sale at *Tobacco Row*;

Increase of $908,000 related to Residential Group s allocated share of a write-off of a portion of our enterprise resource planning project; and

Increase of $1,000,000 related to three properties previously accounted for under the equity method of accounting as a result of the buyout of the partner on these properties.

The balance of the remaining increase of approximately $6,216,000 was generally due to fluctuations in mature properties and general operating activities.

Interest expense for the Residential Group increased by $3,548,000, or 39.7%, during the three months ended July 31, 2005 compared to the same period in the prior year. Interest expense increased by $821,000 as a result of openings of new properties. The remaining increase is primarily the result of an increase in variable interest rates and variable exposure on derivative instruments.

Interest expense for the Residential Group increased by $6,173,000, or 33.0%, during the six months ended July 31, 2005 compared to the same period in the prior year. Interest expense increased by $1,800,000 as a result of openings of new properties. The remaining increase is primarily the result of an increase in variable interest rates and variable exposure on derivative instruments.

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The following table presents the significant increases in revenue from real estate operations and operating expenses incurred by the Residential Group for newly-opened properties for the three and six months ended July 31, 2005 compared to the same period in the prior year (dollars in thousands):

				Three Months Ended		Six Months Ended	
				July 31, 2005			
Property	**Location**	**Quarter/Year Opened**	**Number of Units**	**Revenue from Real Estate Operations**	**Operating Expenses**	**Revenue from Real Estate Operations**	**Operating Expenses**
Metro 417	Los Angeles, CA	Q2-2005	277	$	$ 231	$	$ 331
23 Sidney Street	Cambridge, MA	Q1-2005	51	49	182	51	215
Emerald Palms Expansion	Miami, FL	Q2-2004	86	277	113	571	208
East 29th Avenue Town Center	Denver, CO	Q1-2004	156(1)	353	85	879	220
Sterling Glen of Rye Brook	Rye Brook, NY	Q1-2004	165	739	324	1,862	1,147
Total				$ 1,418	$ 935	$ 3,363	$ 2,121

(1) Project also includes 141,000 square feet (57,000 square feet owned/managed by us) of retail and 34,000 square feet of office space, which is included in the amounts above.

Land Development Group

Revenues Land sales and the related gross margins vary from period to period depending on market conditions relating to the disposition of significant land holdings. Revenues from real estate operations for the Land Development Group increased by $1,932,000 for the three months ended July 31, 2005 compared to the same period in the prior year. This increase is primarily the result of the following:

Increase in land sales of $6,663,000 primarily at three major land development projects, *Stapleton* in Denver, Colorado, *Thornbury* in Solon, Ohio and *Suncoast Lakes* in Pasco County, Florida combined with several smaller sales increases at various land development projects.

These increases were partially offset by:

Decrease of $4,731,000 primarily at three major land development projects, *Central Station* in Chicago, Illinois, *Creekstone* in Copley, Ohio and *Waterbury* in North Ridgeville, Ohio combined with several smaller sales decreases at various land development projects.

Revenues from real estate operations for the Land Development Group increased by $6,257,000 for the six months ended July 31, 2005 compared to the same period in the prior year. This increase is primarily the result of the following:

Increase in land sales of $13,425,000 primarily at three major land development projects, *Stapleton*, *Waterbury*, and *Suncoast Lakes* combined with several smaller sales increases at various land development projects.

These increases were partially offset by:

Decrease of $7,168,000 primarily at three major land development projects, *Central Station*, *Creekstone* and *Thornbury* combined with several smaller sales decreases at various land development projects.

Operating and Interest Expenses Operating expenses increased $2,033,000 for the three months ended July 31, 2005 compared to the same period in the prior year. This increase is primarily the result of the following:

Increase of $4,464,000 primarily at three land development projects, *Stapleton*, *Thornbury*, and *Suncoast Lakes* combined with several smaller expense increases at various land development projects; and

Increase of $151,000 related to the Land Development Group s allocated share of a write-off of a portion of our enterprise resource planning project.

These increases were partially offset by:

Decrease of $2,582,000 primarily at two major land development projects, *Creekstone* and *Waterbury* combined with several smaller expense decreases at various land development projects.

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Operating expenses increased $3,749,000 for the six months ended July 31, 2005 compared to the same period in the prior year. This increase is primarily result of the following:

Increase of $8,896,000 primarily at three land development projects, *Stapleton*, *Waterbury* and *Suncoast Lakes* combined with several smaller expense increases at various land development projects; and

Increase of $151,000 related to the Land Development Group s allocated share of a write-off of a portion of our enterprise resource planning project.

These increases were partially offset by:

Decrease of $5,298,000 primarily at two major land development projects, *Creekstone* and *Thornbury* combined with several smaller expense decreases at various land development projects.

Interest expense decreased by $15,000 and increased by $1,416,000, respectively, for the three and six months ended July 31, 2005 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.

The Nets

Our equity investment in the Nets incurred a pre-tax loss of $4,620,000 and $13,216,000 for the three and six months ended July 31, 2005. The loss substantially relates to a non-cash loss due to amortization and depreciation of approximately $1,400,000 and $9,300,000 during the three and six months ended July 31, 2005, respectively, of certain assets related to the purchase of the team, the majority of which is being amortized over approximately five years, and insurance premiums purchased on policies related to the standard indemnification required by the NBA. To date we have invested only the original $50,000,000 into the basketball team. The basketball team s current year cash losses have been funded by draws on the team s credit facility.

Corporate Activities

Operating and Interest Expenses Operating expenses for Corporate Activities increased by $615,000 and $3,126,000 for the three and six months ended July 31, 2005 compared to the same periods in the prior year. The increase for the six months ended July 31, 2005 is primarily related to approximately $2,000,000 in payroll, incentives and related costs, $424,000 related to the Corporate s allocated share of the write-off of a portion of enterprise resource planning project, $177,000 related to the registration costs of the stock split, and $985,000 in general corporate expenses. These increases were partially offset by a reduction of $460,000 in costs related to our compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Interest expense increased by $2,217,000 and $4,357,000 for the three and six months ended July 31, 2005 compared to the same periods in prior year primarily related to the issuance of an additional $150,000,000 of senior notes in a public offering in January 2005. Interest expense for Corporate Activities consists primarily of interest expense on the senior notes and the long-term credit facility, excluding the portion allocated to the Land Development Group (see Financial Condition and Liquidity section).

Other Activity

The following items are discussed on a consolidated basis.

Amortization of Mortgage Procurement Costs

Mortgage procurement costs are amortized on a straight-line basis over the life of the related nonrecourse mortgage debt, which approximates the effective interest method. Amortization of mortgage procurement costs decreased $1,543,000 and $247,000 for the three and six months ended July 31, 2005, respectively compared to the same period in the prior year. The decrease is primarily related to a write-off of financing cost due to a refinancing of a construction loan at *2 Hanson Place*, an office building located in Brooklyn, New York, *Atlantic Terminal*, a specialty retail center located in Brooklyn, New York, and *Harlem Center*, a specialty retail center located in Manhattan, New York.

Loss on Early Extinguishment of Debt

For the three and six months ended July 31, 2005 we recorded $1,553,000 and $3,163,000, respectively as loss on early extinguishment of debt, which primarily represents the impact of early extinguishment of nonrecourse mortgage debt at *One MetroTech Center* and *Ten MetroTech Center*, office buildings located in Brooklyn, New York, in order to secure more favorable financing terms. For the six months ended July 31, 2004 we recorded $238,000 relating to the disposition of *Woodlake*, a residential

property located in Silver Spring, Maryland, as loss on early extinguishment of debt in discontinued operations. There was no loss on early extinguishment of debt recorded in continuing operations for the three or six months ended July 31, 2004.

Provision for Decline in Real Estate

We review our investment portfolio to determine if our carrying costs will be recovered from future undiscounted cash flows whenever events or changes indicate that recoverability of long-lived assets may not be assured. In cases where we do not expect to recover our carrying costs, an impairment loss is recorded as a provision for decline in real estate for assets in our real estate portfolio pursuant to the guidance established in SFAS No. 144.

During the three months ended July 31, 2005, we recorded a provision for decline in real estate of $1,120,000 related to *Sterling Glen of Forest Hills* an 84-unit supported living residential community located in Queens, New York. During the three months ended April 30, 2005, we recorded a provision for decline in real estate of $1,500,000 related to the *Ritz Carlton*, a 206 room commercial hotel located in Cleveland, Ohio. Given the estimated future cash flows that are expected to be derived from these properties, we believe that an impairment indicator existed at April 30, 2005 for the *Ritz Carlton* and at July 31, 2005 for *Sterling Glen of Forest Hills.* The provision represents a write down to the estimated fair value, less cost to sell, of these properties. There was no provision for decline in real estate for the three or six months ended July 31, 2004.

Depreciation and Amortization

Depreciation and amortization included in continuing operations increased by $5,795,000 and $12,313,000 for the three and six months ended July 31, 2005, respectively compared to the same periods in the prior year. This increase is primarily the result of acquisitions and new property openings.

Interest Income

Interest income was $6,770,000 for the three months ended July 31, 2005 compared to $2,213,000 for the three months ended July 31, 2004 representing an increase of $4,557,000. This increase was primarily the result of the following:

Land Development Group

- Increase of $1,229,000 related to interest income earned by Stapleton Land II, LLC on the Residual Interest Tax-Exempt Securities Receipts (RITES) and the 1% fee related to an agreement on the $65,000,000 Senior Subordinate Limited Property Tax Supported Revenue Refunding and Improvement Bonds (Senior Subordinate Bonds) (see Financing Arrangements section);

- Increase of $1,024,000 related to interest income earned by Stapleton Land, LLC on the fee on the Denver Urban Renewal Authority (DURA) bonds (see Financing Arrangements section);

- Increase of $575,000 related to interest income earned by Stapleton Land, LLC on an interest rate swap related to the $75,000,000 Tax Increment Financing (TIF) bonds; and

- Increase of $436,000 related to interest income related to Stapleton Land, LLC s other financing arrangements.

Corporate Activities

- Increase of $384,000 which primarily relates to additional cash investments generated from the issuance of $150,000,000 6.50% senior notes in January 2005.

The balance of the remaining increase in interest income of $909,000 was due to other general investing activities.

Interest income was $13,739,000 for the six months ended July 31, 2005 compared to $4,052,000 for the six months ended July 31, 2004 representing an increase of $9,687,000. This increase was primarily the result of the following:

Land Development Group

- Increase of $2,704,000 related to interest income earned by Stapleton Land II, LLC on the RITES and the 1% fee related an agreement on the $65,000,000 Senior Subordinate Bonds;

- Increase of $1,504,000 related to interest income earned by Stapleton Land, LLC on the DURA bonds;

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Increase of $2,141,000 related to interest income earned by Stapleton Land, LLC on an interest rate swap related to the $75,000,000 TIF bonds; and

Increase of $868,000 related to interest income related to Stapleton Land, LLC s other financing arrangements.

Corporate Activities

Increase of $868,000 which primarily relates to additional cash investments generated from the issuance of $150,000,000 6.50% senior notes in January 2005.

The balance of the remaining increase in interest income of $1,602,000 was due to other general investing activities.

Equity in Earnings of Unconsolidated Entities

Equity in earnings of unconsolidated entities was $9,880,000 for the three months ended July 31, 2005 compared to $43,650,000 for the three months ended July 31, 2004, a decrease of $33,770,000. This decrease is primarily the result of the following:

Commercial

Decrease of $31,996,000 related to the gains on disposition of three equity method investments, *Chapel Hill Mall,* a regional mall located in Akron, Ohio, *Chapel Hill Suburban,* a specialty retail center located in Akron, Ohio and *Manhattan Town Center,* a regional mall located in Manhattan, Kansas, that occurred in the second quarter of 2004.

The Nets

Decrease of $4,620,000 (pre-tax) which substantially relates to a non-cash loss due to amortization and depreciation of approximately $1,400,000 of certain assets related to the purchase of the team, the majority of which is being amortized over approximately five years, and insurance premiums on policies purchased related to the standard indemnification required by the NBA. To date we have invested only the original $50,000,000 into the basketball team. The basketball team s current year cash losses have been funded by draws on the team s credit facility.

The balance of the remaining decrease in equity in earnings of unconsolidated entities of approximately $2,762,000 was generally due to fluctuations in the operations of equity method investments.

These decreases were partially offset by the following increases:

Commercial

Increase of $2,804,000 related to commercial land sales at *Galleria at Sunset*, located in Henderson, Nevada and *Victor Village*, located in Victorville, California.

Land Development Group

Increase related to increased land sales of $2,804,000 for *Gladden Farms*, located in Marana, Arizona.

Equity in earnings of unconsolidated entities was $29,916,000 for the six months ended July 31, 2005 compared to $49,894,000 for the six months ended July 31, 2004, a decrease of $19,978,000. This decrease was primarily the result of the following:

Commercial

Decrease of $31,996,000 related to the gains on disposition of *Chapel Hill Mall*, *Chapel Hill Suburban* and *Manhattan Town Center* that occurred in the second quarter of 2004.

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The Nets

Decrease of $13,216,000 (pre-tax) which substantially relates to a non-cash loss due to amortization and depreciation of approximately $9,300,000 of certain assets related to the purchase of the team, the majority of which is being amortized over approximately five years, and insurance premiums on policies purchased related to the standard indemnification required by the NBA. To date we have invested only the original $50,000,000 into the basketball team. The basketball team s current year losses have been funded by draws on the team s credit facility.

The balance of the remaining decrease in equity in earnings of unconsolidated entities of approximately $96,000 was due to fluctuations in the operations of equity method investments.

These decreases were partially offset by the following increases:

Commercial

Increase of $13,145,000 related to the gain on disposition of *Showcase,* a specialty retail center located in Las Vegas, Nevada.

Residential

Increase of $5,352,000 related to the gain on disposition of *Colony Place*, an apartment community located in Fort Myers, Florida.

Land Development Group

Increase of $3,733,000 related to increased land sales at *Central Station*, located in Chicago, Illinois.

Increase of $3,100,000 related to increased land sales at *Gladden Farms*, located in Marana, Arizona.

Income Taxes

Income tax (benefit) expense for the three months ended July 31, 2005 and 2004 totaled $(3,716,000) and $21,544,000, respectively. Income tax expense for the six months ended July 31, 2005 and 2004 totaled $11,782,000 and $25,067,000, respectively. This decrease is primarily attributable to a State of Ohio tax law change enacted on June 30, 2005 that replaced the Ohio income-based franchise tax and the Ohio personal property tax with a commercial activity tax. As a result of the State of Ohio tax law change there was a decrease in the Company s effective state tax rate. The impact of the tax rate change of approximately $10,000,000 is reflected as a deferred tax benefit in the Consolidated Statements of Earnings in the three months ended July 31, 2005 and as a reduction of the cumulative deferred tax liability. The decrease is also attributable to gains on disposition of equity method investments of $31,996,000 ($19,341,000 net of tax) which did not recur in the current year. At January 31, 2005, we had a net operating loss carryforward for tax purposes of $53,131,000 (generated primarily from the impact on our net earnings of tax depreciation expense from real estate properties) that will expire in the years ending January 31, 2022 through January 31, 2025, general business credit carryovers of $9,049,000 that will expire in the years ending January 31, 2006 through 2025 and an alternative minimum tax (AMT) carryforward of $30,325,000 that is available until used to reduce Federal tax to the AMT amount. Our policy is to consider a variety of tax-deferral strategies, including tax deferred exchanges, when evaluating our future tax position.

Discontinued Operations

Pursuant to the definition of a component of an entity in SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), all earnings of discontinued operations sold or held for sale, assuming no significant continuing involvement, have been reclassified in the Consolidated Statements of Earnings. We consider assets as held for sale when the transaction has been approved and there are no significant contingencies related to the sale that may prevent the transaction from closing.

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The following table lists the formerly consolidated rental properties included in discontinued operations:

Property	Location	Square Feet/ Number of Units	Quarter/ Year Disposed	Three Months Ended 7/31/2005	Six Months Ended 7/31/2005	Three Months Ended 7/31/2004	Six Months Ended 7/31/2004
Commercial Group:							
Flatbush Avenue	Brooklyn, New York	142,000 square feet	Q-3 2004			Yes	Yes
Pavilion	San Jose, California	250,000 square feet	Q-3 2004			Yes	Yes
Hunting Park	Philadelphia, Pennsylvania	125,000 square feet	Q-2 2004			Yes	Yes
Residential Group:							
Cherrywood Village	Denver, Colorado	360 units	Q-3 2005(1)	Yes	Yes	Yes	Yes
Ranchstone	Denver, Colorado	368 units	Q-3 2005(1)	Yes	Yes	Yes	Yes
Arboretum Place	Newport News, Virginia	184 units	Q-4 2004			Yes	Yes
Bridgewater	Hampton, Virginia	216 units	Q-4 2004			Yes	Yes
Colony Woods	Bellevue, Washington	396 units	Q-4 2004			Yes	Yes
Silver Hill	Newport News, Virginia	153 units	Q-4 2004			Yes	Yes
Trellis at Lee s Mill	Newport News, Virginia	176 units	Q-4 2004			Yes	Yes
Regency Towers	Jackson, New Jersey	372 units	Q-3 2004			Yes	Yes
Woodlake	Silver Spring, Maryland	534 units	Q-1 2004				Yes

(1) *Cherrywood Village* and *Ranchstone* were sold for a gain on August 11, 2005 and had no material contingencies as of July 31,

2005.

In addition, our Lumber Group strategic business unit was included in discontinued operations for the three and six months ended July 31, 2004. Lumber Group is a lumber wholesaler that was sold to its employees on November 12, 2004. Also included in discontinued operations is Babin Building Centers, Inc. (Babin), a division of Lumber Group, which was sold in July 2004. Babin sold building materials to the construction industry and to home remodelers. Substantially all of the assets of the Lumber Group were sold for $39,085,902, $35,000,000 of which was paid in cash at closing. Pursuant to the terms of a note receivable with a 6% interest rate from the buyer, the remaining purchase price will be paid over five years with payments commencing November 12, 2006. In the year ended January 31, 2005, we reported a gain on disposition of this segment of approximately $20,920,000 ($11,501,000, net of tax) net of $1,093,000 loss related to the sale of Babin. We have deferred a gain of $4,085,902 (approximately $2,400,000, net of tax) relating to the note receivable due, in part, to the subordination to the buyer s senior financing. The gain and any interest income will be recognized as the note receivable principal and interest are collected.

The following table summarizes the assets and liabilities held for sale at July 31, 2005 related to *Cherrywood Village* and *Ranchstone* (in thousands). There were no assets or liabilities classified as held for sale at January 31, 2005.

	July 31, 2005
Assets	
Real estate	**$ 57,569**
Cash and equivalents	**51**
Restricted cash	**474**
Other assets	**276**
Total Assets	**$ 58,370**
Liabilities	
Mortgage debt, nonrecourse	**$ 37,201**
Accounts payable and accrued expenses	**873**
Total Liabilities	**$ 38,074**

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The following table presents operating results related to discounted operations for the three and six months ended July 31, 2005 and 2004. There were no operations for Lumber Group during fiscal 2005.

	Three Months Ended July 31,			
	2005	2004		
	Rental Properties	**Lumber Group**	**Rental Properties**	**Total**
	(in thousands)		*(in thousands)*	
Revenues	**$ 1,554**	$ 34,256	$ 8,029	$ 42,285
Expenses				
Operating expenses	**735**	29,532	3,567	33,099
Interest expense	**535**	1,273	2,511	3,784
Amortization of mortgage procurement costs	**7**		86	86
Depreciation and amortization	**433**	424	1,716	2,140
	1,710	31,229	7,880	39,109
Interest income			29	29
Gain (loss) on disposition of rental properties and division		(1,093)	1,807	714
Earnings (loss) before income taxes	**(156)**	1,934	1,985	3,919
Income tax expense (benefit)				
Current	**(19)**	710	435	1,145
Deferred	**(41)**	114	42	156
	(60)	824	477	1,301
Earnings (loss) before minority interest	**(96)**	1,110	1,508	2,618
Minority interest			781	781
Net earnings (loss) from discontinued operations	**$ (96)**	$ 1,110	$ 727	$ 1,837

	Six Months Ended July 31,			
	2005	2004		
	Rental Properties	**Lumber Group**	**Rental Properties**	**Total**
	(in thousands)		*(in thousands)*	
Revenues	**$ 3,044**	$ 74,380	$ 16,511	$ 90,891

Expenses				
Operating expenses	**1,408**	63,795	7,060	70,855
Interest expense	**1,071**	2,322	5,147	7,469
Amortization of mortgage procurement costs	**15**		171	171
Loss on early extinguishment of debt			238	238
Depreciation and amortization	**863**	878	3,332	4,210
	3,357	66,995	15,948	82,943
Interest income		13	63	76
Gain (loss) on disposition of rental properties and division		(1,093)	21,306	20,213
Earnings (loss) before income taxes	**(313)**	6,305	21,932	28,237
Income tax expense (benefit)				
Current	**(37)**	1,402	490	1,892
Deferred	**(84)**	1,209	7,819	9,028
	(121)	2,611	8,309	10,920
Earnings (loss) before minority interest	**(192)**	3,694	13,623	17,317
Minority interest			922	922
Net earnings (loss) from discontinued operations	**$ (192)**	$ 3,694	$ 12,701	$ 16,395

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Gain on Disposition of Rental Properties and Division
The following table summarizes the gain (loss) on disposition of properties and division for the three and six months ended July 31, 2005 and 2004.

		Three Months Ended July 31,		Six Months Ended July 31,	
		2005	2004	**2005**	2004
		(in thousands)		*(in thousands)*	
Discontinued Operations:					
Woodlake (Apartments)	Silver Spring, Maryland	**$**	$	**$**	$ 19,499
Hunting Park (Specialty Retail Center)	Philadelphia, Pennsylvania		1,807		1,807
Babin Building Centers, Inc. (Division of Lumber Group) Cleveland,	Ohio		(1,093)		(1,093)
Total		**$** -	$ 714	**$**	$ 20,213

Investments accounted for on the equity method are not subject to the provisions of SFAS No. 144, and therefore the gains or losses on the sales of equity method properties are reported in continuing operations when sold. The following table summarizes our proportionate share of gains on equity method investments disposed of during the three and six months ended July 31, 2005 and 2004, which are included in equity in earnings of unconsolidated entities in the Consolidated Statements of Earnings.

		Three Months Ended July 31,		Six Months Ended July 31,	
		2005	2004	**2005**	2004
		(in thousands)		*(in thousands)*	
Showcase (Specialty Retail Center)	Las Vegas, Nevada	**$**	$	**$ 13,145**	$
Colony Place (Apartments)	Fort Myers, Florida			**5,352**	
Chapel Hill Mall (Regional Mall)	Akron, Ohio		27,943		27,943
Chapel Hill Suburban (Specialty Retail Center)	Akron, Ohio		915		915
Manhattan Town Center Mall (Regional Mall)	Manhattan, Kansas		3,138		3,138
Total		**$**	**$** 31,996	**$ 18,497**	$ 31,996

Cumulative Effect of Change in Accounting Principle
For the six months ended July 31, 2004, we recorded a charge for the cumulative effect of change in accounting principle in accordance with FIN No. 46 (R) which has resulted in a reduction of net earnings of $18,628,000 ($11,261,000 net of tax). This charge consisted primarily of accumulated depreciation and amortization expense, net of minority interest, of the newly-consolidated variable interest entities (VIEs) which were previously accounted for on the cost method. See the New Accounting Standards Variable Interest Entities section of the MD&A for further information.

The overall impact resulting from the adoption of FIN No. 46 (R) to the Commercial Group was a pre-tax charge of $789,000 from the consolidation of a development project located in Las Vegas, Nevada, that was previously accounted for under the equity method of accounting.

The overall impact resulting from the adoption of FIN No. 46 (R) to the Residential Group was a pre-tax charge of $17,839,000. The following summarizes the key components of the impact of the adoption FIN No. 46 (R):

Cumulative effect of $4,403,000 resulting from us being deemed the primary beneficiary in VIEs that hold notes payable to the Residential Group and have equity method investments in 16 properties that are subsidized by the U.S. Department of Housing and Urban Development. Our investments were previously accounted for under the cost method;

Cumulative effect of $3,801,000 resulting from us being deemed the primary beneficiary in a VIE that holds a note payable to the Residential Group and has an equity method investment in *Millender Center*, a mixed-use residential, office and retail complex in Detroit, Michigan. Our investment was previously accounted for under the cost method;

Cumulative effect of $3,301,000 resulting from us being deemed the primary beneficiary in a VIE that holds a note payable to the Residential Group and has an equity method investment in *101 San Fernando*, a residential community in San Jose, California. Our investment was previously accounted for under the equity method; and

Cumulative effect of $6,334,000 resulting from us being deemed the primary beneficiary in a VIE, *Queenswood*, a residential community in Corona, New York. Our investment was previously accounted for under the equity method.

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FINANCIAL CONDITION AND LIQUIDITY

We believe that our sources of liquidity and capital are adequate to meet our funding obligations. Our principal sources of funds are cash provided by operations, the long-term credit facility, refinancings of nonrecourse mortgage debt, dispositions of mature properties and proceeds from the issuance of senior notes. Our principal use of funds are the financing of development and acquisitions of real estate projects, capital expenditures for our existing portfolio, payments on nonrecourse mortgage debt on real estate, payments on the long-term credit facility and retirement of senior notes previously issued. The discussion below under Senior and Subordinated Debt and Long-Term Credit Facility outline recent events that have significantly enhanced our liquidity and financial flexibility which will be important in our efforts to continue to develop and acquire quality real estate assets.

Senior and Subordinated Debt

Senior Notes

Along with our wholly-owned subsidiaries Forest City Enterprises Capital Trust I (Trust I) and Forest City Enterprises Capital Trust II (Trust II), we filed an amended shelf registration statement with the Securities Exchange Commission (SEC) on May 24, 2002. This shelf registration statement amended the registration statement previously filed with the SEC in December 1997. This registration statement is intended to provide us flexibility to raise funds from the offering of Class A common stock, preferred stock, depositary shares and a variety of debt securities, warrants and other securities. Trust I and Trust II have not issued securities to date and, if issued, would represent the sole net assets of the trusts. We have $292,180,000 available under our shelf registration at July 31, 2005.

On January 25, 2005, we issued $150,000,000 of 6.50% senior notes due February 1, 2017 in a public offering under our shelf registration statement. The proceeds from this offering (net of approximately $4,300,000 of offering costs) were used to repay the outstanding balance under our revolving line of credit (see below) and for general working capital purposes. Accrued interest is payable semi-annually on February 1 and August 1, commencing on August 1, 2005. These senior notes may be redeemed by us, at any time on or after February 1, 2010 at redemption prices of 103.25% beginning February 1, 2010 and systematically reduced to 100% in the years thereafter. However, if we complete one or more public equity offerings prior to February 1, 2008, up to 35% of the original principal amount of the notes may be redeemed using all or a portion of the net proceeds within 75 days of the completion of the public equity offering at 106.50% of the principal amount of the notes.

On February 10, 2004, we issued $100,000,000 of 7.375% senior notes due February 1, 2034 in a public offering under our shelf registration statement. The proceeds from this offering (net of $3,808,000 of offering costs) were used to repay the outstanding term loan balance of $56,250,000 under the long-term credit facility (see below) and for general working capital purposes. Accrued interest is payable quarterly on February 1, May 1, August 1, and November 1. These senior notes may be redeemed by us, in whole or in part, at any time on or after February 10, 2009 at a redemption price equal to 100% of their principal amount plus accrued interest.

On May 19, 2003, we issued $300,000,000 of 7.625% senior notes due June 1, 2015 in a public offering under our shelf registration statement. The proceeds from this offering (net of $8,151,000 of offering costs) were used to redeem all of the outstanding 8.5% senior notes originally due in 2008 at a redemption price equal to 104.25%, or $208,500,000. The remaining proceeds were used to repay the balance outstanding under our revolving line of credit and for general working capital purposes. Accrued interest is payable semi-annually on December 1 and June 1. These senior notes may be redeemed by us, at any time on or after June 1, 2008 at a redemption price of 103.813% beginning June 1, 2008 and systematically reduced to 100% in years thereafter. However, if we complete one or more public equity offerings prior to June 1, 2006, up to 35% of the original principal amount of the notes may be redeemed using all or a portion of the net proceeds within 75 days of the completion of the public equity offering at 107.625% of the principal amount of the notes.

Our 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 our subsidiaries to the extent of the value of the collateral securing such other debt, including our long-term credit facility. The indenture governing our senior notes contains covenants providing, among other things, limitations on incurring additional debt and payment of dividends.

Subordinated Debt

In May 2003, we purchased $29,000,000 of subordinate tax revenue bonds that were contemporaneously transferred to a custodian, which in turn issued custodial receipts that represent ownership in the bonds to unrelated third parties. We evaluated the transfer pursuant to the provisions of SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140) and determined that the transfer does not qualify for sale accounting treatment principally because we have guaranteed the payment of principal and interest in the unlikely event that there is insufficient tax revenue to support the bonds when the custodial receipts are subject to mandatory tender on December 1, 2013. As such, the book value (which approximates amortized costs) of the bonds was recorded as a secured borrowing with a liability reported as senior and subordinated debt and held-to-maturity securities reported as other assets in the Consolidated Balance Sheets. We do not participate in and therefore do not report any net cash flows related to this borrowing.

In November 2000, we issued $20,400,000 of redevelopment bonds in a private placement. The bonds bear interest at 8.25% and are due September 15, 2010. Interest is payable semi-annually on March 15 and September 15. This debt is unsecured and subordinated to the senior notes and the long-term credit facility.

Financing Arrangements

Secured Borrowings

In 2001, Stapleton Land, LLC, a subsidiary of Forest City Rental Properties Corporation, purchased $75,000,000 in Tax Increment Financing (TIF) bonds and $70,000,000 in revenue bonds (for an aggregate of $145,000,000, collectively the Bonds) from the Park Creek Metropolitan District (the District). The Bonds were immediately sold to Lehman Brothers, Inc. (Lehman) and were subsequently acquired by a qualified special purpose entity (the Trust), which in turn issued trust certificates to third parties. The District had a call option on the revenue bonds that began in August 2004 and had a call option on the TIF bonds that began in August 2003 (see below). In the event the Bonds were not removed from the Trust, we had the obligation to repurchase the Bonds from the Trust. Upon removal of the Bonds from the Trust, Stapleton Land, LLC was entitled to the difference between the interest paid on the Bonds and the cumulative interest paid to the certificate holders less trustee fees, remarketing fees, and credit enhancement fees (the Retained Interest).

We assessed our transfer of the Bonds to Lehman at inception and determined that it qualified for sale accounting treatment pursuant to the provisions of SFAS No. 140 because we did not maintain control over the Trust, and the Bonds were legally isolated from our creditors. At inception, the Retained Interest had no determinable fair value as the cash flows were not practical to estimate because of the uncertain nature of the tax base still under development. In accordance with SFAS No. 140, no gain or loss was recognized on the sale of the Bonds to Lehman. As a result, the Retained Interest was recorded at zero with all future income to be recorded under the cost recovery method. We separately assessed the obligation to redeem the Bonds from the Trust pursuant to the provisions of SFAS No. 140 and concluded the liability was not material. The original principal outstanding under the securitization structure described above was $145,000,000, which was not recorded in the Consolidated Balance Sheets.

We reassessed the fair value and adjusted the amount of the Retained Interest through other comprehensive income (OCI) on a quarterly basis. We measured our Retained Interest in the Trust at its estimated fair value based on the present value of the expected future cash flows, which were determined based on the expected future cash flows from the underlying Bonds and from expected changes in the rates paid to the certificate holders discounted at market yield, which considered the related risk. The difference between the amortized cost of the Retained Interest (approximately zero) and the fair value was recorded, net of the related tax and minority interest, in shareholders equity as a change in accumulated OCI. The quarterly fair value calculations were determined based on the application of key assumptions determined at the time of transfer including an estimated weighted average life of two years and a 6.50% residual cash flows discount rate.

In August 2004, the $75,000,000 TIF bonds were defeased and removed from the Trust with the proceeds of a new $75,000,000 bond issue by DURA, and the $70,000,000 revenue bonds, which bear interest at a rate of 8.5%, were removed from the Trust through a third party purchase. Upon removal of the $70,000,000 revenue bonds from the Trust, the third party deposited the bonds into a special-purpose entity (the Entity). As the TIF and revenue bonds were successfully removed from the Trust, the amounts previously recorded in OCI were recognized by Stapleton Land, LLC as interest income during the year ended January 31, 2005. Stapleton Land, LLC is not obligated to pay, nor is it entitled to, any future amounts related to this Retained Interest.

Also in August 2004, the Entity issued two types of securities, 1) Puttable Floating Option Tax-Exempt Receipts (P-FLOATs) which bear interest at a short-term floating rate as determined by the remarketing agent and 2) Residual Interest Tax-Exempt Securities Receipts (RITES), which receive the residual interest from the revenue bonds after the P-FLOAT interest and various program fees have been paid. The P-FLOATs were sold to third parties. Stapleton Land II, LLC, a consolidated affiliate of ours acquired the RITES for a nominal amount and provided credit enhancement to the trustor of the Entity including an initial collateral contribution of $10,000,000. We have consolidated the secured borrowing given its obligation to absorb the majority of the expected losses. The book value (which approximates amortized cost) of the P-FLOATs, which were terminated in July 2005, was reported as nonrecourse mortgage debt. The revenue bonds were reported as other assets and the collateral of $-0- and $12,094,000 was reported as restricted cash in the Consolidated Balance Sheets at July 31, 2005 and January 31, 2005, respectively. For the three and six months ended July 31, 2005, we recorded approximately $1,195,000 and $2,670,000, respectively, of interest income and $503,000 and $1,162,000, respectively, of interest expense related to this secured borrowing in the Consolidated Statement of Earnings. Of the interest income amounts recorded for the three and six months ended July 31, 2005, approximately $1,117,000 and $2,588,000, respectively, are interest income on the RITES and $78,000 and $82,000, respectively, are interest income on the collateral.

On July 13, 2005, the District issued $63,000,000 Senior Limited Property Tax Supported Revenue Refunding Bonds (Senior Limited Bonds), Series 2005 and $65,000,000 Senior Subordinate Limited Property Tax Supported Revenue Refunding and Improvement Bonds (Senior Subordinate Bonds), Series 2005. Proceeds from the issuance of the 2005 Bonds were used to redeem the $70,000,000 revenue bonds held by the Entity, which were then removed from the Company s Consolidated Balance Sheets. The Entity, in turn, redeemed the outstanding P-FLOATs. As holder of the RITES, Stapleton Land II, LLC was entitled to the remaining capital balances of the Entity after payment of P-FLOAT interest and other program fees. The District used additional proceeds of $30,271,000 to repay Developer Advances and accrued interest to Stapleton Land, LLC. Stapleton Land II, LLC was refunded $12,060,000 of collateral provided as credit enhancement under this secured borrowing.

On July 13, 2005 Stapleton Land II, LLC, entered into an agreement whereby it will receive a 1% fee on the underlying $65,000,000 Senior Subordinate Bonds and provided collateral of $10,000,000 as credit enhancement. For the three and six months ended July 31, 2005, we recorded approximately $34,000 of interest income related to this fee in the Consolidated Statement of Earnings. The counterparty owns the underlying Senior Subordinate Bonds and can exercise its rights requiring payment from Stapleton Land II, LLC upon an event of default of the Senior Subordinate Bonds, a refunding of the Senior Subordinate Bonds, or failure of the Stapleton Land II, LLC to post required collateral. The agreement is scheduled to expire on July 1, 2009. The maximum potential amount of payments Stapleton Land II, LLC could be required to make under the agreement is the par value of the bonds. We do not have any rights or obligations to acquire the $65,000,000 Senior Subordinate Bonds under this agreement. At July 31, 2005, the fair value of this agreement, which is deemed to be a derivative financial instrument, was immaterial. Subsequent changes in fair value, if any, will be marked to market through earnings.

Other Financing Arrangements

In May 2004, a third party purchased $200,000,000 in tax increment revenue bonds issued by DURA, with a fixed-rate coupon of 8.0% and maturity date of October 1, 2024, which were used to fund the infrastructure costs associated with phase II of the Stapleton development project. The DURA bonds were transferred to a Trust that issued floating rate trust certificates. Stapleton Land, LLC entered into an agreement with the third party to purchase the DURA bonds from the Trust if they are not repurchased or remarketed between June 1, 2007 and June 1, 2009. Stapleton Land, LLC will receive a fee upon removal of the DURA bonds from the Trust equal to the 8.0% coupon rate, less the Bond Market Association (BMA) index (fixed at 2.85% through June 1, 2007), plus 40 basis points, less all fees and expenses due to the third party (collectively, the Fee).

We have concluded that the trust described above is considered a qualified special purpose entity pursuant to the provisions of SFAS No. 140 and thus is excluded from the scope of FIN No. 46 (R). As a result, the DURA bonds and the activity of the trust have not been recorded in the consolidated financial statements. The purchase obligation and the Fee have been accounted for as a derivative with changes in fair value recorded through earnings.

The fair market value of the purchase obligation and the Fee is determined based on the present value of the estimated amount of future cash flows considering possible variations in the amount and/or timing. For the three and six months ended July 31, 2005 we reported interest income of approximately $1,024,000 and $1,504,000, respectively, related to the Fee in the Consolidated Statement of Earnings. The fair value of approximately $2,317,000 at July 31, 2005 and $813,000 at January 31, 2005 is recorded in other assets in the Consolidated Balance Sheets.

Also in May 2004, Stapleton Land, LLC entered into a total rate of return swap (TRS) and an interest rate swap both with notional amounts of $75,000,000. Stapleton Land, LLC receives a rate of 6.3% and pays BMA plus 60 basis points on the TRS (Stapleton Land, LLC paid BMA plus 160 basis points for the first 6 months under this agreement). On the interest rate swap, Stapleton Land, LLC pays a rate of 2.85% and receives BMA. Stapleton Land, LLC does not hold the underlying borrowings on this TRS.

Stapleton Land, LLC has committed to fund $24,500,000 to the Park Creek Metropolitan District to be used for certain infrastructure projects. The first $4,500,000 is due in August 2007. The remaining balance is due no later than May 2009.

Long-Term Credit Facility

On April 7, 2005, we amended our long-term credit facility. The amendment to the credit facility extended the maturity by one year to March 2008, lowered the borrowing rate to 1.95% over LIBOR, eliminated the higher rate tier on the last $50,000,000 of borrowings and contained an accordion provision that allows us to increase the availability under the revolving line of credit by $100,000,000 to $550,000,000 during the next 24 months. The amendment also lowered our unused commitment fee from 37.5 basis points on any unused portion fee to 25 basis points if the revolver usage is less than 50% and 15 basis points if the revolver usage is greater than 50%. The amendment also increased the combined availability of letters of credit or surety bonds by $10,000,000 to $60,000,000 ($42,383,286 in letters of credit and $-0- in surety bonds outstanding at July 31, 2005) and adds a swing line availability of $40,000,000 for up to three business days.

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The amended credit facility provides, among other things, for 1) at our election, interest rates of 1.95% over LIBOR or $^{1}/2\%$ over the prime rate; 2) maintenance of debt service coverage ratios and specified levels of net worth and cash flows (as defined in the credit facility); and 3) restrictions on dividend payments and stock repurchases. There was no balance outstanding at July 31, 2005 or January 31, 2005 related to the revolving line of credit.

Mortgage Financings

Our primary capital strategy seeks to isolate the financial risk at the property level to maximize returns on our equity capital. All of our mortgage debt is nonrecourse, including our construction loans. We operate as a C-corporation and retain substantially all of our internally generated cash flows. We recycle this cash flow, together with refinancing and property sale proceeds to fund new development and acquisitions that drive favorable returns for our shareholders. This strategy provides us with the necessary liquidity to take advantage of investment opportunities.

We are actively working to extend the maturities and/or refinance the nonrecourse debt that is coming due in 2005 and 2006. During the six months ended July 31, 2005, we completed the following financings:

Purpose of Financing	**Amount**
	(in thousands)
Refinancings	$ 350,360
Development projects (commitment)/acquisitions	135,535
Loan extensions/additional fundings	33,906
	$ 519,801
Reduction of mortgage debt due to property dispositions	$ 28,185

For those projects financed with taxable debt, we generally seek long-term fixed rate financing for those project loans which mature within the next 12 months as well as those projects which are projected to open and achieve stabilized operations during that same time frame. For 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.

Interest Rate Exposure

At July 31, 2005, the composition of nonrecourse mortgage debt was as follows:

	Amount	**Weighted Average Interest Rate**
	(dollars in thousands)	
Fixed	$ 3,302,484	6.54%
Variable (1)		
Taxable	793,447	5.78
Tax-Exempt	686,680	3.56
UDAG	103,798	1.70
	$ 4,886,409	5.89%

(1) Taxable variable-rate debt of $793,447 and

tax-exempt variable rate debt of $686,680 as of July 31, 2005 is protected with swaps and caps described below.

On July 31, 2005, the composition of nonrecourse mortgage debt (included in the figures above) related to projects under development and land held for development or sale is as follows:

	Amount *(in thousands)*
Variable	
Taxable	$ 197,242
Tax-Exempt	230,840
Fixed	2,335
Total	$ 430,417
Commitment from lenders	$ 612,895

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

Taxable (Priced off of London Interbank Offered Rate (LIBOR) Index)

	Caps		Swaps [1]	
Period Covered	**Amount**	**Average Base Rate**	**Amount**	**Average Base Rate**
		(dollars in thousands)		
08/01/05-02/01/06 [2]	$ 644,779	5.13%	$ 469,421	3.71%
02/01/06-02/01/07 [3]	816,247	5.34	644,464	3.83
02/01/07-02/01/08	204,193	6.21	142,876	4.09
02/01/08-02/01/09	73,500	5.00	123,057	4.25

(1) Swaps include LIBOR contracts that have an initial maturity greater than six months.

(2) These LIBOR-based hedges as of August 1, 2005 protect the debt currently outstanding as well as the anticipated increase in debt outstanding for projects under development or anticipated to be under development during the year ending January 31, 2006.

(3) Subsequent to August 1, 2005, a 5.00% cap with a notional that ranged from $32,125,000 - $96,000,000 and

was set to expire
in January 2007
was terminated.

Tax Exempt (Priced off of Bond Market Association (BMA) Index)

	Caps		Swaps	
Period Covered	**Amount**	**Average Base Rate**	**Amount**	**Average Base Rate**
		(dollars in thousands)		
08/01/05-02/01/07	$ 327,525	5.91%	$ 35,000	3.95%
02/01/07-02/01/08	142,715	5.75		

The tax-exempt caps expressed above mainly represent protection that was purchased in conjunction with lender hedging requirements that require the borrower to protect against significant fluctuations in interest rates. Outside of such requirements, we generally do not hedge tax-exempt debt because, since 1990, the base rate of this type of financing has averaged 3.05% and has never exceeded 7.90%.

Including properties accounted for under the equity method, a 100 basis point increase in taxable interest rates would increase the annual pre-tax interest cost for the next 12 months of our taxable variable-rate debt by approximately $3,456,000 at July 31, 2005. This increase is net of the protection provided by the interest rate swaps, caps and long-term contracts in place as of July 31, 2005 and contemplates the effects of interest rate floors on $125,688,000 of LIBOR or prime-based debt. A portion of our taxable variable-rate debt is related to construction loans for which the interest expense is capitalized. 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 would increase the annual pre-tax interest cost for the next 12 months of our tax-exempt variable-rate debt by approximately $7,674,000 at July 31, 2005.

From time to time, certain of our joint ventures (the Joint Ventures) enter into total rate of return swaps (TRS) on various tax-exempt fixed-rate borrowings generally held 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 the Joint Ventures pay a variable-rate, generally equivalent to the BMA rate. Additionally, the Joint Ventures have guaranteed the principal balance of the underlying borrowing. Any fluctuation in the value of the guarantee would be offset by the fluctuation in the value of the underlying borrowing, resulting in no financial impact to the Joint Ventures or the Company. At July 31, 2005, the aggregate notional amount of TRS in which the Joint Ventures have an interest is approximately $288,770,000. The fair value of such TRS is immaterial at July 31, 2005 and 2004. We believe the economic return and related risk associated with a TRS is generally comparable to that of nonrecourse variable-rate mortgage debt.

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Cash Flows

Operating Activities

Net cash provided by operating activities was $190,610,000 for the six months ended July 31, 2005 and $104,929,000 for the six months ended July 31, 2004. This increase in net cash provided by operating activities of $85,681,000 is the result of the following (in thousands):

Increase in rents and other revenues received	$ 89,607
Increase in interest received	9,162
Increase in cash distributions from unconsolidated entities	9,240
Decrease in proceeds from land sales Land Development Group	(4,001)
Increase in proceeds from land sales Commercial Group	26,366
Increase in land development expenditures	(9,372)
Increase in operating expenditures	(40,841)
Increase in interest paid	(26,514)
Lumber Group cash used in 2004	32,034
Net increase in cash provided by operating activities	$ 85,681

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Investing Activities

Net cash used in investing activities totaled $540,434,000 and $480,004,000 for the six months ended July 31, 2005 and 2004, respectively. The net cash used in investing activities consists of the following:

	Six months ended July 31,	
	2005	2004
	(in thousands)	
Capital expenditures*	**$ (530,643)**	$ (458,076)
Change in escrows to be used for capital expenditures:		
Simi Valley Town Center, a retail center in Simi Valley, California	**(28,971)**	
Bolingbrook South, a commercial development project in Bolingbrook, Illinois	**(9,304)**	
Atlantic Yards, a commercial development project in Brooklyn, New York	**(12,039)**	(6,960)
Beekman, a development project in Manhattan, New York		(3,950)
Other	**(1,255)**	
Subtotal	**(51,569)**	(10,910)
Net proceeds from disposition of rental properties and other investments:		
Release of escrow deposits from prior year sale of *Pavilion*, an office building in San Jose, California.	**16,114**	
Proceeds from sale of *Babin Building Centers, Inc.*		1,448
Proceeds from sale of *Woodlake*, an apartment building community in Silver Spring, Maryland		17,497
Release of escrow deposits from prior year sales of *Vineyards* and *Laurels*, apartment complexes in Broadview Heights, Ohio and Justice, Illinois and *Courtland Center*, a retail center in Flint, Michigan		9,024
Other	**188**	
Subtotal	**16,302**	27,969
Change in investments in and advances to affiliates:		
Investment in the unconsolidated land component associated with *Ridge Hill*, a commercial mixed-use project in Yonkers, New York	**(8,930)**	
Investment in sports arena complex, an unconsolidated development project in Brooklyn, New York	**(6,213)**	
Investment in *3800 Wilshire Condominiums*, an unconsolidated condominium development project in Los Angeles, California	**(6,269)**	
Return of investment due to the disposition of *Colony Place*, an unconsolidated apartment community in Fort Myers, Florida	**1,597**	
Return of investment due to the disposition of *Showcase* in Las Vegas, Nevada	**13,640**	
Return of investment in other various development projects with our New York City partner	**993**	5,295
Return of investment (investment in) *San Francisco Centre*, an unconsolidated commercial development project in San Francisco, California	**1,450**	(10,100)
Return of investment (investment in) *East River Plaza*, an unconsolidated commercial development project in Manhattan, New York.	**1,124**	(16,337)

Return of investment (investment in) *1100 Wilshire Condominiums*, an unconsolidated condominium development project in Los Angeles, California	**8,376**	(8,639)
Return of investment in *Central Station*, an unconsolidated land development project in Chicago, Illinois	**2,962**	
Return of investment (investment in) *Ohana Military Communities*, an unconsolidated residential development project in Honolulu, Hawaii	**2,939**	(2,570)
Investment on behalf of partner in residential assisted living projects	**(751)**	(3,049)
Other net returns on (investment in) equity method investments	**14,558**	(3,587)
Subtotal	**25,476**	(38,987)
Net cash used in investing activities	**$ (540,434)**	$ (480,004)
*Capital expenditures were financed as follows:		
Approximate new nonrecourse mortgage indebtedness	**$ 232,000**	$ 251,000
Proceeds from decrease in restricted cash	**71,743**	
Net proceeds from issuance of senior notes less repayment of term loan		39,942
Portion of borrowings under the long-term credit facility		108,240
Proceeds from disposition of rental properties (see above)	**16,302**	27,969
Portion of cash provided by operating activities	**190,610**	30,925
Portion of cash on hand at the beginning of the year	**19,988**	
Total Capital Expenditures	**$ 530,643**	$ 458,076

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Financing Activities

Net cash provided by financing activities totaled $197,432,000 and $356,842,000 for the six months ended July 31, 2005 and 2004, respectively. Net cash provided by financing activities reflected the following:

	Six months ended July 31,	
	2005	2004
	(in thousands)	
Proceeds from issuance of senior notes	**$**	$ 100,000
Payment of senior notes issuance costs		(3,808)
Borrowings on long-term credit facility		128,000
Repayment of term loan		(56,250)
Proceeds from nonrecourse mortgage debt	**456,155**	419,285
Principal payments on nonrecourse mortgage debt	**(290,100)**	(124,301)
Net decrease increase in notes payable	**(13,199)**	(10,107)
Decrease (increase) in restricted cash:		
University of Pennsylvania, an office building in Philadelphia, Pennsylvania	**8,216**	(26,184)
1255 S. Michigan (*Central Station Apartments)*, a residential development project in Chicago, Illinois	**29,893**	(85,681)
100 Landsdowne, a residential development project in Cambridge, Massachusetts	**15,376**	1,564
Sterling Glen of Lynbrook, a supported living community in Lynbrook, New York	**5,902**	(3,248)
Sterling Glen of Roslyn, a supported living community in Roslyn, New York	**9,247**	(6,296)
Victoria Gardens, a regional shopping center in Rancho Cucamonga, California	**2,290**	
Lenox Club, an apartment complex in Arlington, Virginia	**433**	(8,281)
Other	**386**	(4,605)
Increase in book overdrafts, representing checks issued but not yet paid	**14,182**	10,200
Payment of deferred financing costs	**(18,191)**	(6,752)
Proceeds from the exercise of stock options	**3,868**	757
Payment of dividends	**(10,082)**	(9,002)
Purchase of treasury stock	**(1,945)**	
(Decrease) increase in minority interest	**(14,999)**	1,885
Change in Lumber Group assets held for sale		39,666
Net cash provided by financing activities	**$ 197,432**	$ 356,842

STOCK SPLIT

On June 21, 2005 the Board of Directors declared a two-for-one stock split of our Class A and Class B common stock effective July 11, 2005 to shareholders of record on June 27, 2005. The stock split is given retroactive effect to the beginning of the earliest period presented in the accompanying Consolidated Balance Sheets and Consolidated Statements of Shareholders Equity by transferring the par value of the additional shares issued from the additional paid-in-capital account to the common stock accounts. All share and per share data included in this quarterly report have been restated to reflect the stock split.

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 financial statements.

DIVIDENDS

We pay quarterly cash dividends on shares of Class A and Class B common stock. The first quarterly dividend of $.05 per share (post-split) on both Class A and Class B common stock was declared on March 24, 2005 and was paid on June 15, 2005 to shareholders of record at the close of the business on June 1, 2005. The second quarterly dividend of $.06 per share (post-split) (representing a 20% increase over the first quarter s dividend) on both Class A and Class B common stock was declared on June 21, 2005 and will be paid on September 15, 2005, to shareholders of record at close of business on September 1, 2005. The third quarterly dividend is expected to be declared at the quarterly Board meeting on September 29, 2005.

NEW ACCOUNTING STANDARDS

In May 2005, the Financial Accounting Standards Board (FASB) issued FAS No. 154, Accounting Changes and Error Corrections a replacement of Accounting Principles Board (APB) Opinion No. 20 and FASB Statement No. 3. This statement changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This statement requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We plan to adopt SFAS No. 154 February 1, 2006. We do not expect this statement to have a material impact on our consolidated financial statements.

In March 2005, the FASB issued FASB Staff Position FIN 46 (R)-5, Implicit Variable Interests Under FASB Interpretation No. 46 (R), Consolidations of Variable Interest Entities to address whether a company has an implicit variable interest in a VIE or potential VIE when specific conditions exist. The guidance describes an implicit variable interest as an implied financial interest in an entity that changes with changes in the fair market value of the entity s net assets exclusive of variable interests. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing and/or receiving of variability indirectly from the entity (rather than directly). We do not expect this statement to have a material impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (R) Share-Based Payment (SFAS No. 123 (R)). This statement is a revision to SFAS No. 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion No. 25 Accounting for Stock Issued to Employees. SFAS No. 123 (R) requires the measurement of the cost of employee services to be rendered in exchange for an award of equity instruments be calculated based on the fair value of the award on the date of grant, as defined. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. In April 2005, the SEC adopted a rule which amended the compliance dates for SFAS No. 123 (R) such that public companies will now be required to start expensing options by their first fiscal year beginning after June 15, 2005. We plan to adopt SFAS No. 123 (R) effective February 1, 2006 and is currently assessing the impact of the adoption.

In June 2005, the Emerging Issues Task Force (EITF) Issue 04-5, Investor s Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights was ratified by the FASB. This Issue addresses what rights held by the limited partner(s) preclude consolidation in circumstances in which the sole general partner would consolidate the limited partnership in accordance with generally accepted accounting principles. The assessment of limited partners rights and their impact on the presumption of control of the limited partnership by the sole general partner should be made when the investor becomes the sole general partner and should be reassessed if there is a change in terms or the exercise of the rights of the limited partners, the sole general partner increases or decreases its ownership, or there is an increase or decrease in the number of outstanding limited partner interests. For pre-existing agreements that are not modified, the consensus is effective as of the beginning of the first fiscal reporting period beginning after December 15, 2005. For all new and modified agreements, the consensus was effective on June 29, 2005. We have adopted EITF 04-5 for all new and modified agreements and plans to adopt the consensus for all existing agreements effective February 1, 2006 and is currently assessing the impact of the adoption.

VARIABLE INTEREST ENTITIES

As of July 31, 2005 we determined that we are the primary beneficiary of 30 VIEs representing 19 properties (20 VIEs representing 9 properties in Residential Group, 9 VIEs/properties in Commercial Group, and 1 VIE/property in Land Development Group). As of July 31, 2005 we held variable interests in 41 VIEs for which we are not the primary beneficiary. The maximum exposure to loss as a result of our involvement with these unconsolidated VIEs is limited to our recorded investments in those VIEs of approximately $83,963,000 at July 31, 2005, which is recorded as investments in and advances to affiliates. In addition, we have various VIEs that were consolidated prior to the implementation of FIN No. 46 (R) that remain consolidated under FIN No. 46 (R). These 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, supported-living communities and land development.

Upon implementation of FIN No. 46 (R) on February 1, 2004, we recorded a charge of $18,628,000 ($11,261,000 net of tax) for the six months ended July 31, 2004 for the cumulative effect of change in accounting principle which resulted in a reduction of net earnings. This charge consisted primarily of our share of accumulated depreciation and amortization expense of the newly-consolidated VIEs which were previously accounted for on the cost method.

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The total assets, nonrecourse mortgage debt, total liabilities and minority interest of the 30 VIEs consolidated due to the implementation of FIN No. 46 (R) for which we are the primary beneficiary are as follows as of July 31, 2005 (in thousands):

Total Assets	$	968,000
Nonrecourse Mortgage Debt	$	861,000
Total Liabilities (including nonrecourse mortgage debt)	$	924,000
Minority Interest	$	44,000

In addition to the VIEs described above, we have also determined that we are the primary beneficiary of a VIE which holds secured borrowings of $29,000,000 (Senior and Subordinated Debt) as of July 31, 2005.

SUBSEQUENT EVENT

On August 11, 2005, we sold *Cherrywood Village* and *Ranchstone* apartment communities. *Cherrywood Village* and *Ranchstone* are 360-unit and 368-unit apartment communities, respectively, located in Denver, Colorado. The $67,500,000 transaction was structured as a tax-deferred exchange and will result in an estimated gain of approximately $9,500,000 ($5,800,000 net of tax).

INFORMATION RELATED TO FORWARD-LOOKING STATEMENTS

This Form 10-Q, together with other statements and information publicly disseminated by the Company, 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 which 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 on pages 5 12 of the Company s Form 10-K for the year ended at January 31, 2005 and other factors that might cause differences, some of which could be material, include, but are not limited to, real estate development and investment risks including lack of satisfactory financing, construction and lease-up delays and cost overruns, the effect of economic and market conditions on a nationwide basis as well as regionally in areas where the Company has a geographic concentration of properties, reliance on major tenants, the impact of terrorist acts, the Company s substantial leverage and the ability to obtain and service debt, guarantees under the Company s credit facility, the level and volatility of interest rates, continued availability of tax-exempt government financing, the sustainability of substantial operations at the subsidiary level, illiquidity of real estate investments, dependence on rental income from real property, conflicts of interest, financial stability of tenants within the retail industry, which may be impacted by competition and consumer spending, potential liability from syndicated properties, effects of uninsured loss, environmental liabilities, partnership risks, litigation risks, risks associated with an investment in a professional sports franchise, the rate revenue increases versus the rate of expense increases, as well as other risks listed from time to time in the Company s reports filed with the SEC. The Company has 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.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure is interest rate risk. At July 31, 2005, our outstanding variable rate debt portfolio consisted of $793,447,000 of taxable and $686,680,000 of tax-exempt variable-rate debt. Upon opening and achieving stabilized operations, we generally pursue long-term fixed-rate nonrecourse financing for our rental properties. Additionally, when the properties fixed-rate debt matures, the maturing amounts are subject to interest rate risk.

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

Taxable (Priced off of LIBOR Index)

	Caps		Swaps [1]	
	Amount	Average Base Rate	Amount	Average Base Rate
	(dollars in thousands)			
Period Covered				
08/01/05-02/01/06 [2]	$ 644,779	5.13%	$ 469,421	3.71%
02/01/06-02/01/07 [3]	816,247	5.34	644,464	3.83
02/01/07-02/01/08	204,193	6.21	142,876	4.09
02/01/08-02/01/09	73,500	5.00	123,057	4.25

(1) Swaps include LIBOR contracts that have an initial maturity greater than six months.

(2) These LIBOR-based hedges as of August 1, 2005 protect the debt currently outstanding as well as the anticipated increase in debt outstanding for projects under development or anticipated to be under development during the year ending January 31, 2006.

(3)

Subsequent to August 1, 2005, a 5.00% cap with a notional that ranged from $32,125,000 - $96,000,000 and was set to expire in January 2007 was terminated.

Tax-Exempt (Priced off of BMA Index)

	Caps		Swaps	
	Amount	Average Base Rate	Amount	Average Base Rate
	(dollars in thousands)			
Period Covered				
08/01/05-02/01/07	$ 327,525	5.91%	$ 35,000	3.95%
02/01/07-02/01/08	142,715	5.75		

The tax-exempt caps expressed above mainly represent protection that was purchased in conjunction with lender hedging requirements that require the borrower to protect against significant fluctuations in interest rates. Outside of such requirements, we generally do not hedge tax-exempt debt because, since 1990, the base rate of this type of financing has averaged 3.05% and has never exceeded 7.90%.

We estimate the fair value of our debt instruments by discounting future cash payments at interest rates that approximate the current market. Based on these parameters, the carrying amount of our total fixed-rate debt at July 31, 2005 was $4,005,682,000 compared to an estimated fair value of $4,087,917,000. We estimate that a 100 basis point decrease in market interest rates would change the fair value of this fixed-rate debt to approximately $4,341,399,000 at July 31, 2005.

We estimate the fair value of our hedging instruments based on interest rate market pricing models. At July 31 and January 31, 2005 LIBOR interest rate caps were reported at their fair value of approximately $2,325,000 and $1,405,000, respectively, in other assets in the Consolidated Balance Sheets. The fair value of interest rate swap and floor agreements at July 31, 2005 is an unrealized gain of $2,958,000 and is included in other assets in the Consolidated Balance Sheets. The fair value of interest rate swap and floor agreements at January 31, 2005 is an unrealized loss of $1,394,000 and is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)
July 31, 2005

Long-Term Debt	2006	2007	2008	2009	2010	Thereafter	Total Outstanding 7/31/05	Fair Market Value 7/31/05
	Expected Maturity Date Year Ending January 31, (dollars in thousands)							
Fixed:								
Fixed-rate debt	$ 61,601	$331,931	$153,400	$179,667	$249,823	$2,326,062	$3,302,484	$3,401,036
Weighted average interest rate	7.04%	7.04%	6.78%	7.22%	7.08%	6.32%	6.54%	
UDAG	10,770	8,169	589	581	573	83,116	103,798	68,160
Weighted average interest rate	3.94%	0.09%	2.16%	2.06%	1.96%	1.55%	1.70%	
Senior & subordinated debt [(1)]						599,400	599,400	618,721
Weighted average interest rate						7.34%	7.34%	
Total Fixed-Rate Debt	72,371	340,100	153,989	180,248	250,396	3,008,578	4,005,682	4,087,917
Variable:								
Variable-rate debt	160,195	322,839	208,147	35,922	2,097	64,247	793,447	793,447
Weighted average interest rate	5.83%	5.94%	5.76%	5.58%	5.07%	5.10%	5.78%	
Tax-exempt	92,390	51,000	127,670	16,000		399,620	686,680	686,680
Weighted average interest rate	3.96%	2.86%	3.81%	3.89%	%	3.46%	3.56%	
Credit facility [(1)]								
Weighted average interest rate								
Total Variable-Rate Debt	252,585	373,839	335,817	51,922	2,097	463,867	1,480,127	1,480,127
	$324,956	$713,939	$489,806	$232,170	$252,493	$3,472,445	$5,485,809	$5,568,044

Total Long Term Debt							
Weighted average interest rate	5.46%	6.17%	5.57%	6.72%	7.05%	6.03%	6.05%

(1) Represents recourse debt.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)
January 31, 2005

Long-Term Debt	2006	2007	2008	2009	2010	Thereafter	Total Outstanding 1/31/05	Fair Market Value 1/31/05
	Expected Maturity Date Year Ending January 31, (dollars in thousands)							
Fixed:								
Fixed-rate debt	$142,486	$485,747	$160,957	$217,394	$252,615	$2,040,246	$3,299,445	$3,411,543
Weighted average interest rate	7.08%	6.66%	6.82%	7.19%	7.10%	6.44%	6.62%	
UDAG	28,860	8,169	589	581	573	65,237	104,009	66,001
Weighted average interest rate	1.46%	0.09%	2.16%	2.06%	1.96%	1.74%	1.54%	
Senior & subordinated debt [1]						599,400	599,400	623,653
Weighted average interest rate						7.34%	7.34%	
Total Fixed-Rate Debt	171,346	493,916	161,546	217,975	253,188	2,704,883	4,002,854	4,101,197
Variable:								
Variable-rate debt	164,584	273,931	99,136	36,391	2,097	64,248	640,387	640,387
Weighted average interest rate	4.80%	5.48%	4.57%	4.70%	5.35%	5.59%	5.13%	
Tax-exempt	182,055	51,000	127,670	16,000		366,625	743,350	743,350
Weighted average interest rate	3.17%	2.37%	3.33%	3.39%	%	2.87%	3.00%	
Credit facility [1]								
Weighted average interest rate								
Total Variable-Rate Debt	346,639	324,931	226,806	52,391	2,097	430,873	1,383,737	1,383,737
	$517,985	$818,847	$388,352	$270,366	$255,285	$3,135,756	$5,386,591	$5,484,934

Total Long Term Debt							
Weighted average interest rate	4.67%	5.93%	5.09%	6.62%	7.08%	6.08%	5.92%

(1) Represents recourse debt.

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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 submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. As of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of the Company s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company s disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company s disclosure controls and procedures are effective. There have been no significant changes in the Company s internal control during the Company s most recently completed fiscal quarter that have materially affected or are reasonably likely to affect the Company s internal control over financial reporting.

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 are of the opinion that these claims and lawsuits will not have a material adverse effect on the Company s financial statements.

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

On June 21, 2005, the Company held its annual meeting of shareholders. At that meeting four directors were elected by holders of Class A Common Stock and nine directors were elected by holders of Class B Common Stock, each to hold office until the next shareholder meeting and until his or her successor is elected; approved the proposal to amend and restate the Forest City Enterprises, Inc. 1994 Stock Plan; and ratified PricewaterhouseCoopers LLP as independent registered public accounting firm for the Company for the fiscal year ending January 31, 2006. The shares presented in the following paragraph and in the table below have not been adjusted for the two-for-one stock split effective July 11, 2005.

It was reported that 35,063,832 shares of Class A Common Stock representing 35,063,832 votes and 12,495,920 shares of Class B Common Stock representing 124,959,200 votes were represented in person or by proxy and that these shares represented a quorum. The votes cast for the aforementioned matters were as follows (pre-split):

		For	Against	Abstentions and/or Broker Non-votes
(1)	Election of the following nominated directors by Class A shareholders			
	Michael P. Esposito, Jr.	34,745,835		317,997
	Joan K. Shafran	30,384,441		4,679,391
	Louis Stokes	34,735,682		328,150
	Stan Ross	34,740,134		323,698
(2)	Election of the following nominated directors by Class B shareholders			
	Albert B. Ratner	124,727,700		231,500
	Samuel H. Miller	124,727,700		231,500
	Charles A. Ratner	124,727,700		231,500
	James A. Ratner	124,727,700		231,500
	Jerry V. Jarrett	124,894,100		65,100
	Ronald A. Ratner	124,727,700		231,500
	Scott S. Cowen	124,894,070		65,130
	Brian J. Ratner	124,727,700		231,500
	Deborah Ratner Salzberg	124,727,700		231,500
(3)	Approval of the proposal to amend and restate the 1994 Stock Option Plan	149,043,969	1,412,976	88,419
(4)	Ratification of independent registered public accounting firm PricewaterhouseCoopers LLP	159,097,674	878,721	46,637

Item 6. Exhibits and Reports on Form 8-K

Exhibit Number		Description of Document
3.1	-	Amended Articles of Incorporation adopted as of October 11, 1983, incorporated by reference to Exhibit 3.1 to the Company s Form 10-Q for the quarter ended October 31, 1983 (File No. 1-4372).
3.2	-	Code of Regulations as amended June 14, 1994, incorporated by reference to Exhibit 3.2 to the Company s Form 10-K for the fiscal year ended January 31, 1997 (File No. 1-4372).
3.3	-	Certificate of Amendment by Shareholders to the Articles of Incorporation of Forest City Enterprises, Inc. dated June 24, 1997, incorporated by reference to Exhibit 4.14 to the Company s Registration Statement on Form S-3 (Registration No. 333-41437).
3.4	-	Certificate of Amendment by Shareholders to the Articles of Incorporation of Forest City Enterprises, Inc. dated June 16, 1998, incorporated by reference to Exhibit 4.3 to the Company s Registration Statement on Form S-8 (Registration No. 333-61925).
4.1	-	Form of Senior Subordinated Indenture between the Company and National City Bank, as Trustee thereunder, incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-3 (Registration No. 333-22695).
4.2	-	Form of Junior Subordinated Indenture between the Company and National City Bank, as Trustee thereunder, incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-3 (Registration No. 333-22695).
4.3	-	Senior Note Indenture, dated as of May 19, 2003, between Forest City Enterprises, Inc., as issuer, and The Bank of New York, as trustee, incorporated by reference to Exhibit 4.1 to the Company s Form 8-K, filed on May 20, 2003 (File No. 1- 4372).
4.4	-	Form of 7.375% Senior Note due 2034, incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form 8-K filed on February 10, 2004 (File No. 1-4372).
4.5	-	Form of 6.5% Senior Note due 2017, incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form 8-K filed on January 26, 2005 (File No. 1-4372).
+10.1	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Deborah Ratner- Salzberg and Forest City Enterprises, Inc., insuring the lives of Albert Ratner and Audrey Ratner, dated June 26, 1996, incorporated by reference to Exhibit 10.19 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.2	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Brian J. Ratner and Forest City Enterprises, Inc., insuring the lives of Albert Ratner and Audrey Ratner, dated June 26, 1996, incorporated by reference to Exhibit 10.20 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.3	-	Letter Supplement to Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Brian J. Ratner and Forest City Enterprises, Inc., insuring the lives of Albert Ratner and Audrey Ratner, effective June 26, 1996, incorporated by reference to Exhibit 10.21 to the

Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).

+10.4 - Letter Supplement to Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Deborah Ratner-Salzberg and Forest City Enterprises, Inc., insuring the lives of Albert Ratner and Audrey Ratner, effective June 26, 1996, incorporated by reference to Exhibit 10.22 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).

+10.5 - Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Charles Ratner 1992 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the lives of Charles Ratner and Ilana Horowitz (Ratner), dated November 2, 1996, incorporated by reference to Exhibit 10.23 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).

Exhibit Number		Description of Document
+10.6	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Charles Ratner 1989 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.24 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.7	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Max Ratner 1988 Grandchildren s Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.25 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.8	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Max Ratner 1988 Grandchildren s Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.26 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.9	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Max Ratner 1988 Grandchildren s Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.27 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.10	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Max Ratner 1988 Grandchildren s Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.28 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.11	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Charles Ratner 1989 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.29 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.12	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Charles Ratner 1989 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.30 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.13	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Charles Ratner 1989 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.31 to the Company s Form 10-K for the year ended

January 31, 1997 (File No. 1-4372).

+10.14 - Letter Supplement to Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between James Ratner and Albert Ratner, Trustees under the Charles Ratner 1992 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the lives of Charles Ratner and Ilana Ratner, effective November 2, 1996, incorporated by reference to Exhibit 10.32 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).

+10.15 - Supplemental Unfunded Deferred Compensation Plan for Executives, incorporated by reference to Exhibit 10.9 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).

+10.16 - 1994 Stock Plan, as Amended, Restated and Renamed as of June 8, 2004, incorporated by reference to Exhibit A to the Company s Proxy Statement for its Annual Meeting of Shareholders held on June 8, 2004 (Replaced by 10.52) (File No. 1-4372).

+10.17 - Amended and Restated Form of Stock Option Agreement, effective as of June 8, 2004, incorporated by reference to Exhibit 10.17 to the Company s Form 10-Q for the quarter ended April 30, 2005 (File No. 1-4372).

+10.18 - Amended and Restated Form of Restricted Stock Agreement, effective as of June 8, 2004, incorporated by reference to Exhibit 10.18 to the Company s Form 10-Q for the quarter ended April 30, 2005 (File No. 1-4372).

Exhibit Number		Description of Document
+10.19	-	Dividend Reinvestment and Stock Purchase Plan, incorporated by reference to Exhibit 10.42 to the Company s Form 10-K for the year ended January 31, 1999 (File No. 1-4372).
+10.20	-	Deferred Compensation Plan for Executives, effective as of January 1, 1999, incorporated by reference to Exhibit 10.43 to the Company s Form 10-K for the year ended January 31, 1999 (File No. 1-4372).
+10.21	-	Deferred Compensation Plan for Nonemployee Directors, effective as of January 1, 1999, incorporated by reference to Exhibit 10.44 to the Company s Form 10-K for the year ended January 31, 1999 (File No. 1-4372).
+10.22	-	First Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective October 1, 1999, incorporated by reference to Exhibit 4.6 to the Company s Registration Statement on Form S-8 (Registration No. 333-38912).
+10.23	-	Second Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective March 10, 2000, incorporated by reference to Exhibit 4.7 to the Company s Registration Statement on Form S-8 (Registration No. 333-38912).
+10.24	-	Third Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective March 12, 2004, incorporated by reference to Exhibit 10.39 to the Company s Form 10-Q for the quarter ended July 31, 2004 (File No. 1-4372).
+10.25	-	Employment Agreement entered into on August 28, 2002, effective February 3, 2002, by the Company and Charles A. Ratner, incorporated by reference to Exhibit 10.25 to the Company s Form 10-Q for the quarter ended July 31, 2002 (File No. 1-4372) (Replaced by Exhibit 10.49).
+10.26	-	Employment Agreement entered into on May 31, 1999, effective January 1, 1999, by the Company and Albert B. Ratner, incorporated by reference to Exhibit 10.47 to the Company s Form 10-Q for the quarter ended July 31, 1999 (File No. 1-4372).
+10.27	-	First Amendment to Employment Agreement effective as of February 28, 2000 between Forest City Enterprises, Inc. and Albert B. Ratner, incorporated by reference to Exhibit 10.45 to the Company s Form 10-K for the year ended January 31, 2000 (File No. 1-4372).
+10.28	-	Employment Agreement entered into on May 31, 1999, effective January 1, 1999, by the Company and Samuel H. Miller, incorporated by reference to Exhibit 10.48 to the Company s Form 10-Q for the quarter ended July 31, 1999 (File No. 1-4372).
+10.29	-	Employment Agreement entered into on August 28, 2002, effective February 3, 2002, by the Company and James A. Ratner, incorporated by reference to Exhibit 10.31 to the Company s Form 10-Q for the quarter ended July 31, 2002 (File No. 1-4372) (Replaced by Exhibit 10.50).
+10.30	-	Employment Agreement entered into on August 28, 2002, effective February 3, 2002, by the Company and Ronald A. Ratner, incorporated by reference to Exhibit 10.32 to the Company s Form 10-Q for the quarter ended July 31, 2002 (File No. 1-4372) (Replaced by Exhibit 10.51).

+10.31	-	Deferred Compensation Agreement between Forest City Enterprises, Inc. and Thomas G. Smith dated December 27, 1995, incorporated by reference to Exhibit 10.33 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.32	-	Employment Agreement (re: death benefits) entered into on May 31, 1999, by the Company and Thomas G. Smith dated December 27, 1995, incorporated by reference to Exhibit 10.49 to the Company s Form 10-Q for the quarter ended October 31, 1999 (File No. 1-4372).
+10.33	-	Summary of Forest City Enterprises, Inc. Management Incentive Plan as adopted in 1997, incorporated by reference to Exhibit 10.51 to the Company s Form 10-Q for the quarter ended July 31, 2001 (File No. 1-4372).
+10.34	-	Summary of Forest City Enterprises, Inc. Long-Term Performance Plan as adopted in 2000, incorporated by reference to Exhibit 10.52 to the Company s Form 10-Q for the quarter ended July 31, 2001 (File No. 1-4372).

Exhibit Number		Description of Document
10.35	-	Credit Agreement, dated as of March 22, 2004, by and among Forest City Rental Properties Corporation, the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.40 to the Company s Form 10-K for the year ended January 31, 2004 (File No. 1-4372).
10.36	-	Guaranty of Payment of Debt, dated as of March 22, 2004, by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.41 to the Company s Form 10-K for the year ended January 31, 2004 (File No. 1-4372).
10.37	-	First Amendment to Credit Agreement, dated as of January 19, 2005, by and among Forest City Rental Properties Corporation, the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.37 to the Company s Form 10-K for the year ended January 31, 2005 (File No. 1-4372).
10.38	-	First Amendment to Guaranty of Payment of Debt, dated as of January 19, 2005 by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.38 to the Company s Form 10-K for the year ended January 31, 2005 (File No. 1-4372).
+10.39	-	Forest City Enterprises, Inc. Executive Bonus Plan, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on March 30, 2005 (File No. 1-4372).
+10.40	-	Forest City Enterprises, Inc. Board of Directors Compensation Policy, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on March 30, 2005 (File No. 1-4372).
+10.41	-	Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Executives, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on March 30, 2005 (File No. 1-4372).
+10.42	-	Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Nonemployee Directors, incorporated by reference to Exhibit 10.4 to the Company s Form 8-K filed on March 30, 2005 (File No. 1-4372).
10.43	-	Second Amendment to Credit Agreement, dated as of April 7, 2005, by and among Forest City Rental Properties Corporation, the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.43 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
10.44	-	Second Amendment to Guaranty of Payment of Debt, dated as of April 7, 2005, by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on April 13, 2005 (File No. 1-4372).
+10.45	-	First Amendment to the Deferred Compensation Plan for Executives, effective as of October 1, 1999, incorporated by reference to Exhibit 10.45 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).

+10.46	-	Second Amendment to the Deferred Compensation Plan for Executives, effective as of December 31, 2004, incorporated by reference to Exhibit 10.46 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
+10.47	-	Fourth Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective as of December 31, 2004, incorporated by reference to Exhibit 10.47 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
+10.48		Forest City Enterprises, Inc. Long-Term Incentive Plan, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on June 30, 2005 (File No. 1-4372).

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Exhibit Number		Description of Document
+10.49		Employment Agreement entered into on July 20, 2005, effective February 1, 2005, by the Company and Charles A. Ratner, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372) (Replaces Exhibit No. 10.25).
+10.50		Employment Agreement entered into on July 20, 2005, effective February 1, 2005, by the Company and James A. Ratner, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372) (Replaces Exhibit 10.29).
+10.51		Employment Agreement entered into on July 20, 2005, effective February 1, 2005, by the Company and Ronald A. Ratner, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on July 26, 2005, which replaces the Employment Agreement dated as of August 22, 2002 (Replaces Exhibit 10.30) (File No. 1-4372).
+10.52		Forest City Enterprises, Inc. 1994 Stock Plan, as Amended and Restated as of June 21, 2005, incorporated by reference to Exhibit A to the Company s Proxy Statement for its Annual Meeting of Shareholders held on June 21, 2005 (File No. 1-4372).
*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.

+ Management contract or compensatory arrangement required to be filed as an exhibit to this Form 10-Q pursuant to Item 6.

* Filed herewith.

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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 September 7, 2005	/S/ THOMAS G. SMITH
	Thomas G. Smith Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer)
Date September 7, 2005	/S/ LINDA M. KANE
	Linda M. Kane Senior Vice President and Corporate Controller (Principal Accounting Officer)

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Exhibit Index

Exhibit Number		**Description of Document**
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.