FOREST CITY ENTERPRISES INC
Form 10-K
March 30, 2011

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

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2011

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<br>Suite 1100 | 50 Public Square<br>Cleveland, Ohio | 44113 |
| (Address of principal executive offices) | | (Zip Code) |

Registrant s telephone number, including area code 216-621-6060

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Class A Common Stock ($.33 1/3 par value) | New York Stock Exchange |
| Class B Common Stock ($.33 1/3 par value) | New York Stock Exchange |
| $100,000,000 Aggregate Principal Amount of 7.375% Senior Notes Due 2034 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES x NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES o NO x

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 x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES x NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act: (Check one):

| Large accelerated filer x | Accelerated filer o | Non-accelerated filer o | Smaller Reporting Company o |
|---|---|---|---|
| | | (Do not check if a smaller reporting company) | |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x
The aggregate market value of the outstanding common equity held by non-affiliates as of the last business day of the registrant s most recently completed second fiscal quarter was $1,578,541,801.
The number of shares of registrant s common stock outstanding on March 23, 2011 was 145,842,375 and 21,187,626 for Class A and Class B common stock, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on June 10, 2011 are incorporated by reference into Part III to the extent described herein.

**Forest City Enterprises, Inc. and Subsidiaries**
**Annual Report on Form 10-K**
**For The Year Ended January 31, 2011**
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## PART I

## Item 1. Business

Founded in 1920 and publicly traded since 1960, Forest City Enterprises, Inc. (with its subsidiaries, the Company or Forest City ) principally engages in the ownership, development, management and acquisition of commercial and residential real estate and land in 27 states and the District of Columbia. At January 31, 2011, the Company had approximately $11.8 billion in consolidated assets, of which approximately $11.2 billion was invested in real estate, at cost. The Company s core markets include Boston, the state of California, Chicago, Denver, the New York City/Philadelphia metropolitan area and the Greater Washington D.C./Baltimore metropolitan area. The Company has offices in Albuquerque, Boston, Chicago, Dallas, Denver, London (England), Los Angeles, New York City, San Francisco, Washington, D.C. and the Company s corporate headquarters in Cleveland, Ohio. The Company s portfolio of real estate assets is diversified both geographically and among property types.

The Company operates through three strategic business units, all of which are reportable segments:

**Commercial Group**, the Company s largest strategic business unit, owns, develops, acquires and operates regional malls, specialty/urban retail centers, office and life science buildings, hotels and mixed-use projects.

**Residential Group** owns, develops, acquires and operates residential rental properties, including upscale and middle-market apartments and adaptive re-use developments. Additionally, it develops for-sale condominium projects and also owns interests in entities that develop and manage military family housing.

**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 Company has centralized the capital management, financial reporting and certain administrative functions of its business units. In most other respects, the strategic business units operate autonomously, with the Commercial Group and Residential Group each having their own development, acquisition, leasing, property and financial management functions. The Company believes this structure enables its employees to focus their expertise and to exercise the independent leadership, creativity and entrepreneurial skills appropriate for their particular business segment.

Segments of Business

The Company currently has five segments:

Commercial Group

Residential Group

Land Development Group

The New Jersey Nets ( The Nets )

Corporate Activities

Financial information about industry segments required by this item is included in Item 8 - Financial Statements and Supplementary Data and Note M - Segment Information.

**Commercial Group**

The Company has developed and/or acquired retail projects for more than 50 years and office and mixed-use projects for more than 30 years. The Commercial Group owns a diverse portfolio in both urban and suburban locations in 15 states and the District of Columbia. The Commercial Group targets densely populated markets where it uses its expertise to develop complex projects, often employing public and/or private partnerships. As of January 31, 2011, the Commercial Group owned interests in 96 completed properties, including 44 retail properties (approximately 14.7 million gross leasable square feet), 48 office properties (approximately 14.3 million gross leasable square feet) and 4 hotels (1,573 rooms). In addition, the Commercial Group has under construction the *Barclays Center* arena in Brooklyn, New York. This 18,000 seat arena is expected to host more than 200 events annually, including professional and collegiate sports, concerts, family shows and The Nets basketball.

The Company opened its first community retail center in 1948 and its first enclosed regional mall in 1962. Since then, it has developed regional malls and specialty retail centers. The specialty retail centers include urban retail centers, entertainment-based centers, community centers and power centers (collectively, specialty retail centers ). As of January 31, 2011, the Commercial Group s retail portfolio consisted of 16 regional malls with gross leasable area ( GLA ) of 7.9 million square feet and 28 specialty retail centers with a total GLA of 6.8 million square feet. The Commercial Group has one regional mall under construction located in Yonkers, New York with GLA of 1.3 million square feet.

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Regional malls are developed in collaboration with anchor stores that typically own their facilities as an integral part of the mall structure and environment but do not generate significant direct payments to the Company. In contrast, anchor stores at specialty retail centers generally are tenants under long-term leases that contribute significant rental payments to the Company.

While the Company continues to develop regional malls in strong markets, it has also pioneered the concept of bringing specialty retailing to urban locations previously ignored by major retailers. With high population densities and disposable income levels at or near those of the suburbs, urban development is proving to be economically advantageous for the Company, for the tenants who realize high sales per square foot and for the cities that benefit from the new jobs and taxes created in the urban locations.

In its office development activities, the Company is primarily a build-to-suit developer that works with tenants to meet their requirements. The Company s office development has focused primarily on mixed-use projects in urban developments, often built in conjunction with hotels and/or retail centers or as part of a major office or life science campus. As a result of this focus on urban developments, the Company continues to concentrate future office and mixed-use developments largely in the New York City, Boston, Chicago, Washington, D.C., Albuquerque and Denver metropolitan areas.

The following tables provide lease expiration and significant tenant information relating to the Commercial Group s retail properties.

**Retail Lease Expirations as of January 31, 2011**

| EXPIRATION YEAR | NUMBER OF EXPIRING LEASES | SQUARE FEET OF EXPIRING LEASES [3] | PERCENTAGE OF TOTAL LEASED GLA [1] | NET BASE RENT EXPIRING [2] | PERCENTAGE OF TOTAL BASE RENT | AVERAGE BASE RENT PER SQUARE FEET EXPIRING [3] |
|---|---|---|---|---|---|---|
| 2011 | 350 | 1,070,969 | 8.52 % | $ 24,738,514 | 8.65 % | $ 29.04 |
| 2012 | 258 | 930,162 | 7.40 | 21,848,214 | 7.64 | 27.80 |
| 2013 | 275 | 1,043,610 | 8.31 | 26,332,340 | 9.20 | 28.69 |
| 2014 | 231 | 1,049,878 | 8.36 | 22,275,500 | 7.79 | 27.35 |
| 2015 | 192 | 788,771 | 6.28 | 18,859,029 | 6.59 | 29.92 |
| 2016 | 212 | 1,257,730 | 10.01 | 35,877,907 | 12.54 | 37.40 |
| 2017 | 147 | 987,314 | 7.86 | 21,863,433 | 7.64 | 26.22 |
| 2018 | 155 | 714,949 | 5.69 | 17,787,781 | 6.22 | 26.52 |
| 2019 | 119 | 1,019,520 | 8.11 | 23,150,575 | 8.09 | 24.77 |
| 2020 | 119 | 893,935 | 7.12 | 19,999,278 | 6.99 | 29.54 |
| Thereafter | 99 | 2,806,661 | 22.34 | 53,338,446 | 18.65 | 23.66 |
| **Total** | **2,157** | **12,563,499** | **100.00 %** | **$ 286,071,017** | **100.00 %** | **$ 27.79** |

(1) GLA = Gross Leasable Area.

(2) Net base rent expiring is an operating statistic and is not comparable to rental revenue, a Generally Accepted Accounting Principles ( GAAP ) financial measure. The primary differences arise because net base rent is

determined using the tenant s contractual rental agreements at the Company s ownership share of the base rental income from expiring leases as determined within the rent agreement and it does not include adjustments such as the impact of straight-line rent, amortization of above and below market lease values in-place, and contingent rental payments (which are not reasonably estimable).

(3) Square feet of expiring leases and average base rent per square feet are operating statistics that represent 100% of the square footage and base rental income per square foot from expiring leases.

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**Schedule of Significant Retail Tenants as of January 31, 2011**
(Based on net base rent 1% or greater of the Company s ownership share)

| TENANT | NUMBER OF LEASES | LEASED SQUARE FEET | PERCENTAGE OF TOTAL RETAIL SQUARE FEET |
|---|---|---|---|
| Bass Pro Shops, Inc. | 3 | 510,855 | 4.07 % |
| Regal Entertainment Group | 5 | 381,461 | 3.04 |
| AMC Entertainment, Inc. | 5 | 377,797 | 3.01 |
| TJX Companies | 11 | 347,457 | 2.77 |
| The Gap | 25 | 321,159 | 2.56 |
| Dick s Sporting Goods | 6 | 293,171 | 2.33 |
| The Home Depot | 2 | 282,000 | 2.24 |
| The Limited | 37 | 220,357 | 1.75 |
| Best Buy | 6 | 207,969 | 1.65 |
| Abercrombie & Fitch Stores, Inc. | 25 | 181,272 | 1.44 |
| Footlocker, Inc. | 34 | 132,648 | 1.06 |
| Pathmark Stores, Inc. | 2 | 123,500 | 0.98 |
| Subtotal | 161 | 3,379,646 | 26.90 |
| All Others | 1,996 | 9,183,853 | 73.10 |
| **Total** | **2,157** | **12,563,499** | **100.00 %** |

The following tables provide lease expiration and significant tenant information relating to the Commercial Group s office properties.

**Office Lease Expirations as of January 31, 2011**

| EXPIRATION YEAR | NUMBER OF EXPIRING LEASES | SQUARE FEET OF EXPIRING LEASES (3) | PERCENTAGE OF TOTAL LEASED GLA (1) | NET BASE RENT EXPIRING (2) | PERCENTAGE OF TOTAL BASE RENT | AVERAGE BASE RENT PER SQUARE FEET EXPIRING (3) |
|---|---|---|---|---|---|---|
| 2011 | 85 | 478,656 | 4.11 % | $ 8,844,396 | 2.94 % | $ 20.21 |
| 2012 | 86 | 1,223,741 | 10.52 | 29,701,130 | 9.86 | 30.73 |
| 2013 | 91 | 1,162,098 | 9.99 | 26,689,597 | 8.86 | 23.95 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2014 | 51 | 973,729 | 8.37 | 18,379,029 | 6.10 | 30.27 |
| 2015 | 40 | 468,673 | 4.03 | 8,406,778 | 2.79 | 21.16 |
| 2016 | 33 | 671,405 | 5.77 | 14,680,711 | 4.87 | 28.93 |
| 2017 | 25 | 375,324 | 3.22 | 9,143,986 | 3.04 | 27.51 |
| 2018 | 20 | 1,200,707 | 10.32 | 33,239,866 | 11.04 | 32.01 |
| 2019 | 19 | 713,614 | 6.13 | 13,065,080 | 4.34 | 26.12 |
| 2020 | 15 | 1,061,358 | 9.12 | 27,812,703 | 9.24 | 32.52 |
| Thereafter | 38 | 3,306,949 | 28.42 | 111,205,086 | 36.92 | 38.13 |
| **Total** | **503** | **11,636,254** | **100.00 %** | **$ 301,168,362** | **100.00 %** | **$ 31.11** |

(1) GLA = Gross Leasable Area.

(2) Net base rent expiring is an operating statistic and is not comparable to rental revenue, a GAAP financial measure. The primary differences arise because net base rent is determined using the tenant s contractual rental agreements at the Company s ownership share of the base rental income from expiring leases as determined within the rent agreement and it does not include adjustments such as the impact of straight-line rent, amortization of above and below market lease values in-place, and contingent rental payments (which are not reasonably estimable).

(3) Square feet of expiring leases and average base rent per square feet are operating statistics that represent 100% of the square footage and base rental income per square foot from expiring leases.

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**Schedule of Significant Office Tenants as of January 31, 2011**
(Based on net base rent 2% or greater of the Company s ownership share)

| TENANT | LEASED SQUARE FEET | PERCENTAGE OF TOTAL OFFICE SQUARE FEET |
|---|---|---|
| City of New York | 978,115 | 8.41 % |
| Millennium Pharmaceuticals, Inc. | 660,741 | 5.68 |
| U.S. Government | 614,218 | 5.28 |
| District of Columbia | 553,330 | 4.76 |
| Morgan Stanley & Co. | 444,685 | 3.82 |
| Wellchoice, Inc. | 392,514 | 3.37 |
| JP Morgan Chase & Co. | 383,341 | 3.29 |
| Forest City Enterprises, Inc. (1) | 362,177 | 3.11 |
| Bank of New York | 323,043 | 2.78 |
| National Grid | 254,034 | 2.18 |
| Clearbridge Advisors, LLC, a Legg Mason Company | 193,249 | 1.66 |
| Covington & Burling, LLP | 160,565 | 1.38 |
| Seyfarth Shaw, LLP | 96,909 | 0.83 |
| Subtotal | 5,416,921 | 46.55 |
| All Others | 6,219,333 | 53.45 |
| **Total** | **11,636,254** | **100.00 %** |

(1) All intercompany rental income is eliminated in consolidation.

**Residential Group**

The Company s Residential Group owns, develops, acquires, leases and manages residential rental properties in 21 states and the District of Columbia. The Company has been engaged in apartment community development for over 50 years beginning in Northeast Ohio and gradually expanding nationally. Its residential portfolio includes middle-market apartments, upscale urban properties and adaptive re-use developments. The Residential Group develops for-sale condominium projects and also owns, develops and manages military family housing.

At January 31, 2011, the Residential Group s portfolio consisted of 33,614 apartment units in 116 properties in which Forest City has an ownership interest. Two of the properties in the portfolio consisting of 1,073 units are currently under construction. The remaining 32,541 units in 114 properties are in operations. Two of the properties consisting of 518 apartment units were sold subsequent to January 31, 2011. In addition, the Company owns a residual interest in and manages 5 operating properties containing 741 units of syndicated senior citizen subsidized housing. The Residential Group also manages 11,919 military housing units under management in various stages of redevelopment.

**Land Development Group**

The Company has been in the land development business since the 1930s. The Land Development Group acquires and sells raw land and sells fully-entitled developed lots to residential, commercial and industrial customers. The Land

Development Group also owns and develops raw land into master-planned communities, mixed-use projects and other residential developments. As of January 31, 2011, the Company owned approximately 11,415 acres of undeveloped land (including 8,609 of saleable acres) for these commercial and residential development purposes. The Company has an option to purchase 1,369 acres of developable land at its Stapleton project in Denver, Colorado, and 5,731 acres of developable land at its Mesa del Sol project in Albuquerque, New Mexico. The Company has land development projects in 12 states.

Historically, the Land Development Group s activities focused on land development projects in Northeast Ohio. Over time, the Land Development Group s activities expanded to larger, more complex projects. The Land Development Group has extended its activities on a national basis, first in Arizona, and more recently in Illinois, North Carolina, Florida, Colorado, Texas, New Mexico, South Carolina, New York, Missouri and Washington. Land development and sales activities at the Company s Stapleton project in Denver, Mesa del Sol project in Albuquerque and Central Station project in downtown Chicago are reported in the Land Development Group.

As of the end of fiscal 2010, the Company had purchased 1,566 acres at Stapleton, leaving a balance of 1,369 acres that may be acquired through an option held by the Company for additional development over the course of the next 8 years. Over and above the developable land that may be purchased through this option, 1,116 acres of Stapleton are reserved for regional parks and open space, of which 775 acres are under development or have been completed. Aside from land development and sales activities, Stapleton currently has over 2.1 million square feet of retail space, approximately 393,000 square feet of office space, over 1.2 million of other commercial space and 484 apartment units in place.

Additionally, as of the end of fiscal 2010, the Company had purchased 3,175 acres at Mesa del Sol, of which 1,659 saleable acres are on hand as of January 31, 2011. This leaves a balance of 5,731 acres to be acquired for additional development over the course of the next 25 to 50 years. Aside from land development and sales activities, Mesa del Sol currently has 375,000 square feet of office space in place, which is included in the Commercial Group segment.

In addition to sales activities of the Land Development Group, the Company also sells land acquired by its Commercial Group and Residential Group adjacent to their respective projects. Proceeds and related costs from such land sales are included in the revenues and expenses of such groups.

**The Nets**

On August 16, 2004, the Company purchased an ownership interest in The Nets, a member of the National Basketball Association ( NBA ). The Company s ownership of The Nets is through its subsidiary Nets Sports and Entertainment LLC ( NS&E ). NS&E also owns Brooklyn Arena, LLC ( Arena ), an entity that through its subsidiaries is overseeing the construction of and has a long-term lease in the *Barclays Center* arena, the future home of The Nets. Upon adoption of new accounting guidance for the consolidation of variable interest entities ( VIEs ) on February 1, 2010, NS&E was converted from an equity method entity to a consolidated entity. As of January 31, 2011, NS&E consolidates Arena and accounts for its investment in The Nets on the equity method of accounting. As a result of the Company consolidating NS&E, it records the entire net loss of The Nets allocated to NS&E in equity in loss of unconsolidated entities and allocates the other NS&E minority partners share of its loss through noncontrolling interests in the Statements of Operations for the year ended January 31, 2011. Prior to the adoption of the new consolidation accounting guidance, the Company recorded only its share of the loss for The Nets through equity in loss of unconsolidated entities.

On May 12, 2010, the Company closed on a purchase agreement with entities controlled by Mikhail Prokhorov ( MP Entities ). Pursuant to the terms of the purchase agreement, the MP Entities invested $223,000,000 and made certain funding commitments ( Funding Commitments ) to acquire 80% of The Nets, 45% of Arena and the right to purchase up to 20% of Atlantic Yards Development Company, LLC, which will develop non-arena real estate. In accordance with the Funding Commitments, the MP Entities agreed to fund The Nets operating needs up to $60,000,000 including reimbursements to the Company for loans made to cover The Nets operating needs from March 1, 2010 to May 12, 2010 totaling $15,000,000. Once the $60,000,000 is expended, which is anticipated to occur prior to the start of the 2011-2012 NBA basketball season, NS&E is required to fund 100% of the operating needs, as defined, until the *Barclays Center* arena is complete and open. Thereafter, members capital contributions will be made in accordance with the operating agreements. Since May 12, 2010, The Nets losses have been allocated to the MP Entities, the majority owner since losses are allocated based on an analysis of the respective members claim on the net book equity assuming a liquidation at book value.

For the years ended January 31, 2011, 2010 and 2009, the Company recognized approximately 25%, 68% and 54% of the net loss of The Nets, respectively, because profits and losses are allocated to each member based on an analysis of the respective member s claim on the net book equity assuming a liquidation at book value at the end of the accounting period without regard to unrealized appreciation (if any) in the fair value of The Nets. Our percentage of the allocated losses for the year ended January 31, 2011 was lower than the prior year primarily due to the allocation of losses to the MP Entities, as discussed above.

Competition

The real estate industry is highly competitive in many of the markets in which the Company operates. There are numerous other developers, managers and owners of commercial and residential real estate and undeveloped land that compete with the Company nationally, regionally and/or locally, some of whom may have greater financial resources

and market share than the Company. They compete with the Company for management and leasing opportunities, land for development, properties for acquisition and disposition, and for anchor stores and tenants for properties. The Company may not be able to successfully compete in these areas. In addition, competition could over-saturate any market; as a result, the Company may not have sufficient cash to meet the nonrecourse debt service requirements on certain of its properties. Although the Company may attempt to negotiate a restructuring with the mortgagee, it may not be successful, particularly in light of current credit markets, which could cause a property to be transferred to the mortgagee.

Tenants at the Company s retail properties face continual competition in attracting customers from retailers at other shopping centers, catalogue companies, online merchants, warehouse stores, large discounters, outlet malls, wholesale clubs, direct mail and telemarketers. The Company s competitors and those of its tenants could have a material adverse effect on the Company s ability to lease space in its properties and on the rents it can charge or the concessions it may have to grant. This in turn could materially and adversely affect the Company s results of operations and cash flows, and could affect the realizable value of its assets upon sale.

In addition to real estate competition, the Company faces competition related to the operation of The Nets. Specifically, The Nets are in competition with other members from the NBA, other major league sports, college athletics and other sports-related and non-sports related entertainment. If The Nets are not able to successfully manage this risk, they may incur additional losses resulting in an increase of the Company s share of the total losses of the team.

Number of Employees

The Company had 2,917 employees as of January 31, 2011, of which 2,571 were full-time and 346 were part-time.

Available Information

Forest City Enterprises, Inc. is an Ohio corporation and its executive offices are located at Suite 1100, 50 Public Square, Cleveland, Ohio 44113. The Company makes available, free of charge, on its website at www.forestcity.net, its annual, quarterly and current reports, including amendments to such reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the Securities and Exchange Commission ( SEC ). The Company s SEC filings can also be obtained from the SEC website at www.sec.gov.

The Company s corporate governance documents including the Company s Corporate Governance Guidelines, Code of Ethical and Legal Conduct and committee charters are also available on the Company s website at www.forestcity.net or in print to any stockholder upon written request addressed to Corporate Secretary, Forest City Enterprises, Inc., Suite 1360, 50 Public Square, Cleveland, Ohio 44113.

The information found on the Company s website or the SEC website is not part of this Annual Report on Form 10-K.

**Item 1A. Risk Factors**

Lending and Capital Market Conditions May Negatively Impact Our Liquidity and Our Ability to Finance or Refinance Projects or Repay Our Debt

Despite recent improvements in the U.S. economy, current conditions still substantially lag pre-recession levels. Ongoing economic conditions have negatively impacted the lending and capital markets, particularly for real estate. The capital markets have witnessed significant adverse conditions, including a substantial reduction in the availability of and access to capital. Financial institutions have significantly reduced their lending with an emphasis on lessening their exposure to real estate. Originations of new loans for commercial mortgage backed securities are improving, but are still limited as compared to pre-recession levels. Underwriting standards are being tightened with lenders requiring lower loan-to-values, increased debt service coverage levels and higher lender spreads. These market conditions, combined with the volatility in the financial markets, have made our ability to access capital challenging. We may not be able to obtain financings on terms comparable to those we secured prior to the economic downturn, and our financing costs may be significantly higher. These conditions have required us to curtail our investment in new development projects, which will negatively impact the future growth of our business. If these conditions do not continue to improve, we may be required to further curtail our development, redevelopment or expansion projects and potentially write down our investments in some projects.

The adverse market conditions also impact our ability to, and the cost at which we, refinance our debt and obtain renewals or replacement of credit enhancement devices, such as letters of credit. While some of our current financings have extension options, some of those are contingent upon pre-determined underwriting qualifications. We cannot assure you that a given project will meet the required conditions to qualify for such extensions. Our inability to extend, repay or refinance our debt when it becomes due, including upon a default or acceleration event, could result in foreclosure on the properties pledged as collateral thereof, which could result in a loss of our full investment in such properties. While we are actively working to refinance or extend our maturing debt obligations, we cannot assure you that we will be able to do so on a timely basis. Moreover, we expect refinancing, when available, to occur on less favorable terms. Lenders in these market conditions will typically require a higher rate of interest, repayment of a

portion of the outstanding principal or additional equity infusions to the project.

Of our total outstanding long-term debt of approximately $8.1 billion at January 31, 2011, a significant amount becomes due in each of the next three fiscal years. If these amounts cannot be refinanced, extended or repaid from other sources, such as sales of properties or new equity, our cash flow may not be sufficient to repay all maturing debt. This risk is heightened with respect to our revolving credit facility, which is due February 1, 2012, and our senior debt, as we have limited sources to fund such repayment.

Our total outstanding debt referenced above is inclusive of credit enhanced mortgage debt we have obtained for a number of our properties to back the bonds that are issued by a government authority and then remarketed to the public. Generally, the credit enhancement, such as a letter of credit, expires prior to the terms of the underlying mortgage debt and must be renewed or replaced to prevent acceleration of the underlying mortgage debt. We treat credit enhanced debt as maturing in the year the credit enhancement expires. However, if the credit enhancement is drawn upon due to the inability to remarket the bonds due to reasons including but not limited to market dislocation or a downgrade in the credit rating of the credit enhancer, not only would the bonds incur additional interest expense, but the debt maturity could accelerate to as early as 90 days after the acceleration occurs.

With the turmoil in the lending and capital markets, a number of financial institutions have sought federal assistance or failed. The failure of these financial institutions has further reduced the number of lenders willing to lend to commercial real estate entities and may further hinder our ability to access capital. In the event of a failure of a lender or counterparty to a financial contract, obligations under the financial contract might not be honored and many forms of assets may be at risk and may not be fully returned to us. Should a financial institution, particularly a construction lender, fail to fund its committed amounts when contractually obligated to do so, our ability to meet our obligations and complete projects could be adversely impacted.

Finally, while we recently extended our revolving credit facility, giving us access to liquidity through February 1, 2012, it was with reduced maximum borrowing levels, increased restrictions on our use of cash and requirements for the permanent reductions of borrowings available under the credit facility as we generate net proceeds from specified transactions. As a result, our access to liquidity has decreased as it relates to borrowing available under the credit facility, which may adversely affect the future growth of our business and our ability to continue our development activities.

The Ownership, Development and Management of Real Estate is Exceptionally Challenging in the Current Economic Environment and We Do Not Anticipate Meaningful Improvement in the Near Term

The current economic environment has significantly impacted the real estate industry in which we operate. Unemployment remains at historically high levels and consumer confidence, while improving, remains low, putting downward pressure on retail sales. Commercial and residential tenants are experiencing financial pressure and are continuing to place demands on landlords to provide rent concessions. The financial hardships on some tenants are so severe that they are leaving the market entirely or declaring bankruptcy, creating increased vacancy rates in residential and commercial properties. The tenants with good financial condition are considering offers from the many competing projects in the real estate industry and are waiting for the best possible deal before committing.

The stress currently experienced by the real estate industry is particularly evident in our development projects. Projects that had good demographics and strong retailer interest to support a retail development when we began construction are experiencing leasing difficulty. When the financial markets began experiencing volatility in the second half of 2008 and the economy entered a recession, we experienced a corresponding volatility in retailer interest for our projects. Retailers continue to express interest in the projects, but are reluctant to commit to new stores in the current economic environment. As a result of this difficult environment, we have delayed anticipated openings, reduced anticipated rents and incurred additional carrying costs, all resulting in an adverse impact on our business. If we are unable to or decide not to proceed with certain projects, we could incur write-offs, some of which could be substantial, which would have a material adverse affect on our results of operations.

Until the economy, in general, and the real estate industry in particular, experience sustained improvement, fundamentals for the development and management of real estate will remain weak and we will continue to operate in a difficult environment with no near-term expectation of improvement.

We Are Subject to Risks Associated with Investments in Real Estate

The value of, and our income from, our properties may decline due to developments that adversely affect real estate generally and those developments that are specific to our properties. General factors that may adversely affect our real estate portfolios if they were to occur or continue include:

Increases in interest rates;

The availability of financing, including refinancing or extensions of our nonrecourse mortgage debt maturities, on acceptable terms, or at all;

A decline in the economic conditions at the national, regional or local levels, particularly a decline in one or more of our primary markets;

Decreases in rental rates;

An increase in competition for tenants and customers or a decrease in demand by tenants and customers;

The financial condition of tenants, including the extent of bankruptcies and defaults;

An increase in supply or decrease in demand of our property types in our primary markets;

Declines in consumer confidence and spending during an economic recession that adversely affect our revenue from our retail centers;

Lingering declines in housing markets that adversely affect our revenue from our land segment;

The adoption on the national, state or local level of more restrictive laws and governmental regulations, including more restrictive zoning, land use or environmental regulations and increased real estate taxes; and

Opposition from local community or political groups with respect to the development, construction or operations at a particular site.

In addition, there are factors that may adversely affect the value of specific operating properties or result in reduced income or unexpected expenses. As a result, we may not achieve our projected returns on the properties and we could lose some or all of our investments in those properties. Those operational factors include:

Adverse changes in the perceptions of prospective tenants or purchasers of the attractiveness of the property;

Our inability to provide adequate management and maintenance;

The investigation, removal or remediation of hazardous materials or toxic substances at a site;

Our inability to collect rent or other receivables;

Vacancies and other changes in rental rates;

An increase in operating costs that cannot be passed through to tenants;

Introduction of a competitor s property in or in close proximity to one of our current markets;

Underinsured or uninsured natural disasters, such as earthquakes, floods or hurricanes; and

Our inability to obtain adequate insurance.

We Are Subject to Real Estate Development Risks

In addition to the risks described above, which could also adversely impact our development projects, our development projects are subject to significant risks relating to our ability to complete our projects on time and on budget. Factors that may result in a development project exceeding budget, being delayed or being prevented from completion include:

An inability to secure sufficient financing on favorable terms, or at all, including an inability to refinance or extend construction loans;

Construction delays or cost overruns, either of which may increase project development costs;

An increase in commodity costs;

An inability to obtain zoning, occupancy and other required governmental permits and authorizations;

An inability to secure tenants or anchors necessary to support the project;

Failure to achieve or sustain anticipated occupancy or sales levels; and

Threatened or pending litigation.

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Some of these development risks have been magnified given current adverse industry and market conditions. See also  Lending and Capital Market Conditions May Negatively Impact Our Liquidity and Our Ability to Finance or Refinance Projects or Repay Our Debt  and  The Ownership, Development and Management of Real Estate is Exceptionally Challenging in the Current Economic Environment and We Do Not Anticipate Meaningful Improvement in the Near Term  above. If any of these events occur, we may not achieve our projected returns on properties under development and we could lose some or all of our investments in those properties. In addition, the lead time required to develop, construct and lease-up a development property has substantially increased, which could adversely impact our projected returns or result in a termination of the development project.

In the past, we have elected not to proceed, or have been prevented from proceeding, with certain development projects, and we anticipate that this may occur again from time to time in the future. In addition, development projects may be delayed or terminated because a project partner or prospective anchor withdraws or a third party challenges our entitlements or public financing.

We periodically serve as either the construction manager or the general contractor for our development projects. The construction of real estate projects entails unique risks, including risks that the project will fail to conform to building plans, specifications and timetables. These failures could be caused by labor strikes, weather, government regulations and other conditions beyond our control. In addition, we may become liable for injuries and accidents occurring during the construction process that are underinsured.

In the construction of new projects, we generally guarantee the lender of the construction loan the lien-free completion of the project. This guaranty is recourse to us and places the risk of construction delays and cost overruns on us. In addition, from time to time, we guarantee our construction obligations to major tenants and public agencies. These types of guarantees are released upon completion of the project, as defined. We may have significant expenditures in the future in order to comply with our lien-free completion obligations which could have an adverse impact on our cash flows.

Examples of projects that face these and other development risks include the following:

*Brooklyn Atlantic Yards.* We are in the process of developing Brooklyn Atlantic Yards, which will cost approximately $4.9 billion over the anticipated construction and development period. This long-term mixed-use project in downtown Brooklyn is expected to feature a state-of-the-art sports and entertainment arena, the *Barclays Center* arena, for The Nets basketball team, a member of the NBA. The acquisition and development of Brooklyn Atlantic Yards has been formally approved by the required state governmental authorities and final documentation of the transactions was executed on December 23, 2009. Tax exempt financing for the arena also closed on December 23, 2009, the proceeds of which became available on May 12, 2010. We have commenced construction of the arena and related infrastructure as well as infrastructure related to other elements of the greater Atlantic Yards development project. As a result of prior litigation, this project has experienced delays and may continue to experience further delays.

There is also the potential for increased costs and further delays to the project as a result of (i) increasing construction costs, (ii) scarcity of labor and supplies, (iii) the unavailability of additional needed financing, (iv) our or our partners  inability or failure to meet required equity contributions, (v) increasing rates for financing, (vi) loss of arena sponsorships and related revenues, (vii) our inability to meet certain agreed upon deadlines for the development of the project and (viii) other potential litigation seeking to enjoin or prevent the project or litigation for which there may not be insurance coverage. The development of Brooklyn Atlantic Yards is being done in connection with the proposed move of The Nets to the planned arena, the timing of which is subject to delays. The arena itself (and its plans) along with any movement of the team is subject to approval by the NBA, which we may not receive. In addition, as applicable contractual and other deadlines and decision points approach, we could have less time and flexibility to plan and implement our responses to these or other risks to the extent that any of them may actually arise.

If any of the foregoing risks were to occur we may: (i) not be able to develop Brooklyn Atlantic Yards to the extent intended or at all resulting in a potential write-off of our investment, (ii) be required to pay the City

and/or State of New York liquidated damages for failure to meet certain agreed upon project deadlines, and (iii) be in default of our non-recourse mortgages on the project. The exposure to loss on this investment is approximately $525 million, excluding any potential write-offs for the arena or any liquidated damages described in (ii) of this paragraph, and could have a significant, material adverse effect on our business, cash flows and results of operations. Even if we were able to continue with the development, or a portion thereof, we would likely not be able to do so as quickly as originally planned, would be likely to incur additional costs and may need to write-off a portion of the development.

*Westchester s Ridge Hill.* Retail leasing at our *Westchester s Ridge Hill* development project in Westchester County, New York has progressed slowly. Currently, the center is 45% leased. The retail center is under construction and subject to a completion guaranty to the lender. The projected phased opening dates may be impacted by the final outcome of our continuous leasing effort which in turn could increase our equity requirements into this project.

Vacancies in Our Properties May Adversely Affect Our Results of Operations and Cash Flows

Our results of operations and cash flows may be adversely affected if we are unable to continue leasing a significant portion of our commercial and residential real estate portfolio. We depend on commercial and residential tenants in order to collect rents and other charges. The current economic downturn has impacted our tenants on many levels. The downturn has been particularly hard on commercial retail tenants, many of whom have announced store closings and scaled backed growth plans. If we are unable to sustain historical occupancy levels in our real estate portfolio, our cash flows and results of operations could be adversely affected. Our ability to sustain our current and historical occupancy levels also depends on many other factors that are discussed elsewhere in this section.

The Downturn in the Housing Market May Continue to Adversely Affect Our Results of Operations and Cash Flows

The United States has experienced a sustained downturn in the residential real estate markets, resulting in a decline in both the demand for, and price of, housing. We depend on homebuilders and condominium builders and buyers, which have been significantly and adversely impacted by the housing downturn, to continue buying our land held for sale. We do not know how long the downturn in the housing market will last or if we will ever see a return to previous conditions. Our ability to sustain our historical sales levels of land depends in part on the strength of the housing market and will continue to suffer until conditions improve. Our failure to successfully sell our land held for sale on favorable terms would adversely affect our results of operations and cash flows and could result in a write-down in the value of our land due to impairment.

Our Properties and Businesses Face Significant Competition

The real estate industry is highly competitive in many of the markets in which we operate. Competition could over-saturate any market, as a result of which we may not have sufficient cash to meet the nonrecourse debt service requirements on certain of our properties. Although we may attempt to negotiate a restructuring with the mortgagee, we may not be successful, particularly in light of current credit markets, which could cause a property to be transferred to the mortgagee.

There are numerous other developers, managers and owners of commercial and residential real estate and undeveloped land that compete with us nationally, regionally and/or locally, some of whom have greater financial resources and market share than us. They compete with us for management and leasing opportunities, land for development, properties for acquisition and disposition, and for anchor stores and tenants for properties. We may not be able to successfully compete in these areas. If our competitors prevent us from realizing our real estate objectives, the operating performance may fall short of expectations and adversely affect our financial performance.

Tenants at our retail properties face continual competition in attracting customers from retailers at other shopping centers, catalogue companies, online merchants, warehouse stores, large discounters, outlet malls, wholesale clubs, direct mail and telemarketers. Our competitors and those of our tenants could have a material adverse effect on our ability to lease space in our properties and on the rents we can charge or the concessions we can grant. This in turn could materially and adversely affect our results of operations and cash flows, and could affect the realizable value of our assets upon sale.

We May Be Unable to Sell Properties to Avoid Losses or to Reposition Our Portfolio

Because real estate investments are relatively illiquid, we may be unable to dispose of underperforming properties and may be unable to reposition our portfolio in response to changes in national, regional or local real estate markets. As a result, we may incur operating losses from some of our properties and may have to write-down the value of some properties due to impairment.

Our Results of Operations and Cash Flows May Be Adversely Affected by Tenant Defaults or Bankruptcy

Our results of operations and cash flows may be adversely affected if a significant number of our tenants are unable to meet their obligations or do not renew their leases, or if we are unable to lease a significant amount of space on economically favorable terms. In the event of a default by a tenant, we may experience delays in payments and incur substantial costs in recovering our losses.

In addition, our ability to collect rents and other charges will be even more difficult if the tenant is bankrupt or insolvent. While our tenants have from time to time filed for bankruptcy or been involved in insolvency proceedings, there have been an increased number of bankruptcies with the most recent recession. We may be required to expense costs associated with leases of bankrupt tenants and may not be able to replace future rents for tenant space rejected in

bankruptcy proceedings which could adversely affect our properties. The current bankruptcies of some of our tenants, and the potential bankruptcies of other tenants in the future could make it difficult for us to enforce our rights as lessor and protect our investment.

Based on tenants with net base rent of greater than 2% of total net base rent as of January 31, 2011, our five largest office tenants by leased square feet are the City of New York, Millennium Pharmaceuticals, Inc., U.S. Government, the District of Columbia and Morgan Stanley & Co. Given our large concentration of office space in New York City, we may be adversely affected by the consolidation or failure of certain financial institutions. Based on tenants with net base rent of greater than 1% of total net base rent as of January 31, 2011, our five largest retail tenants by leased square feet are Bass Pro Shops, Inc., Regal Entertainment Group, AMC Entertainment, Inc., TJX Companies and The Gap. An event of default or bankruptcy of one of our largest tenants would increase the adverse impact on us.

We May Be Negatively Impacted by the Consolidation or Closing of Anchor Stores

Our retail centers are generally anchored by department stores or other big box tenants. We could be adversely affected if one or more of these anchor stores were to consolidate, close or enter into bankruptcy. Given the current economic environment for retailers, we are at a heightened risk that an anchor store could close or enter into bankruptcy. Although non-tenant anchors generally do not pay us rent, they typically contribute towards common area maintenance and other expenses. Even if we own the anchor space, we may be unable to re-lease this area or to re-lease it on comparable terms. The loss of these revenues could adversely affect our results of operations and cash flows. Further, the temporary or permanent loss of any anchor likely would reduce customer traffic in the retail center, which could lead to decreased sales at other retail stores. Rents obtained from other tenants may be adversely impacted as a result of co-tenancy clauses in their leases. One or more of these factors could cause the retail center to fail to meet its debt service requirements. The consolidation of anchor stores may also negatively affect current and future development and redevelopment projects.

We May Be Negatively Impacted by International Activities

While our international activities are currently limited in scope and generally focused on evaluating various international opportunities, we may expand our international efforts subjecting us to risks that could have an adverse effect on the projected returns on the international projects or our overall results of operations. We have limited experience in dealing with foreign economies or cultures, changes in political environments or changes in exchange rates for foreign currencies. In addition, international activities would subject us to a wide variety of local laws and regulations governing these foreign properties with which we have no prior experience. We may experience difficulties in managing international properties, including the ability to successfully integrate these properties into our business operations and the ambiguities that arise when dealing with foreign cultures. Each of these factors may adversely affect our projected returns on foreign investments, which could in turn have an adverse effect on our results of operations.

Terrorist Attacks and Other Armed Conflicts May Adversely Affect Our Business

We have significant investments in large metropolitan areas, including New York City/Philadelphia, Boston, Washington D.C./Baltimore, Denver, Chicago, Los Angeles and San Francisco, which face a heightened risk related to terrorism. Some tenants in these areas may choose to relocate their business to less populated, lower-profile areas of the United States that are not as likely to be targets of terrorist activity. This could result in a decrease in the demand for space in these areas, which could increase vacancies in our properties and force us to lease our properties on less favorable terms. In addition, properties in our real estate portfolio could be directly impacted by future terrorist attacks which could cause the value of our property and the level of our revenues to significantly decline.

Future terrorist activity, related armed conflicts or prolonged or increased tensions in the Middle East could cause consumer confidence and spending to decrease and adversely affect mall traffic. Additionally, future terrorist attacks could increase volatility in the United States and worldwide financial markets. Any of these occurrences could have a significant impact on our revenues, costs and operating results.

The Investment in a Professional Sports Franchise Involves Certain Risks and Future Losses Are Expected for The Nets

On August 16, 2004, we purchased a legal ownership interest in The Nets. The purchase of the interest in The Nets was the first step in our efforts to pursue development projects at Brooklyn Atlantic Yards. For a more thorough discussion of the risks associated with the Brooklyn Atlantic Yards project see We Are Subject to Real Estate Developments Risks. On May 12, 2010, we, through our consolidated subsidiary NS&E, closed on a purchase agreement with the MP Entities. The transaction resulted in a change of controlling ownership interest in The Nets.

Following the transaction with the MP Entities, NS&E retained a 20% non-controlling ownership of The Nets. As we have a 48% ownership interest in NS&E, our resulting ownership interest in The Nets after the transaction is approximately 10%.

The Nets are currently operating at a loss and are projected to continue to operate at a loss at least as long as they remain in New Jersey. Such operating losses will need to be funded by the contribution of equity. Even if The Nets are able to relocate to Brooklyn, New York, there can be no assurance that The Nets will be profitable in the future. Losses are currently allocated to each member of the limited liability company that owns The Nets based on an analysis of the respective member s claim on the net book equity assuming a liquidation at book value at the end of each accounting period without regard to unrealized appreciation (if any) in the fair value of The Nets. The operating agreement with the MP Entities requires them to fund The Nets operating needs up to $60,000,000, including reimbursements to us for loans made to cover The Nets operating needs between March 1, 2010 and May 12, 2010 totaling $15,000,000. Once the remaining $45,000,000 out of the $60,000,000 cap is expended, which is anticipated to occur prior to the start of the 2011-2012 NBA basketball season, NS&E is required to fund 100% of The Nets operating needs as defined, until the arena is complete and open. Therefore, losses allocated to us have exceeded and may continue to exceed our legal ownership interest and may become significant.

Our investment in The Nets is subject to a number of operational risks, including risks associated with operating conditions, competitive factors, economic conditions and industry conditions. If The Nets are not able to successfully manage the following operational risks, The Nets may incur additional operating losses:

- Competition with other major league sports, college athletics and other sports-related and non sports-related entertainment;
- Dependence on competitive success of The Nets;
- Fluctuations in the amount of revenues from advertising, sponsorships, concessions, merchandise, parking and season and other ticket sales, which are tied to the popularity and success of The Nets and general economic conditions;
- Uncertainties of increases in players salaries;
- Risk of injuries to key players;
- Dependence on talented players;
- Uncertainties relating to labor relations in professional sports, including the expiration of the NBA s current collective bargaining agreement, or a player or management initiated stoppage after such expiration; and
- Dependence on television and cable network, radio and other media contracts.

Our High Debt Leverage May Prevent Us from Responding to Changing Business and Economic Conditions

Our high degree of debt leverage could limit our ability to obtain additional financing or adversely affect our liquidity and financial condition. We have a high ratio of debt (consisting of nonrecourse mortgage debt, a revolving credit facility and senior and subordinated debt) to total market capitalization. This ratio was approximately 74.4% and 83.3% at January 31, 2011 and January 31, 2010, respectively, based on our long-term debt outstanding at that date and the market value of our outstanding Class A common stock and Class B common stock. Our high leverage may adversely affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes and may make us more vulnerable to a prolonged downturn in the economy.

Nonrecourse mortgage debt is collateralized by individual completed rental properties, projects under development and undeveloped land. We do not expect to repay a substantial amount of the principal of our outstanding debt prior to maturity or to have available funds from operations sufficient to repay this debt at maturity. As a result, it will be necessary for us to refinance our debt through new debt financings or through equity offerings. If interest rates are higher at the time of refinancing, our interest expense would increase, which would adversely affect our results of operations and cash flows. Cash flows and our liquidity would also be adversely affected if we are required to repay a

portion of the outstanding principal or contribute additional equity to obtain the refinancing. In addition, in the event we were unable to secure refinancing on acceptable terms, we might be forced to sell properties on unfavorable terms, which could result in the recognition of losses and could adversely affect our financial position, results of operations and cash flows. If we were unable to make the required payments on any debt collateralized by a mortgage on one of our properties or to refinance that debt when it comes due, the mortgage lender could take that property through foreclosure and, as a result, we could lose income and asset value as well harm our Company reputation. See also Market Conditions May Negatively Impact Our Liquidity and Our Ability to Finance or Refinance Projects or Repay Our Debt above.

Our Corporate Debt Covenants Could Adversely Affect Our Financial Condition

We have guaranteed the obligations of our wholly-owned subsidiary, Forest City Rental Properties Corporation, or FCRPC, under the FCRPC Second Amended and Restated Credit Agreement entered into on January 29, 2010, among FCRPC and the banks named therein, and amended on March 4, 2010. This credit agreement and related guaranty (collectively Credit Agreement ) impose a number of restrictive covenants on us, including a prohibition on certain consolidations and mergers, limitations on the amount of debt, guarantees and property liens that we may incur, restrictions on the pledging of ownership interests in subsidiaries, limitations on the use of cash sources, a prohibition on our common stock dividends through the maturity date and limitations on our ability to pay dividends on our preferred stock. The Credit Agreement also requires us to maintain a specified minimum liquidity, debt service and cash flow coverage ratios and consolidated shareholders equity.

The Indentures under which our senior and subordinated debt is issued also contain certain restrictive covenants, including, among other things, limitations on our ability to incur debt, pay dividends, acquire our common or preferred stock, permit liens on our properties or dispose of assets.

While we are in compliance with all of our covenants at January 31, 2011, we cannot guarantee our future compliance with any of the covenants. The failure to comply with any of our financial or non-financial covenants could result in an event of default and accelerate some or all of our indebtedness, which could have a material adverse effect on our financial condition. Our ability to comply with these covenants will depend upon our future economic performance. These covenants may adversely affect our ability to finance our future operations or capital needs or to engage in other business activities that may be desirable or advantageous to us.

We Are Subject to Risks Associated With Hedging Agreements

We will often enter into interest rate swap agreements and other interest rate hedging contracts, including caps and floors to mitigate or reduce our exposure to interest rate volatility or to satisfy lender requirements. While these agreements may help reduce our exposure to interest rate volatility, they also expose us to additional risks, including a risk that the counterparties will not perform. Moreover, there can be no assurance that the hedging agreement will qualify for hedge accounting or that our hedging activities will have the desired beneficial impact on our results of operations. Should we desire to terminate a hedging agreement there could be significant costs and cash requirements involved to fulfill our initial obligation under the hedging agreement.

When a hedging agreement is required under the terms of a mortgage loan it is often a condition that the hedge counterparty agree to certain conditions which include, but are not limited to, maintaining a specified credit rating. With the current volatility in the financial markets there is a reduced pool of eligible counterparties that can meet or are willing to agree to the required conditions which has resulted in an increased cost for hedging agreements. This could make it difficult to enter into hedging agreements in the future. Additionally, if the counterparty failed to satisfy any of the required conditions and we were unable to renegotiate the required conditions with the lender or find an alternative counterparty for such hedging agreements, we could be in default under the loan and the lender could take that property through foreclosure.

Our bonds that are structured in a total rate of return swap arrangement ( TRS ) have maturities reflected in the year the bond matures as opposed to the TRS maturity date, which is likely to be earlier. Throughout the life of the TRS, if the property is not performing at designated levels or due to changes in market conditions, the property may be obligated to make collateral deposits with the counterparty. At expiration of the TRS arrangement, the property must pay or is entitled to the difference, if any, between the fair market value of the bond and par. If the property does not post collateral or make the counterparty whole at expiration, the counterparty could foreclose on the property.

Any Rise in Interest Rates Will Increase Our Interest Costs

Including the effect of the protection provided by the interest rate swaps, caps and long-term contracts in place as of January 31, 2011, a 100 basis point increase in taxable interest rates (including properties accounted for under the equity method and corporate debt and the effect of interest rate floors) would increase the annual pre-tax interest cost for the next 12 months of our variable-rate debt by approximately $9,817,000 at January 31, 2011. Although tax-exempt rates generally move in an amount that is smaller than corresponding changes in taxable interest rates, a 100 basis point increase in tax-exempt rates (including properties accounted for under the equity method) would increase the annual pre-tax interest cost for the next 12 months of our tax-exempt variable-rate debt by approximately

$8,680,000 at January 31, 2011. The analysis above includes a portion of our taxable and tax-exempt variable-rate debt related to construction loans for which the interest expense is capitalized. For variable rate bonds, during times of market illiquidity, a premium interest rate could be charged on the bonds to successfully market them which would result in even higher interest rates.

If We Are Unable to Obtain Tax-Exempt Financings, Our Interest Costs Would Rise

We regularly utilize tax-exempt financings and tax increment financings, which generally bear interest at rates below prevailing rates available through conventional taxable financing. We cannot assure you that tax-exempt bonds or similar government subsidized financing will continue to be available to us in the future, either for new development or acquisitions, or for the refinancing of outstanding debt. Our ability to obtain these financings or to refinance outstanding debt on favorable terms could significantly affect our ability to develop or acquire properties and could have a material adverse effect on our results of operations, cash flows and financial position.

Downgrades in Our Credit Rating Could Adversely Affect Our Performance

We are periodically rated by nationally recognized rating agencies. Any downgrades in our credit rating could impact our ability to borrow by increasing borrowing costs as well as limiting our access to capital. In addition, a downgrade could require us to post cash collateral and/or letters of credit to cover our self-insured property and liability insurance deductibles, surety bonds, energy contracts and hedge contracts which would adversely affect our cash flow and liquidity.

Our Business Will Be Adversely Impacted Should an Uninsured Loss, a Loss in Excess of Insurance Limits or a Delayed or Denied Insurance Claim Occur

We carry comprehensive insurance coverage for general liability, property, flood, wind, earthquake and rental loss (and environmental insurance on certain locations) with respect to our properties within insured limits and policy specifications that we believe are customary for similar properties. There are, however, specific types of potential losses, including environmental loss or losses of a catastrophic nature, such as losses from wars, terrorism, hurricanes, wind, earthquakes or other natural disasters, that in our judgment, cannot be purchased at a commercially viable cost or whereby such losses, if incurred, would exceed the insurance limits procured. In the event of an uninsured loss or a loss in excess of our insurance limits, or a failure by an insurer to meet its obligations under a policy, we could lose both our invested capital in, and anticipated profits from, the affected property and could be exposed to liabilities with respect to that which we thought we had adequate insurance to cover. Any such uninsured loss could materially and adversely affect our results of operations, cash flows and financial position. Under our current policies, which expire October 31, 2011, our properties are insured against acts of terrorism, subject to various limits, deductibles and exclusions for acts of war and terrorist acts involving biological, chemical and nuclear damage. Once these policies expire, we may not be able to obtain adequate terrorism coverage at a commercially reasonable cost. In addition, our insurers may not be able to maintain reinsurance sufficient to cover any losses we may incur as a result of terrorist acts. As a result, our insurers ability to provide future insurance for any damages that we sustain as a result of a terrorist attack may be reduced or eliminated.

Additionally, most of our current project mortgages require all-risk / special form property insurance, and we cannot assure you that we will be able to continue to obtain such all risk / special form policies that will satisfy lender requirements. We are self-insured as to the first $500,000 of commercial general liability coverage per occurrence. Further, for the first $250,000 of property damage coverage per occurrence, we utilize a wholly-owned captive insurance company and self-insurance. The wholly-owned captive insurance company is licensed, regulated and capitalized in accordance with state of Arizona statutes. The wholly-owned captive insurance company is not utilized to mitigate percentage deductibles for Florida, Hawaii, and scheduled tier one county wind property damage claims by named storms, California earthquake property damage claims, and Flood Zone A and V property claims. These percentage deductibles are self-insured. While we reasonably believe that our self-insurance and wholly-owned captive insurance company reserves are adequate for commercial property damage claims and commercial general liability claims, we cannot assure you that we will not incur losses that exceed these self- insurance and wholly-owned captive reserves.

As a property developer, owner, and manager, we will likely experience property and liability claims and will reasonably seek the coverage of the insurance policies that we have procured. There may be instances where there are severe claims that can be prolonged and insurance recoveries may be delayed or ultimately denied. This delay or denial may have an adverse impact on our financial condition.

A Downgrade or Financial Failure of Our Insurance Carriers May Have an Adverse Impact on our Financial Condition

The insurance carrier(s) that we utilize have satisfactory financial ratings at the time the policies are placed and made effective based on various insurance carrier rating agencies commonly used in the insurance industry. However, we cannot assure you that these financial ratings will remain satisfactory or constant throughout the policy period. There is a risk that these financial ratings may be downgraded throughout the policy period or that the insurance carrier(s) may experience a financial failure. A downgrade or financial failure of our insurance carrier(s) may result in their inability to pay current and future claims. This inability to pay claims may have an adverse impact on our financial condition. In addition, a downgrade or a financial failure of our insurance carrier(s) may cause our insurance renewal or replacement policy costs to increase.

We May Be Adversely Impacted by Environmental Matters

We are subject to various foreign, federal, state and local environmental protection and health and safety laws and regulations governing, among other things: the generation, storage, handling, use and transportation of hazardous materials; the emission and discharge of hazardous materials into the ground, air or water; and the health and safety of our employees. In some instances, federal, state and local laws require abatement or removal of specific hazardous materials such as asbestos-containing materials or lead-based paint, in the event of demolition, renovations, remodeling, damage or decay. Laws and regulations also impose specific worker protection and notification requirements and govern emissions of and exposure to hazardous or toxic substances, such as asbestos fibers in the air. We incur costs to comply with such laws and regulations, but we cannot assure you that we have been or will be at all times in complete compliance with such laws and regulations.

Under certain environmental laws, an owner or operator of real property may become liable for the costs of the investigation, removal and remediation of hazardous or toxic substances at that property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances. Certain contamination is difficult to remediate fully and can lead to more costly design specifications, such as a requirement to install vapor barrier systems, or a limitation on the use of the property and could preclude development of a site at all. The presence of hazardous substances on a property could also result in personal injury, contribution or other claims by private parties. In addition, persons who arrange for the disposal or treatment of hazardous or toxic wastes may also be liable for the costs of the investigation, removal and remediation of those wastes at the disposal or treatment facility, regardless of whether that facility is owned or operated by that person.

We have invested, and will in the future, invest in properties that are or have been used for or are near properties that have had industrial purposes in the past. As a result, our properties are or may become contaminated with hazardous or toxic substances. We will incur costs to investigate and possibly to remediate those conditions and it is possible that some contamination will remain in or under the properties even after such remediation. While we investigate these sites and work with all relevant governmental authorities to meet their standards given our intended use of the property, it is possible that there will be new information identified in the future that indicates there are additional unaddressed environmental impacts, there could be technical developments that will require new or different remedies to be undertaken in the future, and the regulatory standards imposed by governmental authorities could change in the future.

As a result of the above, the value of our properties could decrease, our income from developed properties could decrease, our projects could be delayed, we could become obligated to third parties pursuant to indemnification agreements or guarantees, our expense to remediate or maintain the properties could increase, and our ability to successfully sell, rent or finance our properties could be adversely affected by environmental matters in a manner that could have a material adverse effect on our financial position, cash flows or results of operation. While we maintain insurance for certain environmental matters, we cannot assure you that we will not incur losses related to environmental matters, including losses that may materially exceed any available insurance. See Our Business Will Be Adversely Impacted Should an Uninsured Loss or a Loss in Excess of Insurance Limits Occur.

The Ratner, Miller and Shafran Families Own a Controlling Interest in the Company, and Those Interests May Differ from Other Shareholders

Our authorized common stock consists of Class A common stock and Class B common stock. The economic rights of each Class of common stock are identical, but the voting rights differ. The Class A common stock, voting as a separate Class, is entitled to elect 25% of the members of our board of directors, while the Class B common stock, voting as a separate Class, is entitled to elect the remaining 75% of our board of directors. On all other matters, the Class A common stock and Class B common stock vote together as a single Class, with each share of our Class A common stock entitled to one vote per share and each share of Class B common stock entitled to ten votes per share. At February 28, 2011, members of the Ratner, Miller and Shafran families, which include members of our current board of directors and executive officers, owned 88.6% of the Class B common stock. Of the 88.6%, 88.1% of the Class B common stock was owned by RMS, Limited Partnership ( RMS LP ) which is a limited partnership, comprised of interests of these families, with seven individual general partners, currently consisting of:

Samuel H. Miller, Treasurer of Forest City and Co-Chairman of our Board of Directors;

Charles A. Ratner, President and Chief Executive Officer of Forest City and a Director;

Ronald A. Ratner, Executive Vice President of Forest City and a Director;

Brian J. Ratner, Executive Vice President of Forest City and a Director;

Deborah Ratner Salzberg, President of Forest City Washington, Inc., a subsidiary of Forest City, and a Director;

Joan K. Shafran, a Director; and

Abraham Miller.

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Charles A. Ratner, James A. Ratner, Executive Vice President of Forest City and a Director, and Ronald A. Ratner are brothers. Albert B. Ratner, Co-Chairman of our Board of Directors, is the father of Brian J. Ratner and Deborah Ratner Salzberg and is first cousin to Charles A. Ratner, James A. Ratner, Ronald A. Ratner, Joan K. Shafran, and Bruce C. Ratner, Executive Vice President of Forest City and a Director. Samuel H. Miller was married to Ruth Ratner Miller (now deceased), a sister of Albert B. Ratner, and is the father of Abraham Miller. General partners holding 60% of the total voting power of RMS LP determine how to vote the Class B common stock held by RMS LP. No person may transfer his or her interest in the Class B common stock held by RMS LP without complying with various rights of first refusal.

In addition, at February 28, 2011, members of these families collectively owned 9.2% of the Class A common stock. As a result of their ownership in Forest City, these family members and RMS LP have the ability to elect a majority of our board of directors and to control the management and policies of Forest City. Generally, they may also determine, without the consent of our other shareholders, the outcome of any corporate transaction or other matters submitted to our shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets and prevent or cause a change in control of Forest City.

Even if these families or RMS LP reduce their level of ownership of Class B common stock below the level necessary to maintain a majority of the voting power, specific provisions of Ohio law and our Amended Articles of Incorporation may have the effect of discouraging a third party from making a proposal to acquire us or delaying or preventing a change in control or management of Forest City without the approval of these families or RMS LP.

RMS Investment Corp. Provides Property Management and Leasing Services to Us and Is Controlled By Some of Our Affiliates

We paid approximately $229,000 and $423,000 as total compensation during the years ended January 31, 2011 and 2010, respectively, to RMS Investment Corp. for property management and leasing services. RMS Investment Corp. is controlled by members of the Ratner, Miller and Shafran families, some of whom are our directors and executive officers.

RMS Investment Corp. manages and provides leasing services to our Cleveland-area specialty retail center, Golden Gate, which has 361,000 square feet. The current rate of compensation for this management service is 4% of all rental income, plus a leasing fee of generally 3% to 6% of rental income of all new or renewed leases. Management believes these fees are comparable to those other management companies would charge to non-affiliated third parties.

Our Directors and Executive Officers May Have Interests in Competing Properties, and We Do Not Have Non-Compete Agreements with Certain of Our Directors and Executive Officers

Under our current policy, no director or executive officer, including any member of the Ratner, Miller and Shafran families, is allowed to invest in a competing real estate opportunity without first obtaining the approval of the audit committee of our board of directors. We do not have non-compete agreements with any director or executive officer, other than Charles Ratner, James Ratner, Ronald Ratner and Bruce Ratner. Upon leaving Forest City, any other director, officer or employee could compete with us. Notwithstanding our policy, we permit our principal shareholders who are officers and employees to develop, expand, operate or sell, independent of our business, certain commercial, industrial and residential properties that they owned prior to the implementation of our policy. As a result of their ownership of these properties, a conflict of interest may arise between them and Forest City, which may not be resolved in our favor. The conflict may involve the development or expansion of properties that may compete with our properties and the solicitation of tenants to lease these properties.

We are Subject to Recapture Risks Associated with Sale of Tax Credits

As part of our financing strategy, we have financed several real estate projects through limited partnerships with investment partners. The investment partner, typically a large, sophisticated institution or corporate investor, invests cash in exchange for a limited partnership interest and special allocations of expenses and the majority of tax losses and credits associated with the project. These partnerships typically require us to indemnify, on an after-tax or grossed up basis, the investment partner against the failure to receive or the loss of allocated tax credits and tax losses. Due to the economic structure and related economic substance, we have consolidated each of these entities in our consolidated financial statements.

We believe that all the necessary requirements for qualification for such tax credits have been and will be met and that our investment partners will be able to receive expense allocations associated with these properties. However, we cannot assure you that this will, in fact, be the case or that we will not be required to indemnify our investment partners on an after-tax basis for these amounts. Indemnification payments (if required) could have a material adverse effect on our results of operations and cash flows.

We Face Risks Associated with Developing and Managing Properties in Partnership with Others

We use partnerships and limited liability companies, or LLCs, to finance, develop or manage some of our real estate investments. Acting through our wholly-owned subsidiaries, we typically are a general partner or managing member in these partnerships or LLCs. There are, however, instances in which we do not control or even participate in management or day-to-day operations of these properties. The use of partnerships and LLCs involve special risks associated with the possibility that:

- Another partner or member may have interests or goals that are inconsistent with ours;
- A general partner or managing member may take actions contrary to our instructions, requests, policies or objectives with respect to our real estate investments; or
- A partner or a member could experience financial difficulties that prevent it from fulfilling its financial or other responsibilities to the project or its lender or the other partners or members.

In the event any of our partners or members files for bankruptcy, we could be precluded from taking certain actions affecting our project without bankruptcy court approval, which could diminish our control over the project even if we were the general partner or managing member. In addition, if the bankruptcy court were to discharge the obligations of our partner or member, it could result in our ultimate liability for the project being greater than we would have otherwise been obligated for.

To the extent we are a general partner, we may be exposed to unlimited liability, which may exceed our investment or equity in the partnership. If one of our subsidiaries is a general partner of a particular partnership it may be exposed to the same kind of unlimited liability.

Failure to Continue to Maintain Effective Internal Controls in Accordance with Section 404 of the Sarbanes-Oxley Act of 2002 Could Have a Material Adverse Effect on Our Ability to Ensure Timely and Reliable Financial Reporting

Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, requires our management to evaluate the effectiveness of, and our independent registered public accounting firm to attest to, our internal control over financial reporting. We will continue our ongoing process of testing and evaluating the effectiveness of, and remediating any issues identified related to, our internal control over financial reporting. The process of documenting, testing and evaluating our internal control over financial reporting is complex and time consuming. Due to this complexity and the time-consuming nature of the process and because currently unforeseen events or circumstances beyond our control could arise, we cannot assure you that we ultimately will be able to continue to comply fully in subsequent fiscal periods with Section 404 in our Annual Report on Form 10-K. We may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404, which could adversely affect public confidence in our ability to record, process, summarize and report financial data to ensure timely and reliable external financial reporting.

Compliance or Failure to Comply with the Americans with Disabilities Act and Other Similar Laws Could Result in Substantial Costs

The Americans with Disabilities Act generally requires that public buildings, including office buildings and hotels, be made accessible to disabled persons. In the event that we are not in compliance with the Americans with Disabilities Act, the federal government could fine us or private parties could be awarded damages against us. If we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely affect our results of operations and cash flows.

We may also incur significant costs complying with other regulations. Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We believe that our properties are currently in material compliance with all of these regulatory requirements. However, existing requirements may change and compliance with future requirements may require significant unanticipated expenditures that could adversely affect our cash flows and results of operations.

Legislative and Regulatory Actions Taken Now or in the Future Could Adversely Affect Our Business.

Current economic conditions have resulted in governmental regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. This increased scrutiny has resulted in unprecedented programs and actions targeted at restoring stability in the financial markets.

In July 2010, the U.S. Congress enacted the Dodd Frank Wall Street Reform and Consumer Protection Act (or the Dodd-Frank Act). The Dodd-Frank Act was enacted in part, to impose significant investment restrictions and capital requirements on banking entities and other organizations in the financial services industry, which may result in such entities and organizations instituting more conservative practices with respect to financing instruments. While we do not operate in the financial services industry, the Dodd-Frank Act could have an adverse impact on our business, results of operations and financial condition.

While the full impact of the Dodd-Frank Act cannot be assessed until implementing regulations are released, the Dodd-Frank Act may adversely affect the cost, availability and terms of financial instruments, such as non-recourse mortgage loans, interest rate swaps and other hedging instruments; further reducing our access to capital; and availability of favorable terms of financing from lenders.

In addition, U.S. Government, Federal Reserve, U.S. Treasury and other governmental and regulatory bodies have taken or are considering taking other actions to address the financial crisis. While we cannot predict whether or when such actions may occur, such actions may have an adverse impact on our business, results of operations and financial condition.

Changes in Market Conditions Could Continue to Hurt the Market Price of Our Publicly Traded Securities

The stock market has experienced volatile conditions, particularly with respect to companies in the real estate industry, resulting in substantial price and volume fluctuations that are often unrelated or disproportionate to the financial performance of companies. Negative market volatility may cause the market price of our publicly traded securities to decline. A decline in the price of our Class A common stock could have an adverse effect on our business by reducing our ability to generate capital through sales of our Class A common stock, subjecting us to further credit rating downgrades and, in the case of a substantial decline, increasing the risk of not satisfying the New York Stock Exchange s continued listing standards.

Inflation May Adversely Affect our Financial Condition and Results of Operations

Although inflation has not materially impacted our results of operations to date, increases in inflation at a rate higher than increases in rental income could have a negative impact on our operating margins and cash flows. In some circumstances, increases in operating expenses for commercial properties can be passed on to our tenants. However, some of our commercial leases contain clauses that may prevent us from easily passing on increases of operating expenses to the respective tenants.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

The Corporate headquarters of Forest City Enterprises, Inc. are located in Cleveland, Ohio and are owned by the Company. The Company s core markets include Boston, the state of California, Chicago, Denver, the New York City/Philadelphia metropolitan area and the Greater Washington D.C./Baltimore metropolitan area.

The following tables present information on properties opened in 2010 and those that are under construction as of January 31, 2011.

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**Forest City Enterprises, Inc.**
**Development Pipeline**
**January 31, 2011**
**2010 Openings and Acquisitions**

| | Location | Dev (D) Acq (A) | Date Opened / Acquired | FCE Legal Ownership % | Consolidated (C) Unconsolidated (U) (a) | Total Cost *(in millions)* | Sq. f No. Uni |
|---|---|---|---|---|---|---|---|
| rk | Hallandale Beach, FL | D | Q1-10 | 50.0% | U | $ 214.2 | 511 |
| | Manhattan, NY | D | Q2-10 | 35.0% | U | 390.6 | 527 |
| | | | | | | $ 604.8 | 1,038 |
| 4th & West 4th Buildings | Washington, D.C. | D | Q1-10 | 45.0% | C | $ 236.0 | 631 |
| | San Francisco, CA | D | Q3-10 | 100.0% | C | $ 103.7 | |
| **quisitions** | | | | | | $ **944.5** | |

***See attached footnotes.***

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**Forest City Enterprises, Inc.**
**Development Pipeline**
**January 31, 2011**
**Under Construction**

| | Location | Dev (D) Acq (A) | Anticipated Opening | FCE Legal Ownership % | Consolidated (C) Unconsolidated (U) (a) | Total Cost | Sq. ft./ No. of Units | Gross Leasable Area | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | (in millions) | | | |
| : | | | | | | | | | |
| s | | | | | | | | | |
| ) | Yonkers, NY | D | 2011/2012 | 70.0 % | C | $ 827.4 | 1,336,000 | 1,336,000 | (e |
| | Manhattan, NY | D | Q1-11/12 | 49.0 % | C | $ 875.7 | 903 | | |
| s | Washington, D.C. | D | Q3-11 | 100.0 % | C | 60.3 | 170 | | |
| | | | | | | $ 936.0 | 1,073 | | |
| | Brooklyn, NY | D | 2012 | 26.6 % | C | $ 904.3 | 670,000 | 18,000 seats | (g |
| **n** | | | | | | $ **2,667.7** | | | |

| : | | | | | | | Sq. Ft. |
|---|---|---|---|---|---|---|---|
| Las Vegas, NV | D | Q1-12 | - | U | $ | 146.2 | 270,000 |

***See attached footnotes.***
***Military Housing see footnote j.***

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**Development Pipeline**

**January 31, 2011 Footnotes**

(a) Unconsolidated entities are reported under the equity method of accounting. This method represents a measure for investments in which the Company is not deemed to have control or to be the primary beneficiary of our investments in a variable interest entity. Costs are representative of the total project.

(b) Includes 89,000 square feet of office space.

(c) Includes 85,000 square feet of retail space.

(d) Phased-in openings. Costs are representative of the total project.

(e) Includes 156,000 square feet of office space.

(f) As of March 29, 2011, 53 leases have been signed since appointments with prospective residents began on February 18, 2011.

(g) The Nets, a member of the NBA, has a 37 year license agreement to use the arena.

(h) Represents the percentage of forecasted contractually obligated arena income that is under contract. Contractually obligated income, which includes revenue from naming rights, sponsorships, suite licenses, Nets minimum rent and food concession agreements, accounts for 72% of total forecasted revenues for the Arena.

(i) This is a fee development project, owned by the City of Las Vegas. Therefore, these costs are not included on the Company s balance sheet.

(j) Below is a summary of the Company s unconsolidated investments for Military Housing Development projects that are accounted for under the equity method. The Company provides development, construction and management services for these projects and receives agreed upon fees for these services.

| **Property** | **Location** | **Anticipated Opening** | **Completed Cost** | **No. of Units** |
|---|---|---|---|---|
| | | | *(in millions)* | |
| ***Military Housing - Under Construction (a)*** | | | | |
| Pacific Northwest Communities | Seattle, WA | 2007-2011 | $ 280.5 | 2,985 |
| Marines, Hawaii | Honolulu, HI | 2007-2011 | 292.7 | 1,175 |

| | | | | |
|---|---|---|---|---|
| Increment II | | | | |
| Navy, Hawaii Increment III | Honolulu, HI | 2007-2011 | 464.8 | 2,520 |
| Navy Midwest | Chicago, IL | 2006-2012 | 200.3 | 1,401 |
| Midwest Millington | Memphis, TN | 2008-2012 | 33.1 | 318 |
| Air Force Academy | Colorado Springs, CO | 2007-2013 | 69.5 | 427 |
| Hawaii Phase IV | Kaneohe, HI | 2007-2014 | 475.1 | 1,141 |
| Total Military Housing Under Construction | | | $ 1,816.0 | 9,967 |

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The following table provides summary information concerning the Company s real estate portfolio. Consolidated properties are properties that we control and/or hold a variable interest in and are deemed to be the primary beneficiary. Unconsolidated properties are properties that we do not control and/or are not deemed to be the primary beneficiary and are accounted for under the equity method.

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**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**COMMERCIAL GROUP**
**OFFICE BUILDINGS**

| | Date of Opening/ Acquisition/ Expansion | Legal Ownership (1) | Pro-Rata Ownership (2) | Location | Major Tenants | Leasable Square Feet |
|---|---|---|---|---|---|---|
| **ed Office Buildings** | | | | | | |
| son Place | 2004 | 100.00% | 100.00% | Brooklyn, NY | Bank of New York, HSBC | 399,000 |
| uron | 1991 | 100.00% | 100.00% | Cleveland, OH | Leasing in progress | 119,000 |
| Oakton | 2006 | 100.00% | 100.00% | Skokie, IL | Sanford Brown College | 40,000 |
| on Common Office Center | 2005 | 100.00% | 100.00% | Arlington, VA | US Coast Guard; Better Business Bureau | 174,000 |
| ado Studios | 2007 | 90.00% | 90.00% | Denver, CO | Colorado Studios | 75,000 |
| nerce Court | 2007 | 100.00% | 100.00% | Pittsburgh, PA | US Bank; Wesco Distributors; Cardworks Services; Marc USA | 379,000 |
| vorth Building | 2006 | 100.00% | 100.00% | Richmond, VA | Hirschler Fleischer; Ernst & Young | 137,000 |
| n MetroTech Center | 1995 | 85.00% | 85.00% | Brooklyn, NY | City of New York - DoITT; E-911 | 216,000 |
| ont Plaza | 1998 | 85.00% | 85.00% | San Jose, CA | Littler Mendelson; Merrill Lynch; UBS Financial; Camera 12 Cinemas; Accenture | 405,000 |
| n MetroTech Center | 2003 | 95.00% | 95.00% | Brooklyn, NY | Wellchoice, Inc.; City of New York - HRA | 650,000 |
| Building | 1986 | 100.00% | 100.00% | Cleveland, OH | Case Western Reserve University; Grant Thornton; CEOGC | 409,000 |
| m Center | 2003 | 100.00% | 100.00% | Manhattan, NY | Office of General Services-Temporary Disability & Assistance; State Liquor Authority | 147,000 |
| e Building | 1990 | 100.00% | 100.00% | Cleveland, OH | Key Bank; Horseshoe Casino | 815,000 |
| s Science and Technology Park | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Searle (A) | 2006 | 100.00% | 100.00% | Skokie, IL | Northshore University Health System | 224,000 |
| 5 Lamon (P) | 2006 | 100.00% | 100.00% | Skokie, IL | NanoInk, Inc.; Midwest Bio Research; Vetter Development Services | 128,000 |
| 0 Lamon (J) | 2010 | 100.00% | 100.00% | Skokie, IL | Leasing in progress | 147,000 |
| 5 Lamon (Q) | 2007 | 100.00% | 100.00% | Skokie, IL | Astellas; Polyera; APP Pharmaceuticals, LLC | 161,000 |
| Hopkins - 855 North Wolfe Street | 2008 | 76.60% | 76.60% | East Baltimore, MD | Johns Hopkins; Brain Institute; Howard Hughes Institute | 279,000 |
| York Times | 2007 | 100.00% | 100.00% | Manhattan, NY | ClearBridge Advisors, LLC, a Legg Mason Co.; Covington & Burling; Osler Hoskin & Harcourt; Seyfarth Shaw | 738,000 |
| MetroTech Center North | 1997 | 85.00% | 85.00% | Brooklyn, NY | City of New York - Fire Department | 317,000 |
| MetroTech Center | 1991 | 82.50% | 82.50% | Brooklyn, NY | JP Morgan Chase; National Grid | 937,000 |
| Pierrepont Plaza | 1988 | 100.00% | 100.00% | Brooklyn, NY | Morgan Stanley; U.S. Probation | 659,000 |
| Office Plaza (MK Ferguson) | 1990 | 100.00% | 100.00% | Cleveland, OH | Washington Group; Chase Manhattan Mortgage Corp; Educational Loan Servicing Corp; Quicken Loans | 476,000 |
| mond Office Park | 2007 | 100.00% | 100.00% | Richmond, VA | The Brinks Co.; Wachovia Bank | 568,000 |
| ght Office Tower | 1991 | 92.50% | 100.00% | Cleveland, OH | Cap Gemini; Ulmer & Berne, LLP | 321,000 |
| ton - 3055 Roslyn | 2006 | 90.00% | 90.00% | Denver, CO | University of Colorado Hospital | 45,000 |
| MetroTech Center | 1992 | 100.00% | 100.00% | Brooklyn, NY | Internal Revenue Service | 365,000 |
| nal Tower | 1983 | 100.00% | 100.00% | Cleveland, OH | Forest City Enterprises, Inc.; Cuyahoga Community College | 589,000 |
| ve MetroTech Center | 2004 | 100.00% | 100.00% | Brooklyn, NY | National Union Fire Insurance Co. | 177,000 |
| MetroTech Center | 1990 | 82.50% | 82.50% | | | 522,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Brooklyn, NY | Securities Industry Automation Corp.; City of New York - Board of Education | |
| rsity of Pennsylvania | 2004 | 100.00% | 100.00% | Philadelphia, PA | University of Pennsylvania | 122,000 |
| front Station - East 4th & West 4th Buildings | 2010 | 45.00% | 45.00% | Washington, D.C. | Washington, D.C. Government | 631,000 |
| ***olidated Office Buildings Subtotal*** | | | | | | 11,371,000 |

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**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**COMMERCIAL GROUP**
**OFFICE BUILDINGS (continued)**

| Name | Date of Opening/ Acquisition/ Expansion | Legal Ownership (1) | Pro-Rata Ownership (2) | Location | Major Tenants | Leasable Square Feet | Leasable Square Feet at Pro-Rata % |
|---|---|---|---|---|---|---|---|
| **Unconsolidated Office Buildings** | | | | | | | |
| 35 Landsdowne Street | 2002 | 51.00% | 51.00% | Cambridge, MA | Millennium Pharmaceuticals | 202,000 | 103,000 |
| 350 Massachusetts Ave | 1998 | 50.00% | 50.00% | Cambridge, MA | Star Market; Tofias; Novartis | 169,000 | 85,000 |
| 40 Landsdowne Street | 2003 | 51.00% | 51.00% | Cambridge, MA | Millennium Pharmaceuticals | 215,000 | 110,000 |
| 45/75 Sidney Street | 1999 | 51.00% | 51.00% | Cambridge, MA | Millennium Pharmaceuticals; Novartis | 277,000 | 141,000 |
| 65/80 Landsdowne Street | 2001 | 51.00% | 51.00% | Cambridge, MA | Partners HealthCare System | 122,000 | 62,000 |
| 818 Mission Street (3) | 2008 | 50.00% | 50.00% | San Francisco, CA | Denny s; Community Vocational Enterprises | 28,000 | 14,000 |
| 88 Sidney Street | 2002 | 51.00% | 51.00% | Cambridge, MA | Alkermes, Inc. | 145,000 | 74,000 |
| Bulletin Building | 2006 | 50.00% | 50.00% | San Francisco, CA | Great West Life and Annuity; Corinthian School | 78,000 | 39,000 |
| Chagrin Plaza I & II | 1969 | 66.67% | 66.67% | Beachwood, OH | Nine Sigma; Benihana; H&R Block | 113,000 | 75,000 |
| Clark Building | 1989 | 50.00% | 50.00% | Cambridge, MA | Sanofi Pasteur Biologics; Agios Pharmaceuticals | 122,000 | 61,000 |
| Enterprise Place | 1998 | 50.00% | 50.00% | Beachwood, OH | University of Phoenix; Advance Payroll; PS Executive Centers; Retina Assoc. of Cleveland | 132,000 | 66,000 |
| Jackson Building | 1987 | 51.00% | 51.00% | Cambridge, MA | Ariad Pharmaceuticals | 99,000 | 50,000 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Liberty Center | 1986 | 50.00% | 50.00% | Pittsburgh, PA | Federated Investors; Direct Energy Business | 526,000 | 263,000 |
| Mesa del Sol - 5600 University SE | 2006 | 47.50% | 47.50% | Albuquerque, NM | MSR-FSR, LLC; CFV Solar | 87,000 | 41,000 |
| Mesa del Sol - Aperture Center | 2008 | 47.50% | 47.50% | Albuquerque, NM | Forest City Covington NM, LLC | 76,000 | 36,000 |
| Mesa del Sol - Fidelity | 2008/2009 | 47.50% | 47.50% | Albuquerque, NM | Fidelity Investments | 210,000 | 100,000 |
| Richards Building | 1990 | 51.00% | 51.00% | Cambridge, MA | Genzyme Biosurgery; Alkermes, Inc. | 126,000 | 64,000 |
| Signature Square I | 1986 | 50.00% | 50.00% | Beachwood, OH | Ciuni & Panichi; PCC Airfoils; Liberty Bank | 79,000 | 40,000 |
| Signature Square II | 1989 | 50.00% | 50.00% | Beachwood, OH | Pro Ed Communications; Goldberg Co.; Resillience Mgt. | 82,000 | 41,000 |
| ***Unconsolidated Office Buildings Subtotal*** | | | | | | 2,888,000 | 1,465,000 |
| **Total Office Buildings at January 31, 2011** | | | | | | **14,259,000** | **11,985,000** |
| **Total Office Buildings at January 31, 2010** | | | | | | **14,112,000** | **12,420,000** |

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**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**COMMERCIAL GROUP**
**RETAIL CENTERS**

| | Date of Opening/ Acquisition/ Expansion | Legal Ownership [1] | Pro-Rata Ownership [2] | Location | Major Tenants | Total Square Feet | Total Square Feet at Pro-Rata % | Gross Leasable Area |
|---|---|---|---|---|---|---|---|---|
| **ated Regional Malls** | | | | | | | | |
| lope ey Mall | 1990/1999 | 78.00% | 78.00% | Palmdale, CA | Macy s; Sears; JCPenney; Dillard s; Forever 21; Cinemark Theatre | 1,196,000 | 933,000 | 478,000 |
| ston mon | 1986/1999 | 100.00% | 100.00% | Arlington, VA | Macy s; Sport & Health; Regal Cinemas | 579,000 | 579,000 | 311,000 |
| eria at et | 1996/2002 | 100.00% | 100.00% | Henderson, NV | Dillard s; Macy s; JCPenney; Dick s Sporting Goods; Kohl s | 1,048,000 | 1,048,000 | 412,000 |
| at nson | 2001 | 56.67% | 100.00% | Pittsburgh, PA | Macy s; Sears; JCPenney; Dick s Sporting Goods | 880,000 | 880,000 | 384,000 |
| at ecrest | 2001 | 66.67% | 66.67% | Atlanta, GA | Kohl s; Sears; JCPenney; Dillard s; AMC Theatre, Macy s | 1,226,000 | 817,000 | 397,000 |
| hfield at leton | 2005/2006 | 95.00% | 100.00% | Denver, CO | Bass Pro; Target; Harkins Theatre; JCPenney; Macy s | 1,127,000 | 1,127,000 | 664,000 |
| ard n Center | 2008 | 100.00% | 100.00% | Westminster, CO | JCPenney; Macy s; Target; AMC Theatre | 1,018,000 | 1,018,000 | 482,000 |
| nenade ngbrook | 2007 | 100.00% | 100.00% | Bolingbrook, IL | Bass Pro; Macy s; Gold Class Cinemas; Barnes & Noble; Designer Shoe Warehouse | 771,000 | 771,000 | 575,000 |
| | 1999/2002/2009 | 75.00% | 100.00% | Temecula, CA | | 1,275,000 | 1,275,000 | 540,000 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| nenade emecula | | | | | JCPenney; Sears; Macy s; Edwards Cinema | | | |
| os at egrass | 2008 | 50.00% | 100.00% | Tampa, FL | JCPenney; Dillard s; Macy s; Barnes & Noble | 734,000 | 734,000 | 349,000 |
| t Pump n Center | 2003/2005 | 50.00% | 100.00% | Richmond, VA | Nordstrom; Macy s; Dillard s; Dick s Sporting Goods | 1,303,000 | 1,303,000 | 591,000 |
| h Bay eria | 1985/2001 | 100.00% | 100.00% | Redondo Beach, CA | Nordstrom; Macy s; Kohl s; AMC Theatre | 956,000 | 956,000 | 389,000 |
| oria lens | 2004/2007 | 80.00% | 80.00% | Rancho Cucamonga, CA | Bass Pro; Macy s; JCPenney; AMC Theater | 1,401,000 | 1,121,000 | 829,000 |
| tchester s e Hill | 2011/2012 | 70.00% | 100.00% | Yonkers, NY | Lord & Taylor; Dick s Sporting Goods; WESTMED Medical Group; National Amusements; Whole Foods; REI; LL Bean; Cheesecake Factory; Yard House; Texas De Brazil | 1,336,000 | 1,336,000 | 1,336,000 |
| ***solidated Regional Malls Subtotal*** | | | | | | 14,850,000 | 13,898,000 | 7,737,000 |

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**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**COMMERCIAL GROUP**
**RETAIL CENTERS (continued)**

| ame | Date of Opening/ Acquisition/ Expansion | Legal Ownership [1] | Pro-Rata Ownership [2] | Location | Major Tenants | Total Square Feet | Total Square Feet at Pro-Rata % | Gross Leasable Area | Gross Leasable Area at Pro-Rata % |
|---|---|---|---|---|---|---|---|---|---|
| **onsolidated Specialty Retail Centers** | | | | | | | | | |
| 42nd Street | 1999 | 100.00% | 100.00% | Manhattan, NY | AMC Theatres; Madame Tussaud s Wax Museum; Modell s; Dave & Buster s; Ripley s Believe It or Not! | 309,000 | 309,000 | 309,000 | 309,00 |
| Atlantic Center | 1996 | 100.00% | 100.00% | Brooklyn, NY | Pathmark; OfficeMax; Old Navy; Marshall s; NYC - Dept of Motor Vehicles; Best Buy | 395,000 | 395,000 | 395,000 | 395,00 |
| Atlantic Center Site V | 1998 | 100.00% | 100.00% | Brooklyn, NY | Modell s | 17,000 | 17,000 | 17,000 | 17,00 |
| Atlantic Terminal | 2004 | 100.00% | 100.00% | Brooklyn, NY | Target; Designer Shoe Warehouse; Chuck E. Cheese s; Daffy s; Guitar Center | 371,000 | 371,000 | 371,000 | 371,00 |
| Avenue at Tower City Center | 1990 | 100.00% | 100.00% | Cleveland, OH | Hard Rock Café; Morton s of Chicago; Cleveland Cinemas; Horseshoe Casino (located in Higbee Building) | 365,000 | 365,000 | 365,000 | 365,00 |
| Brooklyn Commons | 2004 | 100.00% | 100.00% | Brooklyn, NY | Lowe s | 151,000 | 151,000 | 151,000 | 151,00 |
| Bruckner Boulevard | 1996 | 100.00% | 100.00% | Bronx, NY | Conway; Old Navy; Marshall s | 113,000 | 113,000 | 113,000 | 113,00 |
| Columbia Park Center | 1999 | 75.00% | 75.00% | North Bergen, NJ | Shop Rite; Old Navy; Staples; | 351,000 | 263,000 | 351,000 | 263,00 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Bally s; Shopper s World; Phoenix Theatres; Sixth Avenue Electronics | | | | |
| Court Street | 2000 | 100.00% | 100.00% | Brooklyn, NY | United Artists; Barnes & Noble | 102,000 | 102,000 | 102,000 | 102,00 |
| East 29th Avenue Town Center | 2004 | 90.00% | 90.00% | Denver, CO | Walgreen s; King Soopers; Chipotle; Starbucks | 181,000 | 163,000 | 98,000 | 88,00 |
| Eastchester | 2000 | 100.00% | 100.00% | Bronx, NY | Pathmark | 63,000 | 63,000 | 63,000 | 63,00 |
| Forest Avenue | 2000 | 100.00% | 100.00% | Staten Island, NY | United Artists | 70,000 | 70,000 | 70,000 | 70,00 |
| Gun Hill Road | 1997 | 100.00% | 100.00% | Bronx, NY | Home Depot; Chuck E. Cheese s | 147,000 | 147,000 | 147,000 | 147,00 |
| Harlem Center | 2002 | 100.00% | 100.00% | Manhattan, NY | Marshall s; CVS/Pharmacy; Staples; H&M; Planet Fitness | 126,000 | 126,000 | 126,000 | 126,00 |
| Kaufman Studios | 1999 | 100.00% | 100.00% | Queens, NY | United Artists Theatres | 84,000 | 84,000 | 84,000 | 84,00 |
| Market at Tobacco Row | 2002 | 100.00% | 100.00% | Richmond, VA | Rich Foods; CVS/Pharmacy | 43,000 | 43,000 | 43,000 | 43,00 |
| Northern Boulevard | 1997 | 100.00% | 100.00% | Queens, NY | Stop & Shop; Marshall s; Old Navy; AJ Wright; Guitar Center | 218,000 | 218,000 | 218,000 | 218,00 |
| Quartermaster Plaza | 2004 | 100.00% | 100.00% | Philadelphia, PA | Home Depot; BJ s Wholesale Club; Staples; PetSmart; Walgreen s | 456,000 | 456,000 | 456,000 | 456,00 |
| Quebec Square | 2002 | 90.00% | 90.00% | Denver, CO | Walmart; Home Depot; Sam s Club; Ross Dress for Less; Office Depot; PetSmart | 739,000 | 665,000 | 217,000 | 195,00 |
| Queens Place | 2001 | 100.00% | 100.00% | Queens, NY | Target; Best Buy; Macy s Furniture; Designer Shoe Warehouse | 455,000 | 455,000 | 221,000 | 221,00 |
| Richmond Avenue | 1998 | 100.00% | 100.00% | Staten Island, NY | Staples | 76,000 | 76,000 | 76,000 | 76,00 |
| Station Square | 1994/2002 | 100.00% | 100.00% | Pittsburgh, PA | Hard Rock Café; Grand Concourse | 291,000 | 291,000 | 291,000 | 291,00 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Restaurant; Buca Di Beppo | | | | |
| White Oak Village | 2008 | 50.00% | 100.00% | Richmond, VA | Target; Lowe s; Sam s Club; JCPenney; OfficeMax; PetSmart; Martin s | 843,000 | 843,000 | 295,000 | 295,00 |
| ***Consolidated Specialty Retail Centers Subtotal*** | | | | | | 5,966,000 | 5,786,000 | 4,579,000 | 4,459,00 |
| ***Consolidated Retail Centers Total*** | | | | | | 20,816,000 | 19,684,000 | 12,316,000 | 11,793,00 |

**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**COMMERCIAL GROUP**
**RETAIL CENTERS (continued)**

| Name | Date of Opening/ Acquisition/ Expansion | Legal Ownership (1) | Pro-Rata Ownership (2) | Location | Major Tenants | Total Square Feet | Total Square Feet at Pro-Rata % | Gross Leasable Area | Gross Leasable Area at Pro-Rata % |
|---|---|---|---|---|---|---|---|---|---|
| **Unconsolidated Regional Malls** | | | | | | | | | |
| Boulevard Mall | 1996/2000 | 50.00% | 50.00% | Amherst, NY | JCPenney; Macy s; Sears; Michael s | 912,000 | 456,000 | 336,000 | 168,000 |
| Charleston Town Center | 1983 | 50.00% | 50.00% | Charleston, WV | Macy s; JCPenney; Sears; Brickstreet Insurance | 897,000 | 449,000 | 363,000 | 182,000 |
| San Francisco Centre | 2006 | 50.00% | 50.00% | San Francisco, CA | Nordstrom; Bloomingdale s; Century Theaters; San Francisco State University; Microsoft | 1,462,000 | 731,000 | 788,000 | 394,000 |
| *Unconsolidated Regional Malls Subtotal* | | | | | | 3,271,000 | 1,636,000 | 1,487,000 | 744,000 |
| **Unconsolidated Specialty Retail Centers** | | | | | | | | | |
| + East River Plaza | 2009/2010 | 35.00% | 50.00% | Manhattan, NY | Costco; Target; Best Buy; Marshall s; PetSmart; Bob s Furniture; Old Navy | 527,000 | 264,000 | 527,000 | 264,000 |
| Golden Gate | 1958 | 50.00% | 50.00% | Mayfield Heights, OH | OfficeMax; Old Navy; Marshall s; Cost Plus; HH Gregg; PetSmart | 361,000 | 181,000 | 361,000 | 181,000 |
| Marketplace at Riverpark | 1996 | 50.00% | 50.00% | Fresno, CA | JCPenney; Best Buy; Marshall s; OfficeMax; Old Navy; Target; Sports Authority | 471,000 | 236,000 | 296,000 | 148,000 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Plaza at Robinson Town Center | 1989 | 50.00% | 50.00% | Pittsburgh, PA | T.J. Maxx; Marshall s; IKEA; Value City; JoAnn Fabrics | 507,000 | 254,000 | 507,000 | 254,000 |
| + | Village at Gulstream Park | 2010 | 50.00% | 50.00% | Hallandale Beach, FL | Crate & Barrel; The Container Store; Texas de Brazil; Yard House | 511,000 | 256,000 | 511,000 | 256,000 |
| | ***Unconsolidated Specialty Retail Centers Subtotal*** | | | | | | 2,377,000 | 1,191,000 | 2,202,000 | 1,103,000 |
| | ***Unconsolidated Retail Centers Total*** | | | | | | 5,648,000 | 2,827,000 | 3,689,000 | 1,847,000 |
| | **Total Retail Centers at January 31, 2011** | | | | | | **26,464,000** | **22,511,000** | **16,005,000** | **13,640,000** |
| | **Total Retail Centers at January 31, 2010** | | | | | | **27,826,000** | **23,753,000** | **16,877,000** | **14,409,000** |

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**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**COMMERCIAL GROUP**
**HOTELS**

| Name | Date of Opening/ Acquisition/ Expansion | Legal Ownership[1] | Pro-Rata Ownership[2] | Location | Rooms | Hotel Rooms at Pro-Rata % |
|---|---|---|---|---|---|---|
| **Consolidated Hotels** | | | | | | |
| ++ Charleston Marriot | 1983 | 95.00% | 100.00% | Charleston, WV | 352 | 352 |
| Ritz-Carlton, Cleveland | 1990 | 100.00% | 100.00% | Cleveland, OH | 206 | 206 |
| Sheraton Station Square | 1998/2001 | 100.00% | 100.00% | Pittsburgh, PA | 399 | 399 |
| ***Consolidated Hotels Subtotal*** | | | | | 957 | 957 |
| **Unconsolidated Hotels** | | | | | | |
| Westin Convention Center | 1986 | 50.00% | 50.00% | Pittsburgh, PA | 616 | 308 |
| ***Unconsolidated Hotels Subtotal*** | | | | | 616 | 308 |
| **Total Hotel Rooms at January 31, 2011** | | | | | **1,573** | **1,265** |
| **Total Hotel Rooms at January 31, 2010** | | | | | **1,833** | **1,275** |

| ARENA | | | | Major Tenants | Total Square Feet | Total Square Feet at Pro-Rata % | Est. Seating Capacity for NBA Basketball Event | Est. Seating Capacity for NBA Basketball Event at Pro-Rata % |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 26.60% | 26.60% | | 670,000 | 178,000 | 18,000 | 4,788 |

| * Barclays Center | Brooklyn, NY | The Nets NBA Team |
|---|---|---|

**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**RESIDENTIAL GROUP**
**APARTMENTS**

| | Name | Date of Opening/ Acquisition/ Expansion | Legal Ownership (1) | Pro-Rata Ownership (2) | Location | Leasable Units | Leasable Units at Pro-Rata % |
|---|---|---|---|---|---|---|---|
| **Consolidated Apartment Communities** | | | | | | | |
| | 100 Landsdowne Street | 2005 | 100.00% | 100.00% | Cambridge, MA | 203 | 203 |
| ^* | 8 Spruce Street (formerly Beekman) | 2011/2012 | 49.00% | 70.00% | Manhattan, NY | 903 | 632 |
| | American Cigar Company | 2000 | 100.00% | 100.00% | Richmond, VA | 171 | 171 |
| | Ashton Mill | 2005 | 90.00% | 100.00% | Cumberland, RI | 193 | 193 |
| | Cameron Kinney | 2007 | 100.00% | 100.00% | Richmond, VA | 259 | 259 |
| | Consolidated-Carolina | 2003 | 89.99% | 100.00% | Richmond, VA | 158 | 158 |
| | Cutter s Ridge at Tobacco Row | 2006 | 100.00% | 100.00% | Richmond, VA | 12 | 12 |
| + | DKLB BKLN (formerly 80 DeKalb) | 2009/2010 | 80.00% | 100.00% | Brooklyn, NY | 365 | 365 |
| | Drake | 1998 | 95.05% | 95.05% | Philadelphia, PA | 284 | 270 |
| | Easthaven at the Village | 1994/1995 | 100.00% | 100.00% | Beachwood, OH | 360 | 360 |
| | Emerald Palms | 1996/2004 | 100.00% | 100.00% | Miami, FL | 505 | 505 |
| * | Foundry Lofts | 2011 | 100.00% | 100.00% | Washington, D.C. | 170 | 170 |
| | Grand Lowry Lofts | 2000 | 100.00% | 100.00% | Denver, CO | 261 | 261 |
| + | Hamel Mill Lofts | 2008/2010 | 90.00% | 100.00% | Haverhill, MA | 305 | 305 |
| | Heritage | 2002 | 100.00% | 100.00% | San Diego, CA | 230 | 230 |
| | Kennedy Biscuit Lofts | 1990 | 98.90% | 100.00% | Cambridge, MA | 142 | 142 |
| | Knolls | 1995 | 1.00% | 95.00% | Orange, CA | 260 | 247 |
| | Lofts 23 | 2005 | 100.00% | 100.00% | Cambridge, MA | 51 | 51 |
| | Lofts at 1835 Arch | 2001 | 95.05% | 95.05% | Philadelphia, PA | 191 | 182 |
| | Lucky Strike | 2008 | 88.98% | 100.00% | Richmond, VA | 131 | 131 |
| | Mercantile Place on Main | 2008 | 100.00% | 100.00% | Dallas, TX | 366 | 366 |
| | Metro 417 | 2005 | 75.00% | 100.00% | Los Angeles, CA | 277 | 277 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Metropolitan | 1989 | 100.00% | 100.00% | Los Angeles, CA | 270 | 270 |
| Midtown Towers | 1969 | 100.00% | 100.00% | Parma, OH | 635 | 635 |
| Millender Center | 1985 | 5.25% | 90.53% | Detroit, MI | 339 | 307 |
| Museum Towers | 1997 | 100.00% | 100.00% | Philadelphia, PA | 286 | 286 |
| North Church Towers | 2009 | 100.00% | 100.00% | Parma Heights, OH | 399 | 399 |

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**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**RESIDENTIAL GROUP**
**APARTMENTS (continued)**

| | Name | Date of Opening/ Acquisition/ Expansion | Legal Ownership(1) | Pro-Rata Ownership(2) | Location | Leasable Units | Leasable Units at Pro-Rata % |
|---|---|---|---|---|---|---|---|
| | **Consolidated Apartment Communities (continued)** | | | | | | |
| | One Franklintown | 1988 | 100.00% | 100.00% | Philadelphia, PA | 335 | 335 |
| | Parmatown Towers and Gardens | 1972-1973 | 100.00% | 100.00% | Parma, OH | 412 | 412 |
| | Pavilion | 1992 | 95.00% | 95.00% | Chicago, IL | 1,114 | 1,058 |
| | Perrytown Place | 1973 | 8.24% | 100.00% | Pittsurgh, PA | 231 | 231 |
| + | Presidio Landmark | 2010 | 1.00% | 100.00% | San Francisco, CA | 161 | 161 |
| | Queenswood | 1990 | 93.36% | 93.36% | Corona, NY | 296 | 276 |
| | Sky55 | 2006 | 100.00% | 100.00% | Chicago, IL | 411 | 411 |
| | Southfield | 2002 | 100.00% | 100.00% | Whitemarsh, MD | 212 | 212 |
| | Town Center (Botanica on the Green & Crescent Flats) | 2004/2007 | 90.00% | 90.00% | Denver, CO | 298 | 268 |
| | Wilson Building | 2007 | 100.00% | 100.00% | Dallas, TX | 143 | 143 |
| | ***Consolidated Apartment Communities Subtotal*** | | | | | 11,339 | 10,894 |
| | **Consolidated Senior Housing Apartments** | | | | | | |
| | 1251 S. Michigan | 2006 | 0.01% | 100.00% | Chicago, IL | 91 | 91 |
| | Brookview Place | 1979 | 3.00% | 3.00% | Dayton, OH | 232 | 7 |
| | Cedar Place | 1974 | 2.98% | 100.00% | Lansing, MI | 220 | 220 |
| | Independence Place I | 1973 | 50.00% | 50.00% | Parma Heights, OH | 202 | 101 |
| | Independence Place II | 2003 | 100.00% | 100.00% | Parma Heights, OH | 201 | 201 |
| | ***Consolidated Senior Housing Apartments Subtotal*** | | | | | 946 | 620 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Consolidated Supported-Living Apartments** | | | | | | |
| Forest Trace | 2000 | 100.00% | 100.00% | Lauderhill, FL | 322 | 322 |
| ***Consolidated Supported-Living Apartments Subtotal*** | | | | | 322 | 322 |
| ***Consolidated Apartments Total*** | | | | | 12,607 | 11,836 |

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**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**RESIDENTIAL GROUP**
**APARTMENTS (continued)**

| Name | Date of Opening/ Acquisition/ Expansion | Legal Ownership (1) | Pro-Rata Ownership (2) | Location | Leasable Units | Leasable Units at Pro-Rata % |
|---|---|---|---|---|---|---|
| **Unconsolidated Apartment Communities** | | | | | | |
| Arbor Glen | 2001-2007 | 50.00% | 50.00% | Twinsburg, OH | 288 | 144 |
| Barrington Place | 2008 | 49.00% | 49.00% | Raleigh, NC | 274 | 134 |
| Bayside Village | 1988-1989 | 50.00% | 50.00% | San Francisco, CA | 862 | 431 |
| Big Creek | 1996-2001 | 50.00% | 50.00% | Parma Heights, OH | 516 | 258 |
| Camelot | 1967 | 50.00% | 50.00% | Parma Heights, OH | 151 | 76 |
| Cherry Tree | 1996-2000 | 50.00% | 50.00% | Strongsville, OH | 442 | 221 |
| Chestnut Lake | 1969 | 50.00% | 50.00% | Strongsville, OH | 789 | 395 |
| Cobblestone Court Apartments | 2006-2009 | 50.00% | 50.00% | Painesville, OH | 400 | 200 |
| Colonial Grand | 2003 | 50.00% | 50.00% | Tampa, FL | 176 | 88 |
| Coppertree | 1998 | 50.00% | 50.00% | Mayfield Heights, OH | 342 | 171 |
| Deer Run | 1987-1990 | 46.00% | 46.00% | Twinsburg, OH | 562 | 259 |
| Eaton Ridge | 2002-2004 | 50.00% | 50.00% | Sagamore Hills, OH | 260 | 130 |
| Fenimore Court | 1982 | 7.06% | 50.00% | Detroit, MI | 144 | 72 |
| Grand | 1999 | 42.75% | 42.75% | North Bethesda, MD | 549 | 235 |
| Hamptons | 1969 | 50.00% | 50.00% | Beachwood, OH | 651 | 326 |
| Hunter s Hollow | 1990 | 50.00% | 50.00% | Strongsville, OH | 208 | 104 |
| Legacy Arboretum | 2008 | 49.00% | 49.00% | Charlotte, NC | 266 | 130 |
| Legacy Crossroads | 2008-2009 | 50.00% | 50.00% | Cary, NC | 344 | 172 |
| Lenox Club | 1991 | 47.50% | 47.50% | Arlington, VA | 385 | 183 |
| Lenox Park | 1992 | 47.50% | 47.50% | Silver Spring, MD | 406 | 193 |
| Liberty Hills | 1979-1986 | 50.00% | 50.00% | Solon, OH | 396 | 198 |
| ++ Metropolitan Lofts | 2005 | 50.00% | 50.00% | Los Angeles, CA | 264 | 132 |
| | 2002-2005 | 50.00% | 50.00% | | 336 | 168 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Newport Landing | | | | Coventry Township, OH | | |
| Parkwood Village | 2001-2002 | 50.00% | 50.00% | Brunswick, OH | 204 | 102 |
| Pine Ridge Valley | 1967-1974, 2005-2007 | 50.00% | 50.00% | Willoughby Hills, OH | 1,309 | 655 |
| Residences at University Park | 2002 | 40.00% | 40.00% | Cambridge, MA | 135 | 54 |

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**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**RESIDENTIAL GROUP**
**APARTMENTS (continued)**

| | Name | Date of Opening/ Acquisition/ Expansion | Legal Ownership[1] | Pro-Rata Ownership[2] | Location | Leasable Units | Leasable Units at Pro-Rata % |
|---|---|---|---|---|---|---|---|
| | **Unconsolidated Apartment Communities (continued)** | | | | | | |
| | Settler s Landing at Greentree | 2000-2004 | 50.00% | 50.00% | Streetsboro, OH | 408 | 204 |
| + | Stratford Crossing | 2007-2010 | 50.00% | 50.00% | Wadsworth, OH | 348 | 174 |
| | Sutton Landing | 2007-2009 | 50.00% | 50.00% | Brimfield, OH | 216 | 108 |
| | Tamarac | 1990-2001 | 50.00% | 50.00% | Willoughby, OH | 642 | 321 |
| ++ | Twin Lakes Towers | 1966 | 50.00% | 50.00% | Denver, CO | 254 | 127 |
| | Uptown Apartments | 2008 | 50.00% | 50.00% | Oakland, CA | 665 | 333 |
| | Westwood Reserve | 2002 | 50.00% | 50.00% | Tampa, FL | 340 | 170 |
| | Woodgate / Evergreen Farms | 2004-2006 | 33.33% | 33.33% | Olmsted Township, OH | 348 | 116 |
| | Worth Street | 2003 | 50.00% | 50.00% | Manhattan, NY | 330 | 165 |
| | ***Unconsolidated Apartment Communities Subtotal*** | | | | | 14,210 | 6,949 |
| | **Unconsolidated Senior Housing Apartments** | | | | | | |
| | Autumn Ridge | 2002 | 100.00% | 100.00% | Sterling Heights, MI | 251 | 251 |
| | Bowin | 1998 | 95.05% | 95.05% | Detroit, MI | 193 | 183 |
| | Brookpark Place | 1976 | 100.00% | 100.00% | Wheeling, WV | 152 | 152 |
| | Buckeye Towers | 1976 | 10.91% | 8.94% | New Boston, OH | 120 | 11 |
| | Burton Place | 2000 | 90.00% | 90.00% | Burton, MI | 200 | 180 |
| | Cambridge Towers | 2002 | 100.00% | 100.00% | Detroit, MI | 250 | 250 |
| | Canton Towers | 1978 | 10.91% | 8.94% | Canton, OH | 199 | 18 |
| | Carl D. Perkins | 2002 | 100.00% | 100.00% | Pikeville, KY | 150 | 150 |
| | Connellsville Towers | 1981 | 9.59% | 9.59% | Connellsville, PA | 111 | 11 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Coraopolis Towers | 2002 | 80.00% | 80.00% | Coraopolis, PA | 200 | 160 |
| Donora Towers | 2002 | 100.00% | 100.00% | Donora, PA | 103 | 103 |
| Farmington Place | 1980 | 100.00% | 100.00% | Farmington, MI | 153 | 153 |
| Fort Lincoln II | 1979 | 45.00% | 45.00% | Washington, D.C. | 176 | 79 |
| Fort Lincoln III & IV | 1981 | 24.90% | 24.90% | Washington, D.C. | 306 | 76 |
| Frenchtown Place | 1975 | 8.24% | 100.00% | Monroe, MI | 151 | 151 |
| Glendora Gardens | 1983 | 1.99% | 99.00% | Glendora, CA | 105 | 104 |

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**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**RESIDENTIAL GROUP**
**APARTMENTS (continued)**

| Name | Date of Opening/ Acquisition/ Expansion | Legal Ownership(1) | Pro-Rata Ownership(2) | Location | Leasable Units | Leasable Units at Pro-Rata % |
|---|---|---|---|---|---|---|
| **Unconsolidated Senior Housing Apartments (continued)** | | | | | | |
| Grove | 2003 | 100.00% | 100.00% | Ontario, CA | 101 | 101 |
| Lakeland | 1998 | 95.10% | 95.10% | Waterford, MI | 200 | 190 |
| Lima Towers | 1977 | 10.91% | 8.94% | Lima, OH | 200 | 18 |
| Miramar Towers | 1980 | 6.35% | 100.00% | Los Angeles, CA | 157 | 157 |
| Noble Towers | 1979 | 50.00% | 50.00% | Pittsburgh, PA | 133 | 67 |
| North Port Village | 1981 | 27.00% | 27.00% | Port Huron, MI | 251 | 68 |
| Nu Ken Tower (Citizen s Plaza) | 1981 | 8.84% | 50.00% | New Kensington, PA | 101 | 51 |
| Oceanpointe Towers | 1980 | 6.35% | 100.00% | Long Branch, NJ | 151 | 151 |
| Panorama Towers | 1978 | 99.00% | 99.00% | Panorama City, CA | 154 | 152 |
| Park Place Towers | 1975 | 15.11% | 100.00% | Mt. Clemens, MI | 187 | 187 |
| Pine Grove Manor | 1973 | 10.26% | 100.00% | Muskegon Township, MI | 172 | 172 |
| Plymouth Square | 2003 | 100.00% | 100.00% | Detroit, MI | 280 | 280 |
| Potomac Heights Village | 1981 | 6.35% | 100.00% | Keyser, WV | 141 | 141 |
| Riverside Towers | 1977 | 9.63% | 100.00% | Coshocton, OH | 100 | 100 |
| Shippan Avenue | 1980 | 100.00% | 100.00% | Stamford, CT | 148 | 148 |
| St. Mary s Villa | 2002 | 40.07% | 40.07% | Newark, NJ | 360 | 144 |
| Surfside Towers | 1970 | 50.00% | 50.00% | Eastlake, OH | 246 | 123 |
| The Springs | 1981 | 6.35% | 100.00% | La Mesa, CA | 129 | 129 |
| Tower 43 | 2002 | 100.00% | 100.00% | Kent, OH | 101 | 101 |
| Towne Centre Place | 1975 | 8.80% | 100.00% | Ypsilanti, MI | 170 | 170 |
| Village Center | 1983 | 100.00% | 100.00% | Detroit, MI | 254 | 254 |
| Village Square | 1978 | 100.00% | 100.00% | | 100 | 100 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Williamsville, NY | | |
| Ziegler Place | 1978 | 100.00% | 100.00% | Livonia, MI | 141 | 141 |
| ***Unconsolidated Senior Housing Apartments Subtotal*** | | | | | 6,797 | 5,177 |
| ***Unconsolidated Apartments Total*** | | | | | 21,007 | 12,126 |
| ***Combined Apartments Total*** | | | | | 33,614 | 23,962 |
| **Federally Subsidized Housing (Total of 5 Buildings)** | | | | | **741** | |
| **Total Apartment Units at January 31, 2011** | | | | | **34,355** | |
| **Total Apartment Units at January 31, 2010** | | | | | **34,657** | |

**Forest City Enterprises, Inc. Portfolio of Real Estate as of January 31, 2011**
**RESIDENTIAL GROUP**
**MILITARY HOUSING**

| | Name | Date of Opening/ Acquisition/ Expansion | Legal Ownership (1) | Pro-Rata Ownership (2) | Location | Leasable Units | Leasable Units at Pro-Rata % |
|---|---|---|---|---|---|---|---|
| **Unconsolidated Military Housing** | | | | | | | |
| ^* | Air Force Academy | 2007-2013 | 50.00% | 50.00% | Colorado Springs, CO | 427 | 214 |
| ^* | Hawaii Phase IV | 2007-2014 | 1.00% | ^^ | Kaneohe, HI | 1,141 | ^^ |
| ^* | Marines, Hawaii Increment II | 2007-2011 | 1.00% | ^^ | Honolulu, HI | 1,175 | ^^ |
| ^* | Midwest Millington | 2008-2012 | 1.00% | ^^ | Memphis, TN | 318 | ^^ |
| ^* | Navy, Hawaii Increment III | 2007-2011 | 1.00% | ^^ | Honolulu, HI | 2,520 | ^^ |
| ^* | Navy Midwest | 2006-2012 | 1.00% | ^^ | Chicago, IL | 1,401 | ^^ |
| | Ohana Military Communities, Hawaii Increment I | 2005-2008 | 1.00% | ^^ | Honolulu, HI | 1,952 | ^^ |
| ^* | Pacific Northwest Communities | 2007-2011 | 20.00% | ^^ | Seattle, WA | 2,985 | ^^ |
| | *Unconsolidated Military Housing Total* | | | | | 11,919 | 214 |
| | **Total Military Housing Units at January 31, 2011** | | | | | **11,919** | |
| | **Total Military Housing Units at January 31, 2010** | | | | | **11,953** | |

* Property under construction as of January 31, 2011.

\+ Property opened or acquired in 2010.

++ Property sold subsequent to January 31, 2011.

^ Property to open in phases.

^^ The Company s share of residual cash flow ranges from 0-20% during the life cycle of the project.

(1) Represents the Company s share of a property s profits and losses upon settlement of any preferred returns to which the Company or its partner(s) may be entitled.

(2) Represents the Company s share of a property s profits and losses adjusted for any preferred returns to which the Company or its partner(s) may be entitled.

(3) Operating properties identified for redevelopment.

**Item 3. Legal Proceedings**

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

**Item 4. Reserved**

Pursuant to General Instruction G of Form 10-K, the following is included as an unnumbered item to Part I of the Form 10-K.

**Executive Officers of the Registrant**

The following list is included in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Shareholders to be held on June 10, 2011. The names and ages of and positions held by the executive officers of the Company are presented in the following list. Each individual has been appointed to serve for the period which ends on the date of the Annual Meeting of Shareholders to be held on June 10, 2011.

| Name | Age | Current Position |
|---|---|---|
| Albert B. Ratner (1)(2) | 83 | Co-Chairman of the Board of Directors (2) |
| Samuel H. Miller (2) | 89 | Co-Chairman of the Board of Directors and Treasurer (2) |
| Charles A. Ratner (1)(2) | 69 | Chief Executive Officer, President and Director (2) |
| Bruce C. Ratner (1) | 66 | Executive Vice President and Director |
| James A. Ratner (1) | 66 | Executive Vice President and Director |
| Ronald A. Ratner (1) | 63 | Executive Vice President and Director |
| Brian J. Ratner (1) | 53 | Executive Vice President and Director |
| David J. LaRue (2) | 49 | Executive Vice President and Chief Operating Officer (2) |
| Robert G. O Brien | 53 | Executive Vice President and Chief Financial Officer |
| Linda M. Kane | 53 | Senior Vice President, Chief Accounting and Administrative Officer |
| Geralyn M. Presti | 55 | Senior Vice President, General Counsel and Secretary |

Albert B. Ratner has been Co-Chairman of the Board of Directors since June 1995. He previously served as Chief Executive Officer and Vice Chairman of the Board from June 1993 to June 1995 and President prior to July 1993.

Samuel H. Miller has been Co-Chairman of the Board of Directors since June 1995 and Treasurer of the Company since December 1992. He previously served as Chairman of the Board from June 1993 to June 1995, and Vice Chairman of the Board and Chief Operating Officer prior to June 1993.

Charles A. Ratner has been Chief Executive Officer since June 1995 and President since June 1993. He previously served as Chief Operating Officer from June 1993 to June 1995 and Executive Vice President prior to June 1993.

Bruce C. Ratner has been Executive Vice President since November 2006. He has been Chief Executive Officer of Forest City Ratner Companies, a subsidiary of the Company, since 1987.

James A. Ratner has been Executive Vice President since March 1988.

Ronald A. Ratner has been Executive Vice President since March 1988.

Brian J. Ratner has been Executive Vice President since June 2001.

David J. LaRue has been Executive Vice President and Chief Operating Officer since March 2010. He previously served as President and Chief Operating Officer of Forest City s Commercial Group since 2003.

Robert G. O Brien has been Executive Vice President and Chief Financial Officer since April 2008. He previously served as Vice President, Finance and Investment from February 2008 to April 2008 and Executive Vice President, Strategy and Investment, of Forest City Rental Properties Corporation, a subsidiary of the Company, from October 2000 to January 2008.

Linda M. Kane has been Chief Accounting and Administrative Officer since December 2007 and Senior Vice President since June 2002. She previously served as Corporate Controller from March 1995 to December 2007 and Vice President from March 1995 to June 2002.

Geralyn M. Presti has been Senior Vice President and General Counsel since July 2002 and Secretary since April 2008. She previously served as Assistant Secretary from July 2002 to April 2008, Deputy General Counsel from January 2000 to June 2002, and Associate General Counsel from December 1996 to January 2000.

(1) Charles A. Ratner, James A. Ratner and Ronald A. Ratner are brothers. Albert B. Ratner and Bruce C. Ratner are first cousins to each other as well as first cousins to Charles A. Ratner, James A. Ratner and Ronald A. Ratner. Brian J. Ratner is the son of Albert B. Ratner.

(2) As previously disclosed in the Company s Form 8-K filed on March 1, 2011, the Company announced a series of management and Board changes as a part of the Company s succession planning process, each of which is effective on the date of the Annual Meeting of Shareholders expected to be held on June 10, 2011. Pursuant to these changes, Charles A. Ratner will become Chairman of the Board and will be succeeded as President and Chief Executive Officer by David J. LaRue, currently Executive Vice President and Chief Operating Officer, and current Co-Chairmen of the Board, Albert B. Ratner and Samuel H. Miller will be appointed Co-Chairmen Emeritus and will no longer serve on the Board.

**PART II**

**Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company s Class A and Class B common stock are traded on the New York Stock Exchange ( NYSE ) under the symbols FCEA and FCEB, respectively. At January 31, 2011 and 2010, the market price of the Company s Class A common stock was $16.91 and $11.31, respectively, and the market price of the Company s Class B common stock was $16.77 and $11.27, respectively. As of February 28, 2011, the number of registered holders of Class A and Class B common stock was 952 and 465, respectively. The following tables summarize the quarterly high and low sales prices per share of the Company s Class A and Class B common stock as reported by the NYSE and the dividends declared per common share:

| | **Quarter Ended** | | | |
|---|---|---|---|---|
| | **January 31, 2011** | **October 31, 2010** | **July 31, 2010** | **April 30, 2010** |
| Market price range of common stock | | | | |
| Class A | | | | |
| High | **$ 16.98** | **$ 14.63** | **$ 15.70** | **$ 16.10** |
| Low | **$ 14.78** | **$ 11.05** | **$ 11.01** | **$ 10.70** |
| Class B | | | | |
| High | **$ 16.95** | **$ 14.60** | **$ 15.78** | **$ 16.02** |
| Low | **$ 14.70** | **$ 11.04** | **$ 10.97** | **$ 10.68** |
| Quarterly dividends declared per common share Class A and Class B (1) | **$ -** | **$ -** | **$ -** | **$ -** |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | January 31, 2010 | October 31, 2009 | July 31, 2009 | April 30, 2009 |
| Market price range of common stock | | | | |
| Class A | | | | |
| High | $ 12.96 | $ 13.76 | $ 8.94 | $ 8.57 |
| Low | $ 8.89 | $ 7.06 | $ 4.86 | $ 3.41 |
| Class B | | | | |
| High | $ 12.88 | $ 13.91 | $ 8.80 | $ 8.52 |
| Low | $ 8.86 | $ 7.22 | $ 4.89 | $ 3.60 |
| Quarterly dividends declared per common share Class A and Class B (1) | $ - | $ - | $ - | $ - |

(1) On December 5, 2008, the Board of Directors suspended the cash dividends on shares of Class A and Class B common stock following the payment of dividends on December 15, 2008, until such dividends are reinstated. The Company s bank revolving credit facility prohibits the Company from paying any dividends on its Class A and Class B common stock through February 2012.

The Company issued 9,774,039 of unregistered shares of its Class A common stock during the three months ended January 31, 2011 in connection with a privately negotiated exchange for $110,000,000 in the aggregate of the

Company s 5.00% Convertible Senior Notes due 2016. For more information on this unregistered issuance of the Company s Class A common stock, please refer to the Company s current report on Form 8-K, filed on January 27, 2011.

During the three months ended January 31, 2011, the Company repurchased into treasury 4,659 shares of Class A common stock to satisfy the minimum statutory tax withholding requirements relating to restricted stock vesting. These shares were not reacquired as part of a publicly announced repurchase plan or program. The following table reflects repurchases of Class A common stock for the three months ended January 31, 2011:

**Issuer Purchases of Equity Securities**

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| November 1 through November 30, 2010 | 460 | $ 13.04 | - | $ - |
| December 1 through December 31, 2010 | - | - | - | - |
| January 1 through January 31, 2011 | 4,199 | 16.40 | - | - |
| **Total** | 4,659 | $ 16.07 | - | $ - |

The following graph shows a comparison of cumulative total return for the period from January 31, 2006 through January 31, 2011 among the Company s Class A Common Stock (FCEA) and Class B Common Stock (FCEB), Standard & Poor s 500 Stock Index ( S&P 500®) and the Dow Jones U.S. Real Estate Index. The cumulative total return is based on a $100 investment on January 31, 2006 and the subsequent change in market prices of the securities at each respective fiscal year end. It also assumes that dividends were reinvested quarterly.

| | Jan-06 | Jan-07 | Jan-08 | Jan-09 | Jan-10 | Jan-11 |
|---|---|---|---|---|---|---|
| **Forest City Enterprises Inc. Class A** | $100 | $160 | $106 | $18 | $31 | $46 |
| **Forest City Enterprises Inc. Class B** | $100 | $161 | $107 | $19 | $31 | $46 |
| **S&P 500®** | $100 | $115 | $112 | $69 | $91 | $112 |
| **Dow Jones US Real Estate Index** | $100 | $137 | $103 | $52 | $77 | $107 |

For information with respect to securities authorized for issuance under equity compensation plans, see Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

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## Item 6. Selected Financial Data

The Operating Results and per share amounts presented below have been reclassified for properties disposed of and/or classified as held for sale during the years ended January 31, 2011, 2010, 2009, 2008 and 2007. The following data should be read in conjunction with our financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) included elsewhere in this Form 10-K. Our historical operating results may not be comparable to our future operating results.

| | Years Ended January 31, | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | *(in thousands, except share and per share data)* | | | | |
| **Operating Results:** | | | | | |
| Total revenues from real estate operations [1] | **$ 1,177,661** | $ 1,232,013 | $ 1,251,602 | $ 1,249,346 | $ 1,087,135 |
| Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. [1] | **$ 79,294** | $ (17,507) | $ (123,364) | $ (12,591) | $ 35,242 |
| Earnings (loss) from discontinued operations attributable to Forest City Enterprises, Inc. [1] | **(20,634)** | (13,144) | 10,117 | 64,164 | 141,780 |
| **Net earnings (loss) attributable to Forest City Enterprises, Inc.** | **$ 58,660** | $ (30,651) | $ (113,247) | $ 51,573 | $ 177,022 |
| **Diluted Earnings per Common Share:** | | | | | |
| Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. [1] | **$ 0.42** | $ (0.13) | $ (1.20) | $ (0.13) | $ 0.34 |
| Earnings (loss) from discontinued operations attributable to Forest City Enterprises, Inc. [1] | **(0.12)** | (0.09) | 0.10 | 0.63 | 1.36 |
| **Net earnings (loss) attributable to Forest** | **$ 0.30** | $ (0.22) | $ (1.10) | $ 0.50 | $ 1.70 |

**City Enterprises, Inc.**

| | | | | | |
|---|---|---|---|---|---|
| **Weighted Average Diluted Shares Outstanding** | **173,437,886** | 139,825,349 | 102,755,315 | 102,261,740 | 104,454,898 |
| **Cash Dividend Declared per share Class A and B Common Stock** | **$ -** | $ - | $ 0.24 | $ 0.31 | $ 0.27 |

| | January 31, | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | | | *(in thousands)* | | |
| **Financial Position:** | | | | | |
| Consolidated assets | **$ 11,769,209** | $ 11,916,711 | $ 11,380,507 | $ 10,191,855 | $ 8,923,141 |
| Real estate, at cost | **$ 11,166,539** | $ 11,340,779 | $ 10,648,573 | $ 9,225,753 | $ 8,231,296 |
| Long-term debt, primarily nonrecourse mortgages and notes payable | **$ 8,118,053** | $ 8,779,813 | $ 8,457,471 | $ 7,359,718 | $ 6,264,047 |

(1) This category is adjusted for discontinued operations. See the Discontinued Operations section of the MD&A in Item 7.

**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations**

Corporate Description

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

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

We have approximately $11.8 billion of consolidated assets in 27 states and the District of Columbia at January 31, 2011. Our core markets include Boston, the state of California, Chicago, Denver, the New York City/Philadelphia metropolitan area and the Greater Washington D.C./Baltimore metropolitan area. We have offices in Albuquerque, Boston, Chicago, Dallas, Denver, London (England), Los Angeles, New York City, San Francisco, Washington, D.C., and our corporate headquarters in Cleveland, Ohio.

Significant milestones occurring during 2010 included:

The opening of the first phase of *Waterfront Station* in southwest Washington, D.C. The first two office buildings, which have been designed to meet LEED Silver standards, total 631,000 square feet of office and ground-level retail space;

The grand opening of *Presidio Landmark*, a 161 unit apartment community located in San Francisco, California;

The opening of two retail centers including *East River Plaza*, a 527,000 square foot specialty retail center in Manhattan, New York which opened in conjunction with the conversion of construction financing to a $214,300,000 term loan, maturing in January 2019 and carrying an effective all-in fixed interest rate of less than 4.5% and *Village at Gulfstream Park*, a 511,000 square foot mixed-use, open-air specialty retail center, in Hallandale Beach, Florida;

Closing on the purchase agreement between Nets Sports and Entertainment and Mikhail Prokhorov, under which entities controlled by Prokhorov acquired an 80% stake in The Nets basketball team and a 45% share in the entity that is overseeing the construction and has a long-term capital lease in the *Barclays Center* arena in Brooklyn, New York;

Commencing construction of the *Barclays Center* arena at the Atlantic Yards mixed-use project in Brooklyn, New York. The *Barclays Center* arena is expected to host more than 200 events annually, including professional and collegiate sports, concerts, family shows and The Nets basketball;

Commencing construction of *Foundry Lofts*, an apartment community at *The Yards*, our mixed-use project in southeast Washington, D.C. following the closing of the $46,100,000 HUD-insured mortgage loan;

The formation of a joint venture in our mixed-use *University Park* project in Cambridge, Massachusetts. Under the terms of the joint venture agreements, HCN FCE Life Sciences, LLC acquired a 49% interest in the seven *University Park* life science properties formerly wholly-owned by us;

The formation of a new joint venture with Bernstein Development Corporation for ownership of three residential multifamily properties, totaling 1,340 rental units, in the Washington, D.C. metropolitan area;

The creation of a partnership with an outside partner to provide capital for the financing and development of *Woodforest*, an active, 3,000-acre master planned community in suburban Houston, Texas. *Woodforest* is located in southern Montgomery County, north of Houston. The project is zoned for approximately 5,700 housing units;

Forest City Military Communities entered into exclusive negotiations with the U.S. Air Force to privatize military family housing at four bases in the southeastern United States. The project will involve the management, new construction and/or demolition of Air Force family housing at the Southern Group bases, resulting in an end state of approximately 2,185 units;

The sale of *101 San Fernando*, an apartment community in San Jose, California for a sales price of $59,590,000, which generated net proceeds of approximately $15,000,000; the sale of our 50% interest in *Metreon*, an unconsolidated specialty retail center in San Francisco, California for a sales price of $19,250,000 generating net proceeds of approximately $18,000,000; and the sale of portions of *Millender Center*, an unconsolidated mixed-use property in downtown Detroit. The $37,800,000 transaction generated net proceeds to us of approximately $9,500,000;

The announcement of Lord & Taylor as an anchor tenant at *Westchester s Ridge Hill,* a retail center currently under construction in Yonkers, New York. Lord & Taylor will open a 80,000 square foot retail store, its first location to open nationwide since 2001;

The privately negotiated exchange of $51,176,000 of 3.625% Puttable Equity-Linked Senior Notes due October 2011, $121,747,000 of 7.625% Senior Notes due June 2015 and $5,826,000 of 6.500% Senior Notes due February 2017 for $50,664,000, $114,442,000 and $4,894,000 of our 7.0% Series A Cumulative Perpetual Convertible Preferred Stock ( Series A preferred stock ), respectively. We also issued an additional $50,000,000 of Series A preferred stock for cash. The Series A preferred stock has an initial conversion price of $15.12;

The privately negotiated exchange of $110,000,000 aggregate principal amount of 5.00% Convertible Senior Notes due 2016 for a total of 9,774,039 shares of our Class A common stock;

Closing $1,345,627,000 in nonrecourse mortgage financing transactions; and

The addition of Arthur F. Anton, president and chief executive officer of Swagelok Company, a manufacturing company based in Cleveland, Ohio, as a new Class B member of our board of directors, which was effective October 1, 2010.

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

The announcement that President and CEO Charles A. Ratner will become Chairman of the Board, and will be succeeded as President and CEO by David J. LaRue, currently Executive Vice President and COO. The changes are a part of our succession planning process and will be effective on the date of our Annual Meeting of Shareholders on June 10, 2011;

The announcement of the sale of approximately 16 acres of land, together with air rights, to Rock Ohio Caesars Cleveland LLC ( Rock Ohio ), for development of a casino in downtown Cleveland. The land is adjacent to Forest City s *Tower City Center* mixed-use complex. The total sale price was $85,000,000, of which $11,000,000 was paid in cash at closing on January 31, 2011, $33,900,000 was paid in February 2011, with the balance payable in installments in 2011 and 2012;

The signing of a lease agreement with Rock Ohio for space in the Higbee Building in downtown Cleveland. Rock Ohio will use the space for Phase I of its new Horseshoe Casino Cleveland. The five-year lease, which includes extension options, is for approximately 303,000 square feet of space on the concourse level and first, second and third floors of the building;

The sale of our 50% interest in *Met Lofts*, a 264 unit apartment community in Los Angeles, California, to our other 50% partner. The price reflects a total property value of $73,600,000 or approximately $280,000 per unit, and a cap rate of 4.5% based on 2010 net operating income for the property. The sale generated proceeds of approximately $13,200,000;

The sale of the *Charleston Marriott* in Charleston, West Virginia, for a sales price of $25,500,000. We will continue to own and operate the 897,000 square foot *Charleston Town Center*, a premier shopping and dining destination in the heart of downtown Charleston;

The grand opening of *8 Spruce Street* (formerly *Beekman*), a mixed-use residential project in Manhattan, New York. The 76 story, 903 unit tower stands as the tallest luxury residential tower in New York; and

Addressing $296,677,000 of nonrecourse mortgage debt financings that would have matured during the year ended January 31, 2012, through closed transactions, commitments and/or automatic extensions.

Critical Accounting Policies

Our consolidated financial statements include all majority-owned subsidiaries where we have financial or operational control and variable interest entities ( VIEs ) where we are deemed to be the primary beneficiary. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these financial statements, we have identified certain critical accounting policies which are subject to judgment and uncertainties. We have used our best judgment to determine estimates of certain amounts included in the financial statements as a result of these policies, giving due consideration to materiality. As a result of uncertainties surrounding these events at the time the estimates are made, actual results could differ from these estimates causing adjustments to be made in subsequent periods to reflect more current information. The accounting policies that we believe contain uncertainties that are considered critical to understanding the consolidated financial statements are discussed below. Our management reviews and discusses the policies below on a regular basis. These policies have also been discussed with our audit committee of the Board of Directors.

**Fiscal Year** - The years 2010, 2009 and 2008 refer to the fiscal years ended January 31, 2011, 2010 and 2009, respectively.

**Recognition of Revenue**

**Real Estate Sales** The specific timing of a sale is measured against various criteria in the accounting guidance on the sales of real estate related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, we defer gain recognition and account for the continued operations of the property by applying the deposit, finance, installment or cost recovery methods, as appropriate.

Assuming no significant continuing involvement, all earnings of properties which have been sold or determined by management to be held for sale are reported as discontinued operations. We consider assets held for sale when the transaction has been approved by management and there are no significant contingencies related to the sale that may prevent the transaction from closing. In most transactions, these contingencies are not satisfied until the actual closing and, accordingly, the property is not identified as held for sale until the closing actually occurs. However, each potential sale is evaluated based on its separate facts and circumstances.

**Leasing Operations** We enter into leases with tenants in our rental properties. The lease terms of tenants occupying space in the retail centers and office buildings generally range from 1 to 30 years, excluding leases with certain anchor tenants, which typically run longer. Minimum rents are recognized on a straight-line basis over the non-cancelable term of the related lease, which include the effects of rent steps and rent abatements under the leases. Overage rents are recognized only after the contingency has been removed (i.e., sales thresholds have been achieved). Recoveries from tenants for taxes, insurance and other commercial property operating expenses are recognized as revenues in the period the applicable costs are incurred.

**Construction** Revenues and profit on long-term fixed-price contracts are recorded using the percentage-of-completion method. Revenues on reimbursable cost-plus fee contracts are recorded in the amount of the accrued reimbursable costs plus proportionate fees at the time the costs are incurred.

**Military Housing Fee Revenues** Development fees related to military housing projects are earned based on a contractual percentage of the actual development costs incurred. Additional development incentive fees are recognized based upon successful completion of certain criteria, such as incentives to realize development cost savings, encourage small and local business participation, comply with specified safety standards and other project management incentives as specified in the development agreements.

Construction management fees are earned based on a contractual percentage of the actual construction costs incurred. Additional construction incentive fees are recognized based upon successful completion of certain criteria as set forth in the construction contracts.

Property management and asset management fees are earned based on a contractual percentage of the annual net rental income and annual operating income, respectively, that is generated by the military housing privatization projects as defined in the agreements. Additional property management incentive fees are recognized based upon successful completion of certain criteria as set forth in the property management agreements.

**Recognition of Costs and Expenses**

Operating expenses primarily represent the recognition of operating costs, which are charged to operations as incurred, administrative expenses and taxes other than income taxes. Interest expense and real estate taxes during active development and construction are capitalized as a part of the project cost.

Depreciation and amortization is generally computed on a straight-line method over the estimated useful life of the asset. The estimated useful lives of buildings and certain first generation tenant allowances that are considered by management as a component of the building are primarily 50 years. Subsequent tenant improvements and those first generation tenant allowances not considered a component of the building are amortized over the life of the tenant s lease. This estimate is based on the length of time the asset is expected to generate positive operating cash flows. Actual events and circumstances can cause the life of the building and tenant improvement to be different than the estimates made. Additionally, lease terminations can affect the economic life of the tenant improvements. We believe the estimated useful lives and classification of the depreciation and amortization of fixed assets and tenant improvements are reasonable and follow industry standards.

Major improvements and tenant improvements that are considered to be our assets are capitalized in real estate costs and expensed through depreciation charges. Tenant improvements that are considered lease inducements are

capitalized into other assets and amortized as a reduction of rental revenues over the life of the tenant s lease. Repairs, maintenance and minor improvements are expensed as incurred.

A variety of costs are incurred in the development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is based on accounting guidance for the capitalization of interest cost and accounting guidance for costs and the initial rental operations of real estate properties. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. We cease capitalization on any portion substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with the portion under construction. Costs and accumulated depreciation applicable to assets retired or sold are eliminated from the respective accounts and any resulting gains or losses are reported in the Consolidated Statements of Operations.

**Allowance for Projects Under Development** - We record an allowance for estimated development project write-offs for our projects under development. A specific project is written off when it is determined by management that it is probable the project will not be developed. The allowance, which is consistently applied, is adjusted on a quarterly basis based on our actual development project write-off history. The allowance balance was $22,786,000 and $23,786,000 at January 31, 2011 and 2010, respectively, and is included in accounts payable and accrued expenses.

**Acquisition of Rental Properties** - Upon acquisition of a rental property, we allocate the purchase price of the property to net tangible and identified intangible assets acquired based on fair values. Above-market and below-market in-place lease values for acquired properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of the fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. Capitalized above-market lease values are amortized as a reduction of rental revenues (or rental expense for ground leases in which we are the lessee) over the remaining non-cancelable terms of the respective leases. Capitalized below-market lease values are amortized as an increase to rental revenues (or rental expense for ground leases in which we are the lessee) over the remaining non-cancelable terms of the respective leases, including any fixed-rate renewal periods.

Intangible assets also include amounts representing the value of tenant relationships and in-place leases based on our evaluation of each tenant s lease and our overall relationship with the respective tenant. We estimate the cost to execute leases with terms similar to in-place leases, including leasing commissions, legal expenses and other related expenses. This intangible asset is amortized to expense over the remaining term of the respective leases. Our estimates of value are made using methods similar to those used by independent appraisers or by using independent appraisals. Factors considered by us in this analysis include an estimate of the carrying costs during the expected lease-up periods, current market conditions and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from three to twelve months. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. We also use the information obtained as a result of our pre-acquisition due diligence as part of our consideration of conditional asset retirement obligations, and when necessary, will record a conditional asset retirement obligation as part of our purchase price.

Characteristics considered by us in allocating value to our tenant relationships include the nature and extent of our business relationship with the tenant, growth prospects for developing new business with the tenant, the tenant s credit quality and expectations of lease renewals, among other factors. The value of tenant relationship intangibles is amortized over the remaining initial lease term and expected renewals, but in no event longer than the remaining depreciable life of the building. The value of in-place leases is amortized over the remaining non-cancelable term of the respective leases and any fixed-rate renewal periods.

In the event that a tenant terminates its lease, the unamortized portion of each intangible asset, including market rate adjustments, in-place lease values and tenant relationship values, would be charged to expense.

**Allowance for Doubtful Accounts and Reserves on Notes Receivable** - We record allowances against our rent receivables from commercial and residential tenants that we deem to be uncollectible. These allowances are based on management s estimate of receivables that will not be realized from cash receipts in subsequent periods. We also maintain an allowance for receivables arising from the straight-lining of rents. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates. The allowance against our straight-line rent receivable is based on our historical experience with early lease terminations as well as specific review of our significant tenants and tenants that are having known financial difficulties. There is a risk that our estimate of the expected activity of current tenants may not accurately reflect future events. If the estimate does not accurately reflect future tenant vacancies, the reserve for straight-line rent receivable may be over or understated by the actual tenant vacancies that occur. We estimate the allowance

for notes receivable based on our assessment of expected future cash flows estimated to be paid to us. If our estimate of expected future cash flows does not accurately reflect actual events, our reserve on notes receivable may be over or understated by the actual cash flows that occur. Our allowance for doubtful accounts, which includes our straight-line allowance, was $31,192,000 and $33,825,000, at January 31, 2011 and 2010, respectively.

**Historic and New Market Tax Credit Entities** - We have certain investments in properties that have received, or we believe are entitled to receive, historic preservation tax credits on qualifying expenditures under Internal Revenue Code ( IRC ) section 47 and new market tax credits on qualifying investments in designated community development entities ( CDEs ) under IRC section 45D, as well as various state credit programs including participation in the New York State Brownfield Tax Credit Program which entitles the members to tax credits based on qualified expenditures at the time those qualified expenditures are placed in service. We typically enter into these investments with sophisticated financial investors. In exchange for the financial investors initial contribution into the investment, the financial investor is entitled to substantially all of the benefits derived from the tax credit, but generally has no material interest in the underlying economics of the property. Typically, these arrangements have put/call provisions (which range up to 7 years) whereby we may be obligated (or entitled) to repurchase the financial investors interest. We have consolidated each of these entities in our consolidated financial statements, and have reflected these investor contributions as accounts payable and accrued expenses.

We guarantee the financial investor that in the event of a subsequent recapture by a taxing authority due to our noncompliance with applicable tax credit guidelines we will indemnify the financial investor for any recaptured tax credits. We initially record a liability for the cash received from the financial investor. We generally record income upon completion and certification of the qualifying development expenditures for historic tax credits and upon certification of the qualifying investments in designated CDEs for new market tax credits resulting in an adjustment of the liability at each balance sheet date to the amount that would be paid to the financial investor based upon the tax credit compliance regulations, which range from 0 to 7 years. Income related to the sale of tax credits of $31,979,000, $32,698,000 and $11,168,000 was recognized during the years ended January 31, 2011, 2010 and 2009, respectively, which was recorded in interest and other income.

**Impairment of Real Estate** - We review our real estate portfolio, including land held for development or sale, for impairment whenever events or changes indicate that our carrying value of the long-lived assets may not be recoverable. Impairment indicators include, but are not limited to, significant decreases in property net operating income, significant decreases in occupancy rates, the physical condition of the property and general economic conditions. A property s value is impaired only if management s estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are less than the carrying value of the property. In addition, the undiscounted cash flows may consider a probability-weighted cash flow estimation approach when alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or a range is estimated at the balance sheet date. Significant estimates are made in the determination of future undiscounted cash flows including historical and budgeted net operating income, estimated holding periods, risk of foreclosure and estimated cash proceeds received upon disposition of the asset. To the extent an impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property. Determining fair value of real estate, if required, also involves significant judgments and estimates. Changes to these estimates made by management could affect whether or not an impairment charge would be required and/or the amount of impairment charges recognized.

**Impairment of Unconsolidated Entities** - We review our portfolio of unconsolidated entities for other-than-temporary impairments whenever events or changes indicate that our carrying value in the investments may be in excess of fair value. A loss in value of an equity method investment which is other-than-temporary is recognized as an impairment of unconsolidated entities. This determination is based upon the length of time elapsed, severity of decline and other relevant facts and circumstances. Determining fair value of a real estate investment and whether or not a loss is other-than-temporary involves significant judgments and estimates. Changes to these estimates made by management could affect whether or not an impairment charge would be required and/or the amount of impairment charges recognized (see the Impairment of Unconsolidated Entities section of the MD&A).

**Variable Interest Entities** The accounting guidance for consolidation of VIEs requires an ongoing reassessment of determining whether a variable interest gives a company a controlling financial interest in a VIE. The guidance eliminates the quantitative approach to evaluating VIEs for consolidation. We assess whether or not we have the (a) power to direct the activities that most significantly affect the VIE s economic performance and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. We also perform continuous reassessments of our primary beneficiary status rather than event-driven assessments.

Our VIEs consist of joint ventures that are engaged, directly or indirectly, in the ownership, development and management of office buildings, regional malls, specialty retail centers, apartment communities, military housing, supported-living communities, land development and The Nets. As of January 31, 2011, we determined that we were the primary beneficiary of 34 VIEs representing 23 properties (18 VIEs representing 9 properties in the Residential Group, 14 VIEs representing 12 properties in the Commercial Group and 2 VIEs/properties in the Land Development Group). The creditors of the consolidated VIEs do not have recourse to our general credit. As of January 31, 2011, we held variable interests in 61 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 investments in those VIEs totaling approximately $96,000,000 at January 31, 2011.

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In addition to the VIEs described above, we have also determined that we are the primary beneficiary of a VIE which holds collateralized borrowings of $29,000,000 as of January 31, 2011 (see the Senior and Subordinated Debt section of the MD&A).

Results of Operations

**Net Earnings (Loss) Attributable to Forest City Enterprises, Inc.** Net earnings attributable to Forest City Enterprises, Inc. for the year ended January 31, 2011 was $58,660,000 versus a net loss of $(30,651,000) for the year ended January 31, 2010. Although we have substantial recurring revenue sources from our properties, we also enter into significant transactions, which could create substantial variances in net earnings (loss) between periods. This variance to the prior year is primarily attributable to the following increases, which are net of tax and noncontrolling interest:

$107,859,000 ($176,192,000, pre-tax) related to the 2010 gain on disposition of partial interest in seven mixed-use *University Park* life science properties in Cambridge, Massachusetts, related to the formation of a new joint venture with an outside partner;

$24,496,000 ($41,372,000, pre-tax) related to the overall increased net gains on disposition included in discontinued operations in 2010 as compared to 2009. The dispositions in 2010 include *Simi Valley Town Center*, a regional mall in Simi Valley, California, *Saddle Rock Village*, a specialty retail center in Aurora, Colorado, *101 San Fernando*, an apartment community in San Jose, California, and an investment in a triple net lease property located in Pueblo, Colorado. The dispositions in 2009 include *Grand Avenue*, a specialty retail center in Queens, New York and a deferred gain related to the sale of our Lumber Group strategic business unit;

$19,245,000 ($31,437,000, pre-tax) related to the 2010 gain on disposition of partial interest in The Nets;

$19,080,000 ($31,414,000, pre-tax) related to a 2010 decrease in allocated losses from our equity investment in The Nets (see The Nets section of the MD&A);

$17,731,000 ($29,342,000, pre-tax) related to the 2010 gain on disposition of partial interest in *The Grand*, *Lenox Club* and *Lenox Park*, apartment communities in North Bethesda, Maryland, Arlington, Virginia and Silver Spring, Maryland, respectively, related to the formation of a new joint venture with an outside partner;

$10,088,000 ($16,479,000, pre-tax, which includes $2,741,000 for unconsolidated entities) of decreased write-offs of abandoned development projects in 2010 compared to 2009;

$2,448,000 ($3,998,000, pre-tax) related to the 2009 participation payment on the refinancing of *45/75 Sidney*, office buildings in Cambridge, Massachusetts, that did not recur; and

$2,078,000 ($3,395,000, pre-tax) of decreased company-wide severance and outplacement costs in 2010 compared to 2009.

These increases were partially offset by the following decreases, net of tax and noncontrolling interests:

$51,840,000 ($84,682,000, pre-tax) related to the 2010 increase in impairment charges of consolidated (including discontinued properties) and unconsolidated entities;

$19,797,000 ($32,339,000, pre-tax, which includes $2,016,000 for unconsolidated entities) primarily related to decreased gains on early extinguishment of debt in 2010 when compared to 2009 (see the Gain on Early Extinguishment of Debt section of the MD&A);

$14,384,000 ($23,496,000, pre-tax) related to the 2010 loss on early extinguishment of debt on the exchange of a portion of our Convertible Senior Notes due 2016 for Class A common stock offset by the 2010 gain on early extinguishment of debt on the exchange of a portion of our Senior Notes due 2011, 2015 and 2017 for a new issue of Series A preferred stock and purchase of a portion of our Senior Notes due 2011 and 2017;

$16,100,000 ($26,300,000, pre-tax) related to the overall decreased net gains on disposition of unconsolidated investments in 2010 as compared to 2009. The dispositions in 2010 primarily include *Millender Center,* a mixed-use property in Detroit, Michigan, and *Woodbridge Crossing,* a specialty retail center in Woodbridge, New Jersey. The dispositions in 2009 include *Classic Residence by Hyatt* properties, supported-living apartments in Teaneck, New Jersey, Chevy Chase, Maryland and Yonkers, New York, *Clarkwood* and *Granada Gardens*, apartment communities in Warrensville Heights, Ohio, and *Boulevard Towers*, an apartment community in Amherst, New York;

$6,406,000 ($9,131,000, pre-tax) primarily related to military housing fee income from the management and development of military housing units in Hawaii, Illinois, Washington and Colorado in 2010 compared to 2009;

$4,716,000 ($7,703,000, pre-tax, which includes $2,523,000 for unconsolidated entities) related to a 2009 reinstatement by the United States Department of Housing and Urban Development ( HUD ) of certain replacement reserves previously written off at four of our residential properties located in Michigan that did not recur;

$2,203,000 ($3,599,000, pre-tax) related to a gain recognized in 2009 for insurance proceeds received related to fire damage of an apartment building in excess of the book value of the damaged asset that did not recur;

$1,626,000 ($2,656,000, pre-tax) related to transaction costs expensed during 2010 that were incurred in connection with a potential partial disposition in certain rental properties that did not occur; and

$1,467,000 ($2,396,000, pre-tax) related to the 2009 net gain on an industrial land sale at *Mesa del Sol* in Albuquerque, New Mexico.

Net loss attributable to Forest City Enterprises, Inc. for the year ended January 31, 2010 was $30,651,000 versus $113,247,000 for the year ended January 31, 2009. The variance to the prior year is primarily attributable to the following increases, which are net of tax and noncontrolling interest:

$30,462,000 ($49,761,000, pre-tax) related to the 2009 gains on disposition of our unconsolidated investments in *Classic Residence by Hyatt* properties, *Clarkwood, Granada Gardens* and *Boulevard Towers*;

$24,123,000 ($39,404,000, pre-tax, which includes $795,000 for unconsolidated entities) primarily related to the 2009 early extinguishment of nonrecourse mortgage debt at a consolidated retail project and *Gladden Farms,* a land development project located in Marana, Arizona and the gain on early extinguishment of debt on the exchange of a portion of our 2011 Notes for a new issue of puttable equity-linked senior notes due October 15, 2014 (see the Puttable Equity-Linked Senior Notes due 2011 section of the MD&A);

$13,620,000 ($22,247,000, pre-tax, which includes $304,000 for unconsolidated entities) of decreased write-offs of abandoned development projects in 2009 compared to 2008;

$13,181,000 ($21,530,000, pre-tax) related to an increase in income recognized on the sale of state and federal Historic Preservation Tax Credits, Brownfield Tax Credits and New Market Tax Credits;

$12,791,000 ($20,894,000, pre-tax) related to the change in fair market value of derivatives between the comparable periods, which was marked to market as a reduction of interest expense due to derivatives not qualifying for hedge accounting;

$7,554,000 ($12,434,000, pre-tax) related to the reduction in fair value of the Denver Urban Renewal Authority ( DURA ) purchase obligation and fee, that resulted from the Lehman Brothers, Inc. ( Lehman ) bankruptcy in 2008;

$6,732,000 ($10,996,000, pre-tax, which includes $770,000 for unconsolidated entities) related to a 2009 reinstatement by HUD of certain replacement reserves previously written off at four of our residential properties located in Michigan;

$2,784,000 ($4,548,000, pre-tax) related to the 2009 gain on disposition of *Grand Avenue*;

$2,203,000 ($3,599,000, pre-tax) related to a gain recognized in 2009 for insurance proceeds received related to fire damage of an apartment building in excess of the net book value of the damaged asset;

$1,860,000 ($3,031,000, pre-tax) related to the 2008 participation payments on the refinancing of *350 Massachusetts Avenue*, an unconsolidated office building and *Jackson Building,* a consolidated office building, both located in Cambridge, Massachusetts;

$1,467,000 ($2,396,000, pre-tax) related to the 2009 net gain on an industrial land sale at *Mesa del Sol*; and

$1,293,000 ($2,500,000, pre-tax) related to a decrease in allocated losses from our equity investment in The Nets (see The Nets section of the MD&A).

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These increases were partially offset by the following decreases, net of tax and noncontrolling interests:

- $30,677,000 ($50,110,000, pre-tax) related to the 2009 increase in impairment charges of consolidated (including discontinued properties) and unconsolidated entities;

- $6,717,000 ($9,426,000, pre-tax) primarily related to military housing fee income from the management and development of units in Hawaii, Illinois, Washington and Colorado in 2009 compared to 2008;

- $8,159,000 ($13,297,000, pre-tax) related to the 2008 gains on disposition of two supported-living apartment communities, *Sterling Glen of Lynbrook,* in Lynbrook, New York and *Sterling Glen of Rye Brook,* in Rye Brook, New York;

- $2,448,000 ($3,998,000, pre-tax) related to the 2009 participation payment on the refinancing of *45/75 Sidney*;

- $2,417,000 ($3,978,000, pre-tax) related to the 2008 lease termination fee income at an office building in Cleveland, Ohio that did not recur; and

- $2,035,000 ($3,350,000, pre-tax) related to the 2008 gain on the sale of an ownership interest in a parking management company.

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

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | (in thousands) | | |
| **Revenues from Real Estate Operations** | | | |
| Commercial Group | **$ 909,303** | $ 927,601 | $ 908,756 |
| Commercial Group Land Sales | **24,742** | 27,068 | 35,437 |
| Residential Group | **211,485** | 257,077 | 273,561 |
| Land Development Group | **32,131** | 20,267 | 33,848 |
| The Nets | **-** | - | - |
| Corporate Activities | **-** | - | - |
| **Total Revenues from Real Estate Operations** | **$ 1,177,661** | $ 1,232,013 | $ 1,251,602 |
| **Operating Expenses** | | | |
| Commercial Group | **$ 443,837** | $ 451,281 | $ 480,759 |
| Cost of Commercial Group Land Sales | **19,970** | 21,609 | 15,699 |
| Residential Group | **136,296** | 158,686 | 173,737 |
| Land Development Group | **38,650** | 33,119 | 52,878 |
| The Nets | **-** | - | - |
| Corporate Activities | **47,030** | 39,857 | 44,097 |
| **Total Operating Expenses** | **$ 685,783** | $ 704,552 | $ 767,170 |
| **Interest Expense** | | | |
| Commercial Group | **$ 227,216** | $ 232,631 | $ 247,441 |
| Residential Group | **21,233** | 27,515 | 35,910 |
| Land Development Group | **3,007** | 2,109 | (98) |
| The Nets | **-** | - | - |
| Corporate Activities | **63,884** | 80,891 | 73,250 |
| **Total Interest Expense** | **$ 315,340** | $ 343,146 | $ 356,503 |
| **Equity in Earnings (Loss) of Unconsolidated Entities** | | | |
| Commercial Group | **$ 15,007** | $ 6,657 | $ 6,896 |
| Gain on disposition of *Woodbridge Crossing* | **6,443** | - | - |
| Gain on disposition of *Coachella Plaza* | **104** | - | - |
| Gain on disposition of *Southgate Mall* | **64** | - | - |
| Gain on disposition of *El Centro Mall* | **48** | - | - |
| Loss on disposition of *Metreon* | **(1,046)** | - | - |
| Gain on disposition of *One International Place* | **-** | - | 881 |
| Gain on disposition of *Emery-Richmond* | **-** | - | 200 |
| Residential Group | **19,567** | 2,969 | 9,193 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Gain on disposition of *Millender Center* | | **15,633** | | - | | - |
| Gain on disposition of *Pebblecreek* | | **2,215** | | - | | - |
| Gain on disposition of *Classic Residence by Hyatt* properties | | **-** | | 31,703 | | - |
| Gain on disposition of *Clarkwood* | | **-** | | 6,983 | | - |
| Gain on disposition of *Granada Gardens* | | **-** | | 6,577 | | - |
| Gain on disposition of *Boulevard Towers* | | **-** | | 4,498 | | - |
| Land Development Group | | **2,548** | | 5,405 | | 9,519 |
| The Nets | | **(18,318)** | | (43,489) | | (40,989) |
| Corporate Activities | | **-** | | - | | - |
| **Total Equity in Earnings (Loss) of Unconsolidated Entities** | **$** | **42,265** | $ | 21,303 | $ | (14,300) |
| | | | | | | |
| **Impairment of Unconsolidated Entities** | | | | | | |
| Commercial Group | **$** | **49,889** | $ | 10,521 | $ | 9,193 |
| Residential Group | | **-** | | 24,303 | | 9,443 |
| Land Development Group | | **22,570** | | 1,532 | | 2,649 |
| The Nets | | **-** | | - | | - |
| Corporate Activities | | **-** | | - | | - |
| **Total Impairment of Unconsolidated Entities** | **$** | **72,459** | $ | 36,356 | $ | 21,285 |

***Commercial Group***

**Revenues from Real Estate Operations** Revenues from real estate operations for the Commercial Group, including the group s land sales, decreased by $20,624,000, or 2.2%, for the year ended January 31, 2011 compared to the same period in the prior year. The variance is primarily attributable to the following decreases:

$62,754,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture with an outside partner in seven mixed-use *University Park* life science properties in Cambridge, Massachusetts; and

$2,326,000 related to decreases in commercial outlot land sales primarily at *Salt Lake City* in Utah, *Victoria Gardens* in Rancho Cucamonga, California, *Westchester s Ridge Hill* in Yonkers, New York and *Short Pump Town Center* in Richmond, Virginia, which were partially offset by increases at *South Bay Southern Center* in Redondo Beach, California and *Orchard Town Center* in Westminster, Colorado.

These decreases were partially offset by the following increases:

$25,233,000 related to new property openings as noted in the table below;

$13,221,000 related to increased revenues earned on a construction contract with the New York City School Construction Authority for the construction of a school on the lower floors at *8 Spruce Street* (formerly *Beekman),* a mixed-use residential project under construction in Manhattan, New York. This represents a reimbursement of costs that is included in operating expenses discussed below;

$5,818,000 related to increased occupancy at *Illinois Science and Technology Park* in Skokie, Illinois and *Higbee Building* in Cleveland, Ohio; and

$3,910,000 related to development fee income at *Las Vegas City Hall*, a fee-based project in Nevada.

The balance of the remaining decrease of $3,726,000 was generally due to miscellaneous fluctuations.

Revenues from real estate operations for the Commercial Group, including the group s land sales, increased by $10,476,000, or 1.1%, for the year ended January 31, 2010 compared to the same period in the prior year. The variance to the prior year is primarily attributable to the following increases:

$21,831,000 related to new property openings as noted in the table below; and

$2,829,000 related to increased revenues earned on a construction contract with the New York City School Construction Authority for the construction of a school at *8 Spruce Street* (formerly *Beekman*). This represents a reimbursement of costs that is included in operating expenses discussed below.

These increases were partially offset by the following decreases:

$8,369,000 related to decreases in commercial outlot land sales primarily at *South Bay Southern Center*, *Short Pump Town Center*, *Promenade Bolingbrook* in Bolingbrook, Illinois, *White Oak Village* in Richmond, Virginia and *Orchard Town Center*, which were partially offset by increases in commercial outlot land sales at *Salt Lake City* and *Victoria Gardens*; and

$3,978,000 related to lease termination fee income in 2008 at an office building in Cleveland, Ohio that did not recur.

The balance of the remaining decrease of $1,837,000 was generally due to downward pressures on retail occupancies and rental rates.

**Operating and Interest Expenses** Operating expenses decreased $9,083,000, or 1.9%, for the year ended January 31, 2011 compared to the same period in the prior year. The variance is primarily attributable to the following decreases:

$23,436,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture with an outside partner in *University Park*;

$10,775,000 related to decreased write-offs of abandoned development projects in 2010 compared to 2009; and

$1,639,000 related to decreases in commercial outlot land sales primarily at *Salt Lake City*, *Victoria Gardens*, *Westchester s Ridge Hill* and *Short Pump Town Center*, which were partially offset by increases at *South Bay Southern Center* and *Orchard Town Center*.

These decreases were partially offset by the following increases:

- $13,221,000 related to construction of a school at *8 Spruce Street* (formerly *Beekman*). These costs are reimbursed by the New York City School Construction Authority which are included in revenues from real estate operations discussed above;
- $8,302,000 related to the change from equity method of accounting to full consolidation method for the *Barclays Center* arena upon the adoption of new accounting guidance for consolidation of VIEs. These costs represent non-capitalizable expenses, primarily marketing costs, related to the *Barclays Center* arena;
- $6,360,000 related to new property openings as noted in the table below;
- $2,171,000 related to increased occupancy at *Higbee Building* and *Illinois Science and Technology Park;* and
- $1,575,000 related to development expenses at *Las Vegas City Hall.*

The balance of the remaining decrease of $4,862,000 was generally due to miscellaneous fluctuations.

Operating expenses decreased $23,568,000, or 4.7%, for the year ended January 31, 2010 compared to the same period in the prior year. The variance to the prior year is primarily attributable to the following decreases:

- $27,530,000 related to decreased write-offs of abandoned development projects in 2009 compared to 2008, which was primarily due to the 2008 write-off at *Summit at Lehigh Valley,* a commercial development project with a housing component in Allentown, Pennsylvania; and
- $1,759,000 related to the 2008 participation payment on the refinancing at *Jackson Building*, an office building in Cambridge, Massachusetts that did not recur.

These decreases were partially offset by the following increases:

- $7,265,000 related to new property openings as noted in the table below;
- $5,910,000 related to increases in commercial outlot land sales primarily at *Salt Lake City* and *Victoria Gardens,* which were partially offset by decreases in commercial outlot land sales at *Short Pump Town Center*, *Promenade Bolingbrook, White Oak Village* and *Orchard Town Center;*
- $3,998,000 related to the 2009 participation payment on the refinancing of *45/75 Sidney Street*, an office building in Cambridge, Massachusetts; and
- $2,829,000 related to construction of a school at *8 Spruce Street* (formerly *Beekman*). These costs are reimbursed by the New York City School Construction Authority and are included in revenues from real estate operations discussed above.

The balance of the remaining decrease of $14,281,000 was generally due to cost reduction activities within the Commercial Group relating to direct property expenses and general operating activities.

Interest expense for the Commercial Group decreased by $5,415,000, or 2.3%, for the year ended January 31, 2011 compared to the same period in the prior year. This decrease is primarily attributable to a decrease of $19,028,000 related to the change from full consolidation method to equity method upon the formation of a new joint venture with an outside partner in *University Park*. This decrease was primarily offset by increases of $7,410,000 attributable to the openings of the properties in the table below, $4,470,000 in mortgage interest expense at *Johns Hopkins - 855 North Wolfe Street* in East Baltimore, Maryland related to the terms of a renegotiated forward interest rate swap and $2,223,000 related to mark-to-market adjustments on non-designated interest rate swaps. Interest expense decreased by $14,810,000, or 6.0%, for the year ended January 31, 2010 compared to the same period in the prior year. $19,325,000 of this decrease represents the change in fair value of a forward swap related to an unconsolidated property that is marked to market through interest expense. The remaining increase is primarily attributable to the openings of the properties listed in the table below.

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The following table presents the increases in revenues and operating expenses incurred by the Commercial Group for newly-opened properties for the year ended January 31, 2011 compared to the same period in the prior year:

| Property | Location | Quarter/Year Opened | Square Feet | Year Ended January 31, 2011 vs. 2010<br>Revenues from Real Estate Operations | Operating Expenses |
|---|---|---|---|---|---|
| | | | | *(in thousands)* | |
| **Office Building:** | | | | | |
| Waterfront Station East 4th and West 4th Buildings | Washington, D.C. | Q1-2010 | 631,000 | $ 22,976 | $ 6,008 |
| **Retail Centers:** | | | | | |
| Promenade at Temecula Expansion | Temecula, California | Q1-2009 | 127,000 | 2,257 | 352 |
| **Total** | | | | **$ 25,233** | **$ 6,360** |

The following table presents the increases in revenues and operating expenses incurred by the Commercial Group for newly-opened/acquired properties for the year ended January 31, 2010 compared to the same period in the prior year:

| Property | Location | Quarter/Year Opened | Square Feet | Year Ended January 31, 2010 vs. 2009<br>Revenues from Real Estate Operations | Operating Expenses |
|---|---|---|---|---|---|
| | | | | *(in thousands)* | |
| **Retail Centers:** | | | | | |
| Promenade at Temecula Expansion | Temecula, California | Q1-2009 | 127,000 | $ 1,281 | $ 568 |
| White Oak Village | Richmond, Virginia | Q3-2008 | 843,000 | 5,256 | 1,487 |
| Shops at Wiregrass | Tampa, Florida | Q3-2008 | 734,000 | 10,524 | 4,121 |
| Orchard Town Center | Westminster, Colorado | Q1-2008 | 1,018,000 | 2,797 | 563 |
| **Office Building:** | | | | | |
| Johns Hopkins 855 North Wolfe Street | East Baltimore, Maryland | Q1-2008 | 279,000 | 1,973 | 526 |
| **Total** | | | | **$ 21,831** | **$ 7,265** |

Comparable occupancy for the Commercial Group is 91.2% and 88.4% for retail and office, respectively, as of January 31, 2011 compared to 90.1% and 90.0%, respectively, as of January 31, 2010. Retail and office occupancy as of January 31, 2011 and 2010 is based on square feet leased at the end of the fiscal quarter. Comparable occupancy relates to properties opened and operated in both the years ended January 31, 2011 and 2010. Average occupancy for hotels for the year ended January 31, 2011 is 69.0% compared to 69.1% for the year ended January 31, 2010.

As of January 31, 2011, the average base rent per square feet expiring for retail and office leases is $27.79 and $31.11, respectively, compared to $26.41 and $30.93, respectively, as of January 31, 2010. Square feet of expiring leases and average base rent per square feet are operating statistics that represent 100% of the square footage and base rental income per square foot from expiring leases. The average daily rate ( ADR ) for our hotel portfolio is $140.03 and $140.01 for the years ended January 31, 2011 and 2010, respectively. ADR is an operating statistic and is calculated by dividing revenue by the number of rooms sold for all hotels that were open and operating for both the years ended January 31, 2011 and 2010.

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

We continuously look to improve average base rent for our retail and office portfolios. However, we evaluate each leasing opportunity separately, including consideration of potential tenants credit, and make leasing decisions in an effort to balance preserving occupancy, maintaining rental income and maximizing sales potential in retail properties. We expect the average base rent per square foot to be at or above the levels expiring during the year ended January 31, 2012, based on the recent improvement in performance indicators in the retail and office markets.

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*Residential Group*

**Revenues from Real Estate Operations** Included in revenues from real estate operations is fee income related to the development and construction management related to our military housing projects. Military housing fee income and related operating expenses may vary significantly from period to period based on the timing of development and construction activity at each applicable project. Revenues from real estate operations for the Residential Group decreased by $45,592,000, or 17.7%, during the year ended January 31, 2011 compared to the prior year. The variance is primarily attributable to the following decreases:

- $27,628,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture with an outside partner for *The Grand*, *Lenox Park* and *Lenox Club*;
- $14,000,000 related to the land sale and related development opportunity in Mamaroneck, New York in the prior year;
- $13,746,000 related to the change from full consolidation method of accounting to equity method upon the adoption of accounting guidance for consolidation of VIEs for *Plymouth Square*, *Cambridge Towers* and *Village Center* in Detroit, Michigan, *Autumn Ridge* in Sterling Heights, Michigan, *Coraopolis Towers* in Coraopolis, Pennsylvania, *Grove* in Ontario, California and *Donora Towers* in Donora, Pennsylvania;
- $11,881,000 related to military housing fee income from the management and development of military housing units located primarily on the islands of Oahu and Kauai, Hawaii, Chicago, Illinois, Seattle, Washington, and Colorado Springs, Colorado (see the Military Housing Fee Revenues section below for further detail); and
- $4,642,000 related to insurance premiums earned from an owner s controlled insurance program.

This decrease was partially offset by the following increases:

- $12,683,000 primarily related to new property openings and acquired properties as noted in the table below; and
- $6,770,000 related to third-party management fees and other fee income.

The balance of the remaining increase of $6,852,000 was generally due to miscellaneous fluctuations as a result of improving operating fundamentals such as occupancy rates and net rental income.

Revenues from real estate operations for the Residential Group decreased by $16,484,000, or 6.0%, during the year ended January 31, 2010 compared to the prior year. The variance is primarily attributable to the following decrease:

- $50,668,000 related to military housing fee income from the management and development of military housing units located primarily on the islands of Oahu and Kauai, Hawaii, Chicago, Illinois, Seattle, Washington, and Colorado Springs, Colorado (see the Military Housing Fee Revenues section below for further details).

This decrease was partially offset by the following increases:

- $14,000,000 related to the land sale and related development opportunity in Mamaroneck, New York;
- $6,578,000 related to the cancellation of a net leasing arrangement whereby we assumed the operations from the lessee at *Forest Trace* in Lauderhill, Florida;
- $6,321,000 related to insurance premiums earned from an owner s controlled insurance program; and
- $5,538,000 related to new property openings and acquired properties as noted in the table below.

The balance of the remaining increase of $1,747,000 was primarily due to third-party management fees and other miscellaneous fluctuations.

**Operating and Interest Expenses** Operating expenses for the Residential Group decreased by $22,390,000, or 14.1%, during the year ended January 31, 2011 compared to the prior year. This variance is primarily attributable to the following decreases:

- $14,000,000 related to the cost of the land sale and related development opportunity in Mamaroneck, New York in the prior year;
- $11,783,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture with an outside partner for *The Grand*, *Lenox Park* and *Lenox Club*;

$7,381,000 related to decreased write-offs of abandoned development projects in 2010 as compared to 2009;

$6,725,000 related to the change from full consolidation method of accounting to equity method upon the adoption of accounting guidance for consolidation of VIEs for *Plymouth Square*, *Cambridge Towers*, *Village Center*, *Autumn Ridge*, *Coraopolis Towers*, *Grove* and *Donora Towers*;

$4,283,000 related to insurance expenses associated with an owner s controlled insurance program; and

$4,131,000 related to management expenditures associated with military housing fee revenues.

These decreases were partially offset by the following increases:

$10,226,000 related to a 2009 reinstatement by HUD of certain replacement reserves previously written off at three of our residential properties located in Michigan, that did not recur;

$5,420,000 related to new property openings and acquired properties as noted in the table below; and

$2,156,000 related to expenditures associated with third-party management fee arrangements.

The balance of the remaining increase of $8,111,000 was generally due to miscellaneous fluctuations.

Operating expenses for the Residential Group decreased by $15,051,000, or 8.7%, during the year ended January 31, 2010 compared to the prior year. This variance is primarily attributable to the following decreases:

$35,357,000 related to management expenditures associated with military housing fee revenues; and

$10,226,000 related to a reinstatement by HUD of certain replacement reserves previously written off at three of our residential properties located in Michigan.

These decreases were partially offset by the following increases:

$14,000,000 related to the cost of the land sale and related development opportunity in Mamaroneck, New York;

$9,404,000 related to the assignment of the net lease arrangement with *Forest Trace;*

$3,998,000 related to insurance expenses associated with an owner s controlled insurance program;

$3,988,000 related to new property openings and acquired properties as noted in the table below; and

$1,530,000 related to increased write-offs of abandoned development projects in 2009 as compared to 2008.

The balance of the remaining decrease of $2,388,000 was generally due to cost reduction activities within the Residential Group relating to direct property expenses and general operating activities.

Interest expense for the Residential Group decreased by $6,282,000 or 22.8% during the year ended January 31, 2011 compared to the same period in the prior year. This decrease is primarily attributable to the deconsolidation of properties as a result of adopting new accounting guidance on the consolidation of VIEs, the change from full consolidation method of accounting to equity method upon the formation of a new joint venture with an outside partner for *The Grand*, *Lenox Park* and *Lenox Club* and mark-to-market adjustments on non-designated interest rate swaps partially offset by openings and acquisitions of new properties.

Interest expense for the Residential Group decreased by $8,395,000, or 23.4%, during the year ended January 31, 2010 compared to the same period in the prior year primarily as a result of decreased variable interest rates partially offset by increases related to the opening and acquisitions of new properties.

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The following table presents the increases in revenues and operating expenses incurred by the Residential Group for newly-opened/acquired properties for the year ended January 31, 2011 compared to the same period in the prior year:

| | | | | Year Ended January 31, 2011 vs. 2010 | |
|---|---|---|---|---|---|
| **Property** | **Location** | **Quarter/Year Opened** | **Units** | **Revenues from Real Estate Operations** | **Operating Expenses** |
| | | | | *(in thousands)* | |
| Presidio Landmark | San Francisco, California | Q3-2010 | 161 | $ 117 | $ 1,579 |
| DKLB BKLN (formerly 80 DeKalb) | Brooklyn, New York | Q4-2009 (1) | 365 | 7,069 | 2,015 |
| North Church Towers | Parma Heights, Ohio | Q3-2009 (2) | 399 | 1,787 | 1,393 |
| Hamel Mill Lofts | Haverhill, Massachusetts | Q4-2008 (1) | 305 | 2,067 | 983 |
| Mercantile Place on Main | Dallas, Texas | Q1-2008/Q4-2008 (1) | 366 | 1,643 | (550) |
| **Total** | | | | **$ 12,683** | **$ 5,420** |

(1) Property to open in phases.
(2) Acquired property.

The following table presents the increases in revenues and operating expenses incurred by the Residential Group for newly-opened/acquired properties for the year ended January 31, 2010 compared to the same period in the prior year:

| | | | | Year Ended January 31, 2010 vs. 2009 | |
|---|---|---|---|---|---|
| **Property** | **Location** | **Quarter/Year Opened** | **Units** | **Revenues from Real Estate Operations** | **Operating Expenses** |
| | | | | *(in thousands)* | |
| DKLB BKLN (formerly 80 DeKalb) | Brooklyn, New York | Q4-2009 (1) | 365 | $ 61 | $ 1,251 |
| North Church Towers | Parma Heights, Ohio | Q3-2009 (2) | 399 | 942 | 604 |
| Hamel Mill Lofts | Haverhill, Massachusetts | Q4-2008 (1) | 305 | 765 | 1,303 |
| Lucky Strike | Richmond, Virginia | Q1-2008 | 131 | 918 | 226 |

| | | | | | |
|---|---|---|---|---|---|
| | | Q1-2008/Q4-2008 | | | |
| Mercantile Place on Main | Dallas, Texas | (1) | 366 | 2,852 | 604 |
| **Total** | | | | **$ 5,538** | **$ 3,988** |

(1) Property to open in phases.
(2) Acquired property.

Comparable average occupancy for the Residential Group is 94.7% and 92.1% for the years ended January 31, 2011 and 2010, respectively. Average residential occupancy for the years ended January 31, 2011 and 2010 is calculated by dividing gross potential rent less vacancy by gross potential rent. Comparable average occupancy relates to properties opened and operated in both the years ended January 31, 2011 and 2010.

Comparable net rental income ( NRI ) for our Residential Group was 91.6% and 89.7% for the years ended January 31, 2011 and 2010, respectively. NRI is an operating statistic that represents the percentage of potential rent received after deducting vacancy and rent concessions from gross potential rent.

**Military Housing Fee Revenues** Development fees related to military housing projects are earned based on a contractual percentage of the actual development costs incurred. Additional development incentive fees are recognized based upon successful completion of certain criteria, such as incentives to realize development cost savings, encourage small and local business participation, comply with specified safety standards and other project management incentives as specified in the development agreements. Development and development incentive fees of $5,861,000, $14,030,000 and $62,180,000 were recognized during the years ended January 31, 2011, 2010 and 2009, respectively, which were recorded in revenues from real estate operations.

Construction management fees are earned based on a contractual percentage of the actual construction costs incurred. Additional construction incentive fees are recognized based upon successful completion of certain criteria as set forth in the construction contracts. Construction and incentive fees of $5,618,000, $9,857,000 and $13,505,000 were recognized during the years ended January 31, 2011, 2010 and 2009, respectively, which were recorded in revenues from real estate operations.

Property management and asset management fees are earned based on a contractual percentage of the annual net rental income and annual operating income, respectively, that is generated by the military housing privatization projects as defined in the agreements. Additional property management incentive fees are recognized based upon successful completion of certain criteria as set forth in the property management agreements. Property management, management incentive and asset management fees of $15,975,000, $15,448,000 and $14,318,000 were recognized during the years ended January 31, 2011, 2010 and 2009, respectively, which were recorded in revenues from real estate operations.

***Land Development Group***

**Revenues from Real Estate Operations** Land sales and the related gross margins vary from period to period depending on the timing of sales and general market conditions relating to the disposition of significant land holdings. Although improved over the same period in the prior year, our land sales continue to be impacted by decreased demand from home buyers in certain core markets for the land business, reflecting conditions throughout the housing industry. Revenues from real estate operations for the Land Development Group increased by $11,864,000 for the year ended January 31, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following increases:

- $9,502,000 related to higher land sales at *Stapleton* in Denver, Colorado;
- $4,560,000 related to higher land sales at *Tangerine Crossing* in Tucson, Arizona, *Mill Creek* in York County, South Carolina, *Legacy Lakes* in Aberdeen, North Carolina, *Waterbury* in North Ridgeville, Ohio and a land development project in Eaton Township, Ohio; and
- $803,000 primarily related to a combination of smaller increases in land sales at other land development projects.

These increases were partially offset by the following decreases:

- $2,327,000 related to lower unit sales at *Rockport Square* in Lakewood, Ohio and lower land sales at *Creekstone* in Copley, Ohio; and
- $674,000 primarily related to a combination of smaller decreases in land sales at other land development projects.

Revenues from real estate operations for the Land Development Group decreased by $13,581,000 for the year ended January 31, 2010 compared to the prior year. This variance is primarily attributable to the following decreases:

- $6,556,000 related to lower land sales at *Prosper* in Prosper, Texas, *Tangerine Crossing* and *Legacy Lakes*, combined with several smaller decreases in land/unit sales at other land development properties;
- $6,051,000 related to lower land sales at *Summers Walk* in Davidson, North Carolina; and
- $3,935,000 primarily related to reduced fee income and profit participation due to lower home sales at *Stapleton*.

These decreases were partially offset by the following increase:

- $2,961,000 related to higher land sales primarily at *Gladden Farms* in Marana, Arizona and *Creekstone*, combined with several smaller increases in land sales at other land development projects.

**Operating and Interest Expenses** Operating expenses increased by $5,531,000 for the year ended January 31, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following increases:

- $8,727,000 primarily related to higher land sales at *Stapleton;*
- $4,706,000 primarily related to higher land sales at *Tangerine Crossing, Mill Creek*, *Legacy Lakes*, *Waterbury* and a land development project in Eaton Township, Ohio; and
- $915,000 primarily related to a combination of several smaller expense increases due to increases in land sales at other land development projects.

These increases were partially offset by the following decreases:

- $2,735,000 primarily related to lower unit sales at *Rockport Square* and lower land sales at *Creekstone*;
- $2,500,000 nonrecurring legal settlement in 2009 related to a former joint venture; and

- $3,582,000 primarily related to a combination of several smaller expense decreases due to decreases in land sales at other land development projects.

Operating expenses decreased by $19,759,000 for the year ended January 31, 2010 compared to the same period in the prior year. This variance is primarily attributable to the following decreases:

- $17,568,000 at *Stapleton* primarily related to the $13,816,000 reduction in fair value of the DURA purchase obligation and fee, that resulted from the Lehman Brothers, Inc. bankruptcy in 2008 (see the Other Financing Arrangements section of the MD&A) along with reduced payroll costs and specific cost reduction activities;
- $5,944,000 primarily related to lower land sales at *Prosper, Tangerine Crossing* and *Legacy Lakes*, combined with several smaller decreases in land sales at other land development projects along with reduced payroll costs and specific cost reduction activities; and
- $3,862,000 related to lower land sales at *Summers Walk.*

These decreases were partially offset by the following increases:

- $5,115,000 primarily related to higher land sales at *Gladden Farms* and *Creekstone,* combined with several smaller increases in land sales at other land development projects; and
- $2,500,000 nonrecurring legal settlement in 2009 related to a former joint venture.

Interest expense increased by $898,000 for the year ended January 31, 2011 and $2,207,000 during the year ended January 31, 2010 compared to the same periods in the prior years. Interest expense varies from year to year depending on the level of interest-bearing debt within the Land Development Group and interest rates.

***The Nets***

Our ownership of The Nets is through Nets Sports and Entertainment LLC ( NS&E ). NS&E also owns Brooklyn Arena, LLC ( Arena ), an entity that through its subsidiaries is overseeing the construction of and has a long-term lease in the *Barclays Center* arena, the future home of The Nets. Upon adoption of new accounting guidance for the consolidation of VIEs on February 1, 2010, NS&E was converted from an equity method entity to a consolidated entity. As of January 31, 2011, NS&E consolidates Arena and accounts for its investment in The Nets on the equity method of accounting. As a result of us consolidating NS&E, we record the entire net loss of The Nets allocated to NS&E in equity in loss of unconsolidated entities and allocate the other NS&E minority partners share of its loss through noncontrolling interests in our Statements of Operations for the year ended January 31, 2011. Prior to the adoption of the new consolidation accounting guidance, we recorded only our share of the loss for The Nets through equity in loss of unconsolidated entities.

On May 12, 2010, we closed on a purchase agreement with entities controlled by Mikhail Prokhorov ( MP Entities ). Pursuant to the terms of the purchase agreement, the MP Entities invested $223,000,000 and made certain funding commitments ( Funding Commitments ) to acquire 80% of The Nets, 45% of Arena and the right to purchase up to 20% of Atlantic Yards Development Company, LLC, which will develop non-arena real estate. In accordance with the Funding Commitments, the MP Entities agreed to fund The Nets operating needs up to $60,000,000 including reimbursements to us for loans made to cover The Nets operating needs from March 1, 2010 to May 12, 2010 totaling $15,000,000. Of this total reimbursement, $9,237,000 represented operating losses incurred during the period from March 1, 2010 to May 12, 2010, which was recognized in our gain on the sale of The Nets (see the Net Gain on Disposition of Partial Interests in Rental Properties and Other Investment section of the MD&A). Once the $60,000,000 is expended, which is anticipated to occur prior to the start of the 2011-2012 NBA basketball season, NS&E is required to fund 100% of the operating needs, as defined, until the *Barclays Center* arena is complete and open. Thereafter, members capital contributions will be made in accordance with the operating agreements. Since May 12, 2010, The Nets losses have been allocated to the majority owner since losses are allocated based on an analysis of the respective members claim on the net book equity assuming a liquidation at book value.

The amount of equity in loss, net of noncontrolling interests, was $12,075,000, $43,489,000 and $40,989,000 for the years ended January 31, 2011, 2010 and 2009, respectively, representing a decrease in our allocated losses of $31,414,000 and an increase in our allocated losses of $2,500,000 compared to the respective prior year. The decrease in 2010 compared to 2009 is primarily due to the allocation of losses to the MP Entities, since May 12, 2010, as discussed above.

For the years ended January 31, 2011, 2010 and 2009, we recognized approximately 25%, 68% and 54% of the net loss of The Nets, respectively, because profits and losses are allocated to each member based on an analysis of the

respective member s claim on the net book equity assuming a liquidation at book value at the end of the accounting period without regard to unrealized appreciation (if any) in the fair value of The Nets. Our percentage of the allocated losses for the year ended January 31, 2011 was lower than the prior year primarily due to the allocation of losses to the MP Entities, as discussed above.



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***Corporate Activities***

**Operating and Interest Expenses** Operating expenses for Corporate Activities increased $7,173,000 for the year ended January 31, 2011 compared to the prior year. The increase was primarily related to increased payroll and related benefits including stock-based compensation of $2,038,000, an increase in a nonrecurring expense of $4,000,000 related to a liability claim that we may be able to recoup in the future, an increase in professional fees of $2,823,000 associated with strategic planning and process improvement initiatives offset by a decrease to company-wide severance and outplacement expenses of $3,395,000.

Operating expenses decreased by $4,240,000 for the year ended January 31, 2010 compared to the prior year. The decrease was primarily related to a decrease in charitable contributions of $1,976,000 and other general corporate expenses.

Interest expense decreased by $17,007,000 for the year ended January 31, 2011 compared to the prior year, as a result of the retirement of the $178,749,000 of Senior Notes in exchange for a new issuance of Series A preferred stock on March 9, 2010 (see the Senior Notes and Subordinated Debt section of the MD&A) and decreased interest expense on corporate interest rate swaps due to a reduction in the strike rate of the active swaps compared to the London Interbank Offered Rate ( LIBOR ) rate which stayed at historically low levels throughout 2010.

Interest expense increased by $7,641,000 for the year ended January 31, 2010 compared to the prior year, as a result of increased interest expense on corporate interest rate swaps due to a reduction in the LIBOR rate, additional interest expense on senior notes issued during the year ended January 31, 2010, and the bank revolving credit facility due to increased borrowings.

***Other Activity***

The following items are discussed on a consolidated basis.

**Interest and Other Income**

For the years ended January 31, 2011, 2010 and 2009, we recorded interest and other income of $52,826,000, $53,999,000 and $42,423,000, respectively. The decrease of $1,173,000 for the year ended January 31, 2011 compared to the prior year is primarily due to a gain recognized in 2009 of $3,599,000 related to insurance proceeds received due to fire damage at an apartment building in excess of the net book value of the damaged asset and a decrease of $719,000 related to the income recognition on the sale of state and federal Historic Preservation Tax Credits, Brownfield Tax Credits and New Market Tax Credits. These decreases were partially offset by an increase of $2,982,000 related to interest income earned on a total rate of return swap ( TRS ). The increase of $11,576,000 for the year ended January 31, 2010 compared to the prior year is primarily due to an increase of $21,530,000 related to the income recognition on the sale of state and federal Historic Preservation Tax Credits, Brownfield Tax Credits and New Market Tax Credits and a gain recognized in 2009 of $3,599,000 related to insurance proceeds received due to fire damage at an apartment building in excess of the net book value of the damaged asset. These increases were partially offset by the following decreases: $4,546,000 related to the income earned on the DURA purchase obligation and fee in 2008 that did not recur (see the Other Financing Arrangements section of the MD&A), $3,350,000 related to the 2008 gain on the sale of an ownership interest in a parking management company and $1,838,000 related to interest income earned on two total rate of return swaps, one of which was terminated in September 2009. The remaining decrease is generally due to lower interest earned on our cash and restricted cash balances maintained with financial institutions.

**Equity in Earnings (Loss) of Unconsolidated Entities** (also see the Impairment of Unconsolidated Entities section of the MD&A)

Equity in earnings of unconsolidated entities was $42,265,000 for the year ended January 31, 2011 and $21,303,000 for the year ended January 31, 2010, representing an increase of $20,962,000. The variance is primarily attributable to the following increases that occurred within our equity method investments:

- Commercial Group

  $9,195,000 related to the 2010 contribution of partnership interests to a new joint venture in the *University Park* project resulting in joint control with the outside partner. The seven buildings were fully consolidated in 2009 and converted to the equity method of accounting in 2010 due to the partial disposition;

  $6,443,000 related to the 2010 gain on disposition of *Woodbridge Crossing;*

$3,190,000 primarily related to lease termination fee income at *San Francisco Centre,* a regional mall in San Francisco, California; and

$2,791,000 related to the 2010 gain on early extinguishment of the Urban Redevelopment Authority loan at *Liberty Center,* an office building located in Pittsburgh, Pennsylvania.

- Residential Group

$15,633,000 primarily related to the 2010 gain on disposition of *Millender Center*;

$5,243,000 primarily related to a decrease in lease-up losses at *Uptown Apartments,* an apartment community in Oakland, California;

$3,934,000 related to the deconsolidation of seven properties as a result of adopting new accounting guidance on the consolidation of VIEs;

$2,684,000 related to the 2010 disposition of partial interests in three apartment communities, *The Grand*, *Lenox Club* and *Lenox Park*, which were fully consolidated in 2009 and converted to the equity method of accounting in 2010 upon the partial disposition;

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

$1,502,000 related to a favorable 2010 legal settlement at *Oceanpointe Towers,* an apartment community in Long Branch, New Jersey; and

$953,000 related to the 2009 loss on early extinguishment of nonrecourse mortgage debt at *Bayside Village,* an apartment community in San Francisco, California.

- Land Development Group

$1,904,000 related to increased land sales at various land development projects in San Antonio, Texas.

- The Nets

$25,171,000 related to a reduction in our share of the losses of The Nets.

These increases were partially offset by the following decreases:

- Commercial Group

$4,533,000 related to the deconsolidation of a property as a result of adopting new accounting guidance on the consolidation of VIEs;

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

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

- Residential Group

$31,703,000 related to the 2009 gain on disposition of our partnership interest in three *Classic Residence by Hyatt* properties;

$6,983,000 related to the 2009 gain on disposition of our partnership interest in *Clarkwood;*

$6,577,000 related to the 2009 gain on disposition of our partnership interest in *Granada Gardens*; and

$4,498,000 related to the 2009 gain on disposition of our partnership interest in *Boulevard Towers.*

- Land Development Group

$2,396,000 related to the 2009 net gain on an industrial land sale at *Mesa del Sol*; and

$1,874,000 related to the 2009 gain on early extinguishment of nonrecourse mortgage debt at *Shamrock Business Center* in Painesville, Ohio.

The balance of the remaining increase of $2,271,000 was due to fluctuations in the operations of our equity method investments.

Equity in earnings of unconsolidated entities was $21,303,000 for the year ended January 31, 2010 and equity in loss of unconsolidated entities was $(14,300,000) for the year ended January 31, 2009, representing an increase of $35,603,000. The variance is primarily attributable to the following increases that occurred within our equity method investments:

- Commercial Group
  - $1,272,000 related to the 2008 participation payment on the refinancing at *350 Massachusetts Avenue*.
- Residential Group
  - $31,703,000 related to the 2009 gain on disposition of our partnership interest in three *Classic Residence by Hyatt* properties;
  - $6,983,000 related to the 2009 gain on disposition of our partnership interest in *Clarkwood*;
  - $6,577,000 related to the 2009 gain on disposition of our partnership interest in *Granada Gardens*; and
  - $4,498,000 related to the 2009 gain on disposition of our partnership interest in *Boulevard Towers*.
- Land Development Group
  - $2,396,000 related to the 2009 net gain on an industrial land sale at *Mesa Del Sol*; and
  - $1,874,000 related to the 2009 gain on early extinguishment of nonrecourse mortgage debt at *Shamrock Business Center*.

These increases were partially offset by the following decreases:

- Commercial Group
  - $2,330,000 related to decreased occupancy and property reassessment resulting in significantly higher real estate taxes in 2009 at *San Francisco Centre*;
  - $1,235,000 related to lower hotel revenues in 2009 at the *Westin Convention Center* in Pittsburgh, Pennsylvania; and
  - $1,081,000 related to the 2008 gains on disposition of *One International Place* and *Emery-Richmond,* office buildings in Cleveland, Ohio and Warrensville Heights, Ohio, respectively.
- Residential Group
  - $3,524,000 primarily related to an increase in lease-up losses at *Uptown Apartments*;
  - $1,273,000 primarily related to military housing fee income from the management and development of units in Hawaii, Illinois, Washington and Colorado; and
  - $953,000 related to the 2009 loss on early extinguishment of nonrecourse mortgage debt at *Bayside Village*.
- Land Development Group
  - $6,763,000 related to decreased sales at *Central Station,* a mixed-use land development project in Chicago, Illinois.
- The Nets
  - $2,500,000 related to an increase in our share of the loss in The Nets.

The balance of the remaining decrease of $41,000 was due to fluctuations in the operations of our equity method investments.

**Amortization of Mortgage Procurement Costs**

We amortize mortgage procurement costs over the life of the related nonrecourse mortgage debt and notes payable. For the years ended January 31, 2011, 2010 and 2009, we recorded amortization of mortgage procurement costs of $13,487,000, $13,709,000 and $11,791,000, respectively. Amortization of mortgage procurement costs decreased $222,000 and increased $1,918,000 for the years ended January 31, 2011 and 2010, respectively, compared to the same periods in the prior years.

**Gain (Loss) on Early Extinguishment of Debt**

For the years ended January 31, 2011, 2010 and 2009 we recorded $(21,035,000), $36,569,000 and $(2,159,000), respectively, as gain (loss) on early extinguishment of debt. The amounts for the year ended January 31, 2011 include a $31,689,000 loss related to the exchange of a portion of our 2016 Senior Notes for Class A common stock, offset by a $2,472,000 gain on early extinguishment of nonrecourse mortgage debt at *Botanica on the Green* and *Crescent Flats,* apartment communities located in Denver, Colorado, a $6,297,000 gain related to the exchange of a portion of our 2011, 2015 and 2017 Senior Notes for a new issue of Series A preferred stock and a $1,896,000 gain on the early extinguishment of a portion of our 2011 and 2017 Senior Notes.

For the year ended January 31, 2010, the amount primarily represents gains on early extinguishment of nonrecourse mortgage debt at an underperforming retail project, a land development project in Marana, Arizona, *Gladden Farms*, and the gain related to the exchange of a portion of our 2011 Notes for a new issue of 2014 Notes. These gains were partially offset by a charge to early extinguishment of debt related to $20,400,000 of subordinated debt. For the year ended January 31, 2009, the loss represents the impact of early extinguishment of nonrecourse mortgage debt at *Galleria at Sunset*, a regional mall located in Henderson, Nevada, *1251 S. Michigan* and *Sky55*, apartment communities located in Chicago, Illinois, and *Grand Lowry Lofts*, an apartment community located in Denver, Colorado, in order to secure more favorable financing terms. These charges were offset by gains on the early extinguishment of a portion of our 2011 Notes and on the early extinguishment of the Urban Development Action Grant loan at *Post Office Plaza*, an office building located in Cleveland, Ohio.

**Impairment of Real Estate**

We review our real estate portfolio, including land held for development or sale, for impairment whenever events or changes indicate that our carrying value of the long-lived assets may not be recoverable. In cases where we do not expect to recover our carrying costs, an impairment charge is recorded. In order to determine whether the long-lived asset carrying costs are recoverable from estimated future undiscounted cash flows, we use various assumptions that include historical and budgeted net operating income, estimated holding periods, risk of foreclosure and estimated cash proceeds received upon the disposition of the asset. If the carrying costs are not recoverable, we are required to record an impairment to reduce the carrying costs to estimated fair value. The assumptions used to estimate fair value are considered to be Level 3 inputs. Our assumptions were based on the most current information available at January 31, 2011. If the conditions mentioned above continue to deteriorate, or if our plans regarding our assets change, it could result in additional impairment charges in the future.

The impairments recorded during the years ended January 31, 2011, 2010 and 2009 represent a write down to the estimated fair value due to changes in events, such as bona fide third-party purchase offers and consideration of current market conditions and the impact of these events to the properties estimated future cash flows. The following table summarizes our impairment of real estate included in continuing operations.

| | | Years Ended January 31, | | |
|---|---|---|---|---|
| | | **2011** | 2010 | 2009 |
| | | *(in thousands)* | | |
| Redevelopment property at Waterfront Station | Washington, D.C. | **$ 3,103** | $ - | $ - |
| 250 Huron (Office Building) | Cleveland, Ohio | **2,040** | - | - |
| Land Projects: | | | | |

| | | | | |
|---|---|---|---|---|
| Gladden Farms | Marana, Arizona | **650** | 2,985 | - |
| Tangerine Crossing | Tucson, Arizona | **-** | 905 | - |
| Investment in triple net lease property | Portage, Michigan | **-** | 3,552 | - |
| Residential development property sold in February 2009 | Mamaroneck, New York | **-** | 1,124 | 1,262 |
| Other | | **1,010** | 341 | - |
| | | **$ 6,803** | $ 8,907 | $ 1,262 |

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In addition, we had impairments related to consolidated real estate assets that were disposed of during the periods presented. The following table summarizes our impairment of real estate included in discontinued operations.

| | | Years Ended January 31, | | |
|---|---|---|---|---|
| | | **2011** | 2010 | 2009 |
| | | (in thousands) | | |
| Simi Valley Town Center (Regional Mall) | Simi Valley, California | **$ 76,962** | $ - | $ - |
| Investment in triple net lease property | Pueblo, Colorado | **2,641** | - | - |
| Saddle Rock Village (Specialty Retail Center) | Aurora, Colorado | **-** | 13,179 | - |
| Supported-living apartment communities: | | | | |
| Sterling Glen of Great Neck | Great Neck, New York | **-** | 7,138 | - |
| Sterling Glen of Glen Cove | Glen Cove, New York | **-** | 2,637 | - |
| 101 San Fernando (Apartment Community) | San Jose, California | **-** | 4,440 | - |
| | | **$ 79,603** | $ 27,394 | $ - |

Occupancy levels and estimated future cash flows were significantly decreasing during 2010 at *Simi Valley Town Center*, a regional mall located in Simi Valley, California, due to the consolidation of two anchor stores at the property, greater competition than originally anticipated and the general economic downturn. We had ongoing discussions with the mortgage lender regarding the performance of the property and the expectation that it would be unable to generate sufficient cash flow to cover the debt service of the nonrecourse mortgage note. During the year ended January 31, 2011, the mortgage lender determined it wanted to exit the investment by selling the nonrecourse mortgage note and we agreed to transfer the property to the purchaser of the nonrecourse mortgage upon a sale. Based on these events and changes in circumstances, we dramatically shortened our estimated asset holding period. As a result, estimated future undiscounted cash flows were not sufficient to recover the carrying value and the asset was recorded at its estimated fair value resulting in an impairment charge of $76,962,000 during the year ended January 31, 2011. The impairment, which was recorded prior to the ultimate disposition in December 2010, resulted in the carrying value of the real estate being less than the nonrecourse mortgage. As a result, upon disposition, we recorded a gain of $46,802,000 for the year ended January 31, 2011. We reclassified all revenues and expenses, as well as the gain on disposition of the property to discontinued operations (see the Discontinued Operations section of the MD&A).

In addition, we recorded impairments of real estate for other properties included in discontinued operations as described in the table above. These impairments represent a write down to the estimated fair value due to changes in events, related to a bona fide third-party purchase offer and consideration of current market conditions and the impact of these events to the properties estimated future cash flows.

**Impairment of Unconsolidated Entities**

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

assumptions also include the timing of initial lease up at the property. In the event the initial lease up assumptions differ from actual results, estimated future discounted cash flows may vary resulting in impairment charges in future periods.

The impairments recorded during the year ended January 31, 2011 at *Central Station*, a mixed-use land development project in Chicago, Illinois represent other-than-temporary impairments in our investments of four unconsolidated entities which hold investments in certain condominium buildings. Due to the continued price deterioration of the Chicago condominium prices, we made a strategic business decision during the year ended January 31, 2011 to rent some of the condominium units. This decision combined with other changes in circumstances resulted in a reduction of estimated discounted cash flows expected from these entities which are a key component in the associated fair value estimates. As a result, the investments in the unconsolidated entities were recorded at these reduced estimated fair values as of January 31, 2011, resulting in the impairment charges during the year ended January 31, 2011.

The impairment recorded during the year ended January 31, 2011 at *Village at Gulfstream Park*, a specialty retail center in Hallandale Beach, Florida represents an other-than-temporary impairment in our investment. The specialty retail center was fully opened in February 2010 and was leased during the general economic downturn which resulted in a longer initial lease up period than originally projected and increased rent concessions to the existing tenant base once it was opened. Based on these conditions, management revised its estimate of future discounted cash flows, which are a key component in the associated fair value estimate. As a result, the investment in the unconsolidated entity was recorded at its reduced estimated fair value as of January 31, 2011, resulting in a impairment charge during the year ended January 31, 2011.

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We believe there is long-term value at *Village at Gulfstream Park*. Additional development rights exist at and surrounding the specialty retail center. With additional leasing activity projected to occur, we expect vacancies to decrease which will contribute to increasing net operating income and cash flows from the specialty retail center. We believe the above factors, along with improving market conditions will, over a longer period of time, produce significant value to us.
The following table summarizes our impairment of unconsolidated entities.

| | | Years Ended January 31, | | |
|---|---|---|---|---|
| | | **2011** | 2010 | 2009 |
| | | *(in thousands)* | | |
| Mixed-Use Land Development: | | | | |
| Central Station: | | | | |
| One Museum Park West | Chicago, Illinois | **$ 8,250** | $ - | $ - |
| Museum Park Place Two | Chicago, Illinois | **4,461** | - | - |
| One Museum Park East | Chicago, Illinois | **3,237** | - | - |
| 1600 Museum Park | Chicago, Illinois | **2,363** | - | - |
| Mercy Campus Park | Chicago, Illinois | **1,817** | - | - |
| Old Stone Crossing at Caldwell Creek | Charlotte, North Carolina | **947** | 122 | 365 |
| Aberdeen | Highland Heights, Ohio | **510** | - | - |
| Shamrock Business Center | Painesville, Ohio | **170** | 1,150 | - |
| Palmer | Manatee County, Florida | **-** | - | 1,214 |
| Cargor VI | Manatee County, Florida | **-** | - | 892 |
| Office Buildings: | | | | |
| 818 Mission Street | San Francisco, California | **4,018** | - | - |
| Bulletin Building | San Francisco, California | **3,543** | - | - |
| Mesa del Sol - Aperture Center | Albuquerque, New Mexico | **2,733** | - | - |
| Mesa del Sol - 5600 University SE | Albuquerque, New Mexico | **-** | 1,693 | - |
| Specialty Retail Centers: | | | | |
| Village at Gulfstream Park | Hallandale Beach, Florida | **35,000** | - | - |
| Metreon | San Francisco, California | **4,595** | - | - |
| Southgate Mall | Yuma, Arizona | **-** | 1,611 | 1,356 |
| El Centro Mall | El Centro, California | **-** | - | 2,030 |
| Coachella Plaza | Coachella, California | **-** | - | 1,870 |
| Apartment Communities: | | | | |
| Uptown Apartments | Oakland, California | **-** | 6,781 | - |
| Metropolitan Lofts | Los Angeles, California | **-** | 2,505 | - |
| Residences at University Park | Cambridge, Massachusetts | **-** | 855 | - |
| Fenimore Court | Detroit, Michigan | **-** | 693 | - |
| Pittsburgh Peripheral (Commercial Group Land Project) | Pittsburgh, Pennsylvania | **-** | 7,217 | 3,937 |
| Millender Center | Detroit, Michigan | **-** | 10,317 | - |
| Classic Residence by Hyatt (Supported-Living Apartments) | Yonkers, New York | **-** | 3,152 | 1,107 |
| Mercury (Condominium) | Los Angeles, California | **-** | - | 8,036 |
| Other | | **815** | 260 | 478 |
| | | **$ 72,459** | $ 36,356 | $ 21,285 |

**Write-Off of Abandoned Development Projects**

On a quarterly basis, we review each project under development to determine whether it is probable the project will be developed. If we determine that the project will not be developed, project costs are written off as an abandoned development project cost. We may abandon certain projects under development for a number of reasons, including, but not limited to, changes in local market conditions, increases in construction or financing costs or due to third party challenges related to entitlements or public financing. We wrote-off abandoned development projects of $8,195,000, $26,739,000 and $52,211,000 for the years ended January 31, 2011, 2010 and 2009, respectively, which were recorded in operating expenses.

In addition, included in equity in earnings (loss) of unconsolidated entities are write-offs of $3,045,000 and $304,000 for the years ended January 31, 2011 and 2010, respectively, which represent our proportionate share of write-offs of abandoned development projects of equity method investments. We had no write-offs of abandoned development projects related to unconsolidated entities for the year ended January 31, 2009.

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**Depreciation and Amortization**

We recorded depreciation and amortization expense of $243,847,000, $260,223,000 and $259,487,000 for the years ended January 31, 2011, 2010 and 2009, respectively, which is a decrease of $16,376,000, or 6.3%, and an increase of $736,000, or 0.3%, compared to the same periods in the prior years. The decrease for the year ended January 31, 2011 compared to the same period in the prior year is primarily attributable to the deconsolidation of nine entities due to the adoption of new consolidation accounting guidance and the disposition of partial interests in three residential and seven commercial rental properties offset by new property openings.

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

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

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | *(in thousands)* | | |
| University Park Joint Venture | **$ 176,192** | $ - | $ - |
| The Nets | **55,112** | - | - |
| Bernstein Joint Venture | **29,342** | - | - |
| Other transaction costs | **(2,656)** | - | - |
| | **$ 257,990** | $ - | $ - |

***University Park Joint Venture***

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

| **Property** | |
|---|---|
| 35 Landsdowne Street | 202,000 square feet |
| 40 Landsdowne Street | 215,000 square feet |
| 45/75 Sidney Street | 277,000 square feet |
| 65/80 Landsdowne Street | 122,000 square feet |
| 88 Sidney Street | 145,000 square feet |
| Jackson Building | 99,000 square feet |
| Richards Building | 126,000 square feet |

For its 49% share of the joint venture, the outside partner invested cash and the joint venture assumed approximately $320,000,000 of nonrecourse mortgage debt on the seven buildings. In exchange for the contributed ownership interest, we received net cash proceeds of $140,545,000, of which $135,117,000 was in the form of a loan from the joint venture, resulting in a gain of $176,192,000 net of transaction costs of $31,268,000 during the year ended January 31, 2011. Included in these transaction costs were $23,251,000 of participation payments made to the ground lessor of the seven properties in accordance with the respective ground lease agreements. As a result of this transaction, we are accounting for the new joint venture and the seven properties as equity method investments since both partners have joint control of the new venture and the properties. We will serve as asset and property manager for the buildings.

***The Nets***

On May 12, 2010, we, through our consolidated subsidiary, NS&E, closed on a purchase agreement with the MP Entities. Pursuant to the terms of the purchase agreement, the MP Entities invested $223,000,000 and made funding commitments (the Funding Commitments ) to acquire 80% of The Nets, 45% of Arena and the right to purchase up to 20% of Atlantic Yards Development Company, LLC, which will develop non-arena real estate. In accordance with the Funding Commitments, the MP Entities agreed to fund The Nets operating needs up to $60,000,000 including reimbursements to us for loans made to cover The Nets operating needs from March 1, 2010 to May 12, 2010 totaling $15,000,000.

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

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

The MP Entities have the right to put their Arena ownership interests to us during a four-month period following the ten-year anniversary of the completion of the *Barclays Center* arena for fair market value, as defined in the agreement. Due to the put option, the noncontrolling interest is redeemable and does not qualify as permanent equity. As a result, this redeemable noncontrolling interest is recorded in the mezzanine section of our consolidated balance sheet and will be reported at redemption value, which represents fair market value, on a recurring basis. At January 31, 2011, the estimated fair value, which is a Level 3 input, is based on a projected discounted cash flow model.

NS&E has a similar right to put its noncontrolling interest in The Nets to the MP Entities at fair market value during the same time period as the MP Entities have their put right on Arena.

***Bernstein Joint Venture***

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

*The Grand,* 549 units in North Bethesda, Maryland;

*Lenox Club,* 385 units in Arlington, Virginia; and

*Lenox Park,* 406 units in Silver Spring, Maryland.

We received $28,922,000 in cash proceeds and the joint venture assumed $163,000,000 of the nonrecourse mortgage debt on the properties resulting in gains on disposition of partial interests in rental properties and other investment of $29,342,000 for the year ended January 31, 2011. As a result of this transaction, we are accounting for the new joint venture and the three properties as equity method investments since both partners have joint control of the new venture and the properties. We continue to lease and manage the three properties on behalf of the joint venture.

***Other Transaction Costs***

Other transaction costs of $2,656,000 represent costs incurred in connection with a potential partial disposition in certain rental properties. During the year ended January 31, 2011, we abandoned the proposed transaction and all related transaction costs were expensed.

**Income Taxes**

Income tax expense (benefit) for the years ended January 31, 2011, 2010 and 2009 was $69,720,000, $(12,229,000) and $(30,024,000), respectively. The difference in the recorded income tax expense (benefit) versus the income tax expense (benefit) computed at the statutory federal income tax rate is primarily attributable to state income taxes, change in state net operating losses, additional general business credits, changes to the valuation allowances associated with certain deferred tax assets, and various permanent differences between pre-tax generally accepted accounting principles ( GAAP ) income and taxable income.

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

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

We apply the with-and-without methodology for recognizing excess tax benefits from the deduction of stock-based compensation. The net operating loss available for the tax return, as is noted in the paragraph above, is greater than the

net operating loss available for the tax provision due to excess deductions from stock-based compensation reported on the return, as well as the impact of adjustments to the net operating loss under accounting guidance on accounting for uncertainty in income taxes. As of January 31, 2011, we have not recorded in our financial statements a net deferred tax asset of approximately $17,264,000 from excess stock-based compensation deductions taken on our tax return for which a benefit has not yet been recognized in our tax provision.

**Accounting for Uncertainty in Income Taxes**

Unrecognized tax benefits represent those tax benefits related to tax positions that have been taken or are expected to be taken in tax returns that are not recognized in the financial statements because we have either concluded that it is not more likely than not that the tax position will be sustained if audited by the appropriate taxing authority or the amount of the benefit will be less than the amount taken or expected to be taken in our income tax returns.

As of January 31, 2011 and 2010, we had unrecognized tax benefits of $408,000 and $1,611,000, respectively. We recognize estimated interest payable on underpayments of income taxes and estimated penalties as components of income tax expense. As of January 31, 2011 and 2010, we had approximately $100,000 and $525,000, respectively, of accrued interest and penalties related to uncertain income tax positions. We recorded income tax expense (benefit) relating to interest and penalties on uncertain tax positions of $(424,000), $61,000 and $(377,000) for the years ended January 31, 2011, 2010 and 2009, respectively. We settled an Internal Revenue Service audit of one of our partnership investments during the year ended January 31, 2010, which resulted in a decrease in our unrecognized tax benefits in the amount of $174,000, and a decrease in the associated accrued interest and penalties in the amount of $59,000.

We file a consolidated United States federal income tax return. Where applicable, we file combined income tax returns in various states and we file individual separate income tax returns in other states. Our federal consolidated income tax returns for the year ended January 31, 2008 and subsequent years are subject to examination by the Internal Revenue Service. Certain of our state returns for the years ended January 31, 2003 through January 31, 2007 and all state returns for the year ended January 31, 2008 and subsequent years are subject to examination by various taxing authorities.

A reconciliation of the total amounts of our unrecognized tax benefits, exclusive of interest and penalties, is depicted in the following table:

| | Unrecognized Tax Benefit January 31, | |
|---|---|---|
| | **2011** | 2010 |
| | *(in thousands)* | |
| Balance, beginning of year | **$ 1,611** | $ 1,481 |
| Gross increases for tax positions of prior years | **-** | 330 |
| Gross decreases for tax positions of prior years | **(45)** | - |
| Gross increases for tax positions of current year | **-** | - |
| Settlements | **(7)** | (174) |
| Lapse of statutes of limitation | **(1,151)** | (26) |
| Balance, end of year | **$ 408** | $ 1,611 |

The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized as of January 31, 2011 and 2010, is $121,000 and $155,000, respectively. Based upon our assessment of the outcome of examinations that are in progress, the settlement of liabilities, or as a result of the expiration of the statutes of limitation for certain jurisdictions, it is reasonably possible that the related unrecognized tax benefits for tax positions taken regarding previously filed tax returns will change from those recorded at January 31, 2011. Included in the $408,000 of unrecognized benefits noted above, is $265,000 which, due to the reasons above, could decrease during the next twelve months.

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**Discontinued Operations**

All revenues and expenses of discontinued operations sold or held for sale, assuming no significant continuing involvement, have been reclassified in the Consolidated Statements of Operations for the years ended January 31, 2011, 2010 and 2009. We consider assets 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. There were no assets classified as held for sale at January 31, 2011 or 2010. The following table lists rental properties included in discontinued operations:

| Property | Location | Square Feet/ Number of Units | Period Disposed | Year Ended 1/31/2011 | Year Ended 1/31/2010 | Year Ended 1/31/2009 |
|---|---|---|---|---|---|---|
| *Commercial Group:* | | | | | | |
| Simi Valley Town Center | Simi Valley, California | 612,000 square feet | Q4-2010 | Yes | Yes | Yes |
| Investment in triple net lease property | Pueblo, Colorado | 203,000 square feet | Q4-2010 | Yes | Yes | Yes |
| Saddle Rock Village | Aurora, Colorado | 294,000 square feet | Q3-2010 | Yes | Yes | Yes |
| Grand Avenue | Queens, New York | 100,000 square feet | Q1-2009 | - | Yes | Yes |
| *Residential Group:* | | | | | | |
| 101 San Fernando | San Jose, California | 323 units | Q2-2010 | Yes | Yes | Yes |
| Sterling Glen of Glen Cove | Glen Cove, New York | 80 units | Q3-2009 | - | Yes | Yes |
| Sterling Glen of Great Neck | Great Neck, New York | 142 units | Q3-2009 | - | Yes | Yes |
| Sterling Glen of Rye Brook | Rye Brook, New York | 168 units | Q4-2008 | - | - | Yes |
| Sterling Glen of Lynbrook | Lynbrook, New York | 130 units | Q2-2008 | - | - | Yes |

In addition, our Lumber Group strategic business unit was sold during the year ended January 31, 2005 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 was to be paid in four annual installments commencing November 12, 2006. We 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 is recognized in discontinued operations and interest income is recognized in continuing operations as the note receivable principal and interest are collected. During the years ended January 31, 2010 and 2009, we received the last two annual installments of $1,250,000 each, which included $1,172,000 ($718,000, net of tax) and $1,108,000 ($680,000, net of tax) of the deferred gain, respectively, and $78,000 and $142,000 of interest income recorded in continuing operations, respectively.

The operating results related to discontinued operations were as follows:

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |

| | (in thousands) | | |
|---|---|---|---|
| **Revenues from real estate operations** | **$ 17,980** | $ 30,685 | $ 46,144 |
| **Expenses** | | | |
| Operating expenses | **7,537** | 12,449 | 16,027 |
| Depreciation and amortization | **4,170** | 8,532 | 12,240 |
| Impairment of real estate | **79,603** | 27,394 | - |
| | **91,310** | 48,375 | 28,267 |
| Interest expense | **(5,830)** | (9,308) | (15,045) |
| Amortization of mortgage procurement costs | **(124)** | (315) | (656) |
| Interest income | **6** | 6 | 269 |
| Gain on disposition of rental properties and Lumber Group | **51,303** | 5,720 | 14,405 |
| **Earnings (loss) before income taxes** | **(27,975)** | (21,587) | 16,850 |
| **Income tax expense (benefit)** | | | |
| Current | **3,368** | (730) | 21,077 |
| Deferred | **(15,085)** | (7,596) | (14,705) |
| | **(11,717)** | (8,326) | 6,372 |
| **Earnings (loss) from discontinued operations** | **(16,258)** | (13,261) | 10,478 |
| **Noncontrolling interest, net of tax** | | | |
| Gain on disposition of rental properties | **4,211** | - | - |
| Operating earnings (loss) from rental properties | **165** | (117) | 361 |
| | **4,376** | (117) | 361 |
| **Gain (loss) from discontinued operations attributable to Forest City Enterprises, Inc.** | **$ (20,634)** | $ (13,144) | $ 10,117 |

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**Gain (Loss) on Disposition of Rental Properties and Lumber Group**

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

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | (in thousands) | |
| Simi Valley Town Center (Regional Mall) | **$ 46,802** | $ - | $ - |
| 101 San Fernando (Apartment Community) | **6,204** | - | - |
| Specialty Retail Centers: | | | |
| Saddle Rock Village | **(1,428)** | - | - |
| Grand Avenue | **-** | 4,548 | - |
| Investment in triple net lease property | **(275)** | - | - |
| Sterling Glen Properties (Supported-Living Apartments) | **-** | - | 13,297 |
| Lumber Group | **-** | 1,172 | 1,108 |
| **Total** | **$ 51,303** | $ 5,720 | $ 14,405 |

**Gain (Loss) on Disposition of Unconsolidated Entities**

Upon disposition, investments accounted for on the equity method are not classified as discontinued operations; therefore, gains or losses on the sale of equity method investments are reported in continuing operations when sold. The following table summarizes our proportionate share of gains and losses on the disposition of equity method investments, which are included in equity in earnings (loss) of unconsolidated entities.

| | | Years Ended January 31, | | |
|---|---|---|---|---|
| | | **2011** | 2010 | 2009 |
| | | | (in thousands) | |
| Millender Center (hotel, parking, office and retail) | Detroit, Michigan | **$ 15,633** | $ - | $ - |
| Apartment Communities: | | | | |
| Pebble Creek | Twinsburg, Ohio | **2,215** | - | - |
| Clarkwood | Warrensville Heights, Ohio | **-** | 6,983 | - |
| Granada Gardens | Warrensville Heights, Ohio | **-** | 6,577 | - |
| Boulevard Towers | Amherst, New York | **-** | 4,498 | - |
| Specialty Retail Centers: | | | | |
| Woodbridge Crossing | Woodbridge, New Jersey | **6,443** | - | - |
| Coachella Plaza | Coachella, California | **104** | - | - |
| Southgate Mall | Yuma, Arizona | **64** | - | - |
| El Centro Mall | El Centro, California | **48** | - | - |
| Metreon | San Francisco, California | **(1,046)** | - | - |
| Classic Residence by Hyatt properties | | **-** | 31,703 | - |
| Office Buildings: | | | | |
| One International Place | Cleveland, Ohio | **-** | - | 881 |

| | | | | |
|---|---|---|---|---|
| Emery-Richmond | Warrensville Heights, Ohio | **-** | - | 200 |
| **Total** | | **$ 23,461** | $ 49,761 | $ 1,081 |

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## FINANCIAL CONDITION AND LIQUIDITY

Ongoing economic conditions continue to put downward pressure on occupancies, rent levels and property values in addition to the negative impact on the availability of and access to bank credit and capital, particularly for the real estate industry. Originations of new loans for commercial mortgage backed securities are showing signs of improvement but compared to the levels in 2006 and 2007, are still very limited. Financial institutions have significantly reduced their lending with an emphasis on reducing their exposure to commercial real estate. Commercial lending for land acquisition and construction loans are extremely difficult to obtain. While the long-term impact is still unknown, borrowing costs for us will likely continue to rise and financing levels will continue to decrease over the foreseeable future.

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

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

Despite the dramatic decrease in development activities, we still intend to complete all projects that are under construction. We continue to make progress on certain other pre-development projects primarily located in core markets. The cash we believe is required to fund our equity in projects under construction and development plus any cash necessary to extend or paydown the remaining 2011 debt maturities is anticipated to exceed our cash from operations. As a result, we intend to extend maturing debt or repay it with net proceeds from property sales, equity joint ventures or future debt or equity financing. We continue to successfully extend maturing nonrecourse debt as described in more detail below. We also generated significant proceeds from property sales and equity joint ventures of $191,345,000 during the year ended January 31, 2011.

During 2010, we continued our momentum from 2009 of addressing future liquidity needs related to our near to mid-term senior unsecured notes. In March 2010, we exchanged $178,749,000 of our senior notes due 2011, 2015 and 2017 for $170,000,000 of Series A preferred stock. At the same time, we issued an additional $50,000,000 of Series A preferred stock for cash, which was used to defray offering costs and costs associated with entering into equity call hedge transactions with the remaining $26,900,000 used for general corporate purposes. The transactions involving the Series A preferred stock strengthened our balance sheet by replacing at a discount recourse senior debt having near to mid-term maturities with permanent equity while generating a modest amount of liquidity. During June 2010, we further addressed our senior note maturities when we purchased on the open market $19,030,000 face value of our unsecured senior notes due 2011 and 2017 for $16,569,000. In January 2011, we further reduced our unsecured senior debt when we exchanged $110,000,000 of our Convertible Senior Notes due 2016 for 9,774,039 shares of Class A common stock. In total, during 2010, we have reduced the principal balance of our near to mid-term senior notes by approximately $308,000,000 and only invested $16,569,000 of cash to accomplish this debt reduction. We continue to explore various other options to strengthen our balance sheet and enhance our liquidity, but can give no assurance that we can accomplish any of these other options on favorable terms or at all. If we cannot enhance our liquidity, it could adversely impact our growth and result in further curtailment of development activities.

We are currently in negotiations with our bank group to enter into a Third Amended and Restated Credit Agreement and Third Amended and Restated Guaranty of Payment of Debt (collectively, the 2011 Credit Agreement ). We currently have bank commitments for available borrowings in excess of $400,000,000. We anticipate the 2011 Credit Agreement having similar, but less restrictive, terms to those in our current Credit Agreement and anticipate the 2011 Credit Agreement to be signed by all parties during the quarter ended April 30, 2011.

As of January 31, 2011 we had $1,210,850,000 of mortgage financings with scheduled maturities during the fiscal year ending January 31, 2012, of which $74,551,000 represents scheduled payments. Subsequent to January 31, 2011, we have addressed $296,677,000 of these remaining 2011 maturities through closed transactions, commitments and/or automatic extensions. We also have extension options available on $462,964,000 of these 2011 maturities, all of which require some predefined condition in order to qualify for the extension, such as meeting or exceeding leasing hurdles, loan to value ratios or debt service coverage requirements. We cannot give assurance that the defined hurdles or milestones will be achieved to qualify for these extensions.

We are currently in negotiations to refinance and/or extend the remaining $376,658,000 of nonrecourse debt scheduled to mature during the year ending January 31, 2012. We cannot give assurance as to the ultimate result of these negotiations. As with all nonrecourse mortgages, if we are unable to negotiate an extension or otherwise refinance the mortgage, we could go into default and the lender could commence foreclosure proceedings.

As of January 31, 2011, we had three nonrecourse mortgages greater than five percent of our total nonrecourse mortgage debt and notes payable. The mortgages, encumbered by *New York Times*, an office building in Manhattan, New York, *8 Spruce Street* (formerly *Beekman*), a mixed-use residential project under construction in Manhattan, New York and *Westchester s Ridge Hill,* a retail center currently under construction in Yonkers, New York, have outstanding balances of $640,000,000, $635,000,000 and $379,363,000, respectively, at January 31, 2011.

As of January 31, 2011, our share of nonrecourse mortgage debt and notes payable recorded on our unconsolidated subsidiaries amounted to $1,713,367,000 of which $177,957,000 ($18,362,000 represents scheduled principal payments) was scheduled to mature during the year ending January 31, 2012. Subsequent to January 31, 2011, we have addressed $41,699,000 of these 2011 maturities through closed nonrecourse mortgage transactions, commitments and/or automatic extensions. We also had extension options on $12,710,000 of these 2011 maturities, all of which require some predefined condition in order to qualify for the extension. We cannot give assurance that the defined hurdles or milestones will be achieved to qualify for the extensions. Negotiations are ongoing on the remaining 2011 maturities, but we cannot give assurance that we will obtain these financings on favorable terms or at all.

We have one nonrecourse mortgage amounting to $73,500,000 that is in default as of January 31, 2011. While we are actively negotiating with the lender to resolve the mortgage default, there is no assurance that the negotiations will be successful. If we are unable to successfully negotiate an extension, the lender could foreclose and take possession of this real estate asset. The loss of the property would not have a significant impact to our financial condition, cash flows or liquidity.

One of our joint ventures accounted for under the equity method of accounting has a nonrecourse mortgage that is past due or in default at January 31, 2011 (our proportional share of this mortgage is $887,000). If we go into default and are unable to negotiate an extension or otherwise cure the default, the lender could commence foreclosure proceedings and we could lose the carrying value of our investment in the project amounting to $4,195,000 at January 31, 2011.

**Bank Revolving Credit Facility**

On January 29, 2010, we and our 15-member bank group entered into a Second Amended and Restated Credit Agreement and a Second Amended and Restated Guaranty of Payment of Debt (collectively the Credit Agreement ). The Credit Agreement, which matures on February 1, 2012, provides for total borrowings of $500,000,000, subject to permanent reduction as we receive net proceeds from specified external capital raising events in excess of $250,000,000 (see below). The Credit Agreement bears interest at either a LIBOR-based rate or a Base Rate Option. The LIBOR Rate Option is the greater of 5.75% or 3.75% over LIBOR and the Base Rate Option is the greater of the LIBOR Rate Option, 1.5% over the Prime Rate or 0.5% over the Federal Funds Effective Rate. Up to 20% of the available borrowings may be used for letters of credit or surety bonds. Additionally, the Credit Agreement requires a specified amount of available borrowings to be reserved for the retirement of indebtedness. The Credit Agreement has a number of restrictive covenants including a prohibition on certain consolidations and mergers, limitations on the amount of debt, guarantees and property liens that we may incur, restrictions on the pledging of ownership interests in subsidiaries, limitations on the use of cash sources and a prohibition on common stock dividends through the maturity date. The Credit Agreement also contains certain financial covenants, including maintenance of minimum liquidity, debt service and cash flow coverage ratios, and specified levels of shareholders equity (all as defined in the Credit Agreement). At January 31, 2011, we were in compliance with all of these financial covenants.

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

On March 4, 2010, we entered into a first amendment to the Credit Agreement that permitted us to issue Series A preferred stock for cash or in exchange for certain of our senior notes. The amendment also permitted payment of dividends on the Series A preferred stock, so long as no event of default has occurred or would occur as a result of the payment. To the extent the Series A preferred stock was exchanged for specified indebtedness, the reserve required under the Credit Agreement was reduced on a dollar for dollar basis under the terms of the first amendment.

On August 24, 2010, we entered into a second amendment to the Credit Agreement that sets forth the terms and conditions under which we may in the future issue additional preferred equity with and without the prior consent of the administrative agent but, in either case, without a further specific amendment to the Credit Agreement. These terms and conditions include, among others, that a majority of the proceeds from the additional preferred equity shall be used to retire outstanding senior notes and that any dividends payable with respect to the additional preferred equity shall not exceed the aggregate debt service on the senior notes retired plus $3,000,000 annually.

On January 18, 2011, we entered into a third amendment to the Credit Agreement. This amendment permitted us to make certain amendments to convertible notes hedge transactions in connection with the retirement of $110,000,000 of our 5% Convertible Senior Notes due 2016 ( 2016 Notes ) in exchange for Class A common stock (see the Senior and Subordinated Debt section of the MD&A). In addition, this amendment temporarily suspended the permanent reduction of total revolving loan commitments as we receive net proceeds from specified external capital raising events from January 18, 2011 through March 31, 2011.

The available credit on the bank revolving credit facility is as follows:

| | January 31, | | |
|---|---|---|---|
| | **2011** | | 2010 |
| | *(in thousands)* | | |
| **Maximum borrowings** | **$ 470,336** | (1) | $ 500,000 |
| **Less outstanding balances and reserves:** | | | |
| Borrowings | **137,152** | | 83,516 |
| Letters of credit | **63,418** | | 90,939 |
| Surety bonds | **-** | | - |
| Reserve for retirement of indebtedness | **46,891** | | 105,067 |
| **Available credit** | **$ 222,875** | | $ 220,478 |

(1) Effective February 4, 2011, maximum borrowings were further reduced to $464,762 for specified external capital raising events prior to January 18, 2011.

**Senior and Subordinated Debt**

Our Senior and Subordinated Debt is comprised of the following:

| | January 31, | |
|---|---|---|
| | **2011** | 2010 |
| | *(in thousands)* | |

| | | |
|---|---|---|
| **Senior Notes:** | | |
| 3.625% Puttable Equity-Linked Senior Notes due 2011, net of discount | **$ 45,480** | $ 98,944 |
| 3.625% Puttable Equity-Linked Senior Notes due 2014, net of discount | **198,806** | 198,480 |
| 7.625% Senior Notes due 2015 | **178,253** | 300,000 |
| 5.000% Convertible Senior Notes due 2016 | **90,000** | 200,000 |
| 6.500% Senior Notes due 2017 | **132,144** | 150,000 |
| 7.375% Senior Notes due 2034 | **100,000** | 100,000 |
| Total Senior Notes | **744,683** | 1,047,424 |
| **Subordinated Debt:** | | |
| Subordinate Tax Revenue Bonds due 2013 | **29,000** | 29,000 |
| **Total Senior and Subordinated Debt** | **$ 773,683** | $ 1,076,424 |

On January 27, 2011, we entered into separate, privately negotiated exchange agreements with certain holders of our 2016 Notes to exchange the notes for shares of Class A common stock. In order to induce the holders to make the exchange, we agreed to increase the exchange rate from 71.8894 shares of Class A common stock per $1,000 principal amount of notes to 88.8549 shares, which factors in foregone interest to the holders among other inducements. Under the terms of the agreements, holders agreed to exchange $110,000,000 in aggregate principal amount of notes for a total of 9,774,039 shares of Class A common stock. Any accrued but unpaid interest was paid in cash. Under the accounting guidance for induced conversions of convertible debt, the additional amounts paid to induce the holders to exchange their notes was expensed resulting in a loss of $31,689,000 during the year ended January 31, 2011, which is recorded as early extinguishment of debt.

On June 7, 2010 and June 22, 2010, we purchased on the open market $12,030,000 in principal amount of our 6.500% senior notes due 2017 and $7,000,000 in principal amount of our 3.625% puttable equity-linked senior notes due 2011, respectively. These purchases resulted in a gain, net of associated deferred financing costs, of $1,896,000 during the year ended January 31, 2011, which is recorded as early extinguishment of debt.

On March 4, 2010, we entered into separate, privately negotiated exchange agreements with certain holders of three separate series of our senior notes due 2011, 2015 and 2017. Under the terms of the agreements, these holders agreed to exchange their notes for a new issue of Series A preferred stock. Amounts exchanged in each series are as follows: $51,176,000 of 3.625% puttable equity-linked senior notes due 2011, $121,747,000 of 7.625% senior notes due 2015 and $5,826,000 of 6.500% senior notes due 2017, which were exchanged for $50,664,000, $114,442,000 and $4,894,000 of Series A preferred stock, respectively. This exchange resulted in a gain, net of associated deferred financing costs, of $6,297,000 during the year ended January 31, 2011, which is recorded as early extinguishment of debt.

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

On October 10, 2006, we issued $287,500,000 of 3.625% puttable equity-linked senior notes due October 15, 2011 ( 2011 Notes ) in a private placement. The notes were issued at par and accrued interest is payable semi-annually in arrears on April 15 and October 15. During the year ended January 31, 2009, we purchased on the open market $15,000,000 in principal of our 2011 Notes, resulting in a gain, net of associated deferred financing costs of $3,692,000, which is recorded as early extinguishment of debt. During the year ended January 31, 2010, we entered into privately negotiated exchange agreements with certain holders of the 2011 Notes to exchange $167,433,000 of aggregate principal amount of their 2011 Notes for a new issue of 3.625% puttable equity-linked senior notes due October 2014. This exchange resulted in a gain, net of associated deferred financing costs of $4,683,000, which is recorded as early extinguishment of debt. As discussed above, on June 22, 2010, we purchased on the open market $7,000,000 in principal amount of our 2011 Notes. Also discussed above, on March 4, 2010, we retired $51,176,000 of 2011 Notes in exchange for Series A preferred stock. There was $46,891,000 ($45,480,000, net of discount) and $105,067,000 ($98,944,000, net of discount) of principal outstanding at January 31, 2011 and 2010, respectively.

Holders may put their notes to us at their option on any day prior to the close of business on the scheduled trading day immediately preceding July 15, 2011 only under the following circumstances: (1) during the five business-day period after any five consecutive trading-day period (the measurement period ) in which the trading price per note for each day of that measurement period was less than 98% of the product of the last reported sale price of our Class A common stock and the put value rate (as defined) on each such day; (2) during any fiscal quarter, if the last reported sale price of our Class A common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the applicable put value price in effect on the last trading day of the immediately preceding fiscal quarter; or (3) upon the occurrence of specified corporate events as set forth in the applicable indenture. On and after July 15, 2011 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may put their notes to us at any time, regardless of the foregoing circumstances. In addition, upon a designated event, as defined, holders may require us to purchase for cash all or a portion of their notes for 100% of the principal amount of the notes plus accrued and unpaid interest, if any, as set forth in the applicable indenture. At January 31, 2011, none of the aforementioned circumstances have been met.

If a note is put to us, a holder would receive (i) cash equal to the lesser of the principal amount of the note or the put value and (ii) to the extent the put value exceeds the principal amount of the note, shares of our Class A common stock, cash, or a combination of Class A common stock and cash, at our option. The initial put value rate was 15.0631 shares of Class A common stock per $1,000 principal amount of notes (equivalent to a put value price of $66.39 per share of Class A common stock). The put value rate will be subject to adjustment in some events but will not be adjusted for accrued interest. In addition, if a fundamental change, as defined in the applicable indenture, occurs prior to the maturity date, we will in some cases increase the put value rate for a holder that elects to put their notes.

Concurrent with the issuance of the notes, we purchased a call option on our Class A common stock in a private transaction. The purchased call option allows us to receive shares of our Class A common stock and/or cash from counterparties equal to the amounts of Class A common stock and/or cash related to the excess put value that we

would pay to the holders of the notes if put to us. These purchased call options will terminate upon the earlier of the maturity date of the notes or the first day all of the notes are no longer outstanding due to a put or otherwise. In a separate transaction, we sold warrants to issue shares of our Class A common stock at an exercise price of $74.35 per share in a private transaction. If the average price of our Class A common stock during a defined period ending on or about the respective settlement dates exceeds the exercise price of the warrants, the warrants will be settled in shares of our Class A common stock.

The 2011 Notes are our only senior notes that qualify as convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. The carrying amounts of our debt and equity balances related to the 2011 Notes are as follows:

| | January 31, | |
|---|---|---|
| | **2011** | 2010 |
| | *(in thousands)* | |
| Carrying amount of equity component | **$ 7,484** | $ 16,769 |
| Outstanding principal amount of the puttable equity-linked senior notes | **46,891** | 105,067 |
| Unamortized discount | **(1,411)** | (6,123) |
| Net carrying amount of the puttable equity-linked senior notes | **$ 45,480** | $ 98,944 |

The unamortized discount will be amortized as additional interest expense through October 15, 2011. The effective interest rate for the liability component of the puttable equity-linked senior notes is 7.51%. We recorded non-cash interest expense of $1,532,000, $6,809,000 and $8,943,000 for the years ended January 31, 2011, 2010 and 2009, respectively. We recorded contractual interest expense of $2,001,000, $7,973,000 and $10,252,000 for the years ended January 31, 2011, 2010 and 2009, respectively.

**Puttable Equity-Linked Senior Notes due 2014**

On October 7, 2009, we issued $167,433,000 of 3.625% puttable equity-linked senior notes due October 15, 2014 ( 2014 Notes ) to certain holders in exchange for $167,433,000 of 2011 Notes discussed above. Concurrent with the exchange of 2011 Notes for the 2014 Notes, we issued an additional $32,567,000 of 2014 Notes in a private placement, net of a 5% discount. Interest on the 2014 Notes is payable semi-annually in arrears on April 15 and October 15, beginning April 15, 2010. Net proceeds from the exchange and additional issuance transaction, net of discounts and estimated offering expenses, was $29,764,000.

Holders may put their notes to us at any time prior to the earlier of (i) stated maturity or (ii) the Put Termination Date, as defined below. Upon a put, a note holder would receive 68.7758 shares of our Class A common stock per $1,000 principal amount of notes, based on a put value price of $14.54 per share of Class A common stock, subject to adjustment. The amount payable upon a put of the notes is only payable in shares of our Class A common stock, except for cash paid in lieu of fractional shares. If the daily volume weighted average price of the Class A common stock has equaled or exceeded 130% ($18.90 at January 31, 2011) of the put value price then in effect for at least 20 trading days in any 30 trading day period, we may, at our option, elect to terminate the rights of the holders to put their notes to us. If elected, we are required to issue a put termination notice that shall designate an effective date on which the holders termination put rights will be terminated, which shall be a date at least 20 days after the mailing of such put termination notice (the Put Termination Date ). Holders electing to put their notes after the mailing of a put termination notice shall receive a coupon make-whole payment in an amount equal to the remaining scheduled interest payments attributable to such notes from the last applicable interest payment date through and including October 15, 2013. The coupon make-whole payment is payable, at our option, in either cash or Class A common stock.

**Senior Notes due 2015**

On May 19, 2003, we issued $300,000,000 of 7.625% senior notes due June 1, 2015 ( 2015 Notes ) in a public offering. Accrued interest is payable semi-annually on December 1 and June 1. These senior notes may be redeemed by us, in whole or in part, at any time on or after June 1, 2008 at an initial redemption price of 103.813% that is systematically reduced to 100% through June 1, 2011. As of June 1, 2010, the redemption price was reduced to 101.271%. As previously discussed, on March 4, 2010, we retired $121,747,000 of 2015 Notes in exchange for Series A preferred stock.

**Convertible Senior Notes due 2016**

On October 26, 2009, we issued $200,000,000 of 2016 Notes in a private placement. The notes were issued at par and accrued interest is payable semi-annually on April 15 and October 15, beginning April 15, 2010. Net proceeds from the issuance, net of the cost of the convertible note hedge transaction described below and estimated offering costs, were $177,262,000. As previously discussed, we retired $110,000,000 of 2016 Notes in exchange for Class A common stock.

Holders may convert their notes at their option at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date. Upon conversion, a note holder would receive 71.8894 shares of our Class A common stock per $1,000 principal amount of notes, based on a put value price of approximately $13.91 per share of Class A common stock, subject to adjustment. The amount payable upon a conversion of the notes is only payable in shares of our Class A common stock, except for cash paid in lieu of fractional shares.

In connection with the issuance of the notes, we entered into a convertible note hedge transaction. The convertible note hedge transaction is intended to reduce, subject to a limit, the potential dilution with respect to our Class A common stock upon conversion of the notes. The net effect of the convertible note hedge transaction, from our perspective, is to approximate an effective conversion price of $16.37 per share. The terms of the 2016 Notes are not affected by the convertible note hedge transaction. The convertible note hedge transaction, which cost $15,900,000 ($9,734,000 net of the related tax benefit), was recorded as a reduction of shareholders equity through additional paid in capital. In connection with the exchange transaction previously discussed, we terminated a portion of the convertible note hedge which resulted in the receipt of cash proceeds of $1,869,000.

**Senior Notes due 2017**

On January 25, 2005, we issued $150,000,000 of 6.500% senior notes due February 1, 2017 ( 2017 Notes ) in a public offering. Accrued interest is payable semi-annually on February 1 and August 1. These senior notes may be redeemed by us, in whole or in part, at any time on or after February 1, 2010 at a redemption price of 103.250% beginning February 1, 2010 and systematically reduced to 100% through February 1, 2013. As previously discussed, on June 7, 2010, we purchased on the open market $12,030,000 in principal of our 2017 Notes. Also previously discussed, on March 4, 2010, we retired $5,826,000 of 2017 Notes in exchange for Series A preferred stock.

**Senior Notes due 2034**

On February 10, 2004, we issued $100,000,000 of 7.375% senior notes due February 1, 2034 in a public offering. 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 at a redemption price of 100% of the principal amount plus accrued interest.

All of 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 the bank revolving credit facility. The indentures governing the senior notes contain 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. The bonds bear a fixed interest rate of 7.875%. We evaluated the transfer pursuant to the accounting guidance on accounting for transfers and servicing of financial assets and extinguishment of liabilities, and have determined that the transfer does not qualify for sale accounting treatment principally because we have guaranteed the payment of principal and interest in the 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, we are the primary beneficiary of this VIE and the book value (which approximated amortized costs) of the bonds was recorded as a collateralized borrowing reported as senior and subordinated debt and as held-to-maturity securities reported as other assets.

**Financing Arrangements**

***Collateralized Borrowings***

On August 16, 2005, the Park Creek Metropolitan District (the District ) issued $58,000,000 Junior Subordinated Limited Property Tax Supported Revenue Bonds, Series 2005 (the Junior Subordinated Bonds ). The Junior Subordinated Bonds initially were to pay a variable rate of interest. Upon issuance, the Junior Subordinated Bonds were purchased by a third party and the sales proceeds were deposited with a trustee pursuant to the terms of the Series 2005 Investment Agreement. Under the terms of the Series 2005 Investment Agreement, after March 1, 2006, the District may elect to withdraw funds from the trustee for reimbursement for certain qualified infrastructure and interest expenditures ( Qualifying Expenditures ). In the event that funds from the trustee are used for Qualifying Expenditures, a corresponding amount of the Junior Subordinated Bonds converts to an 8.5% fixed rate and matures in December 2037 ( Converted Bonds ). On August 16, 2005, Stapleton Land, LLC, a consolidated subsidiary, entered into a Forward Delivery Placement Agreement ( FDA ) whereby Stapleton Land, LLC was entitled and obligated to purchase the converted fixed rate Junior Subordinated Bonds through June 2, 2008. The District withdrew $58,000,000 of funds from the trustee for reimbursement of certain Qualifying Expenditures by June 2, 2008 and the

Junior Subordinated Bonds became Converted Bonds. The Converted Bonds were acquired by Stapleton Land, LLC under the terms of the FDA. Stapleton Land, LLC immediately transferred the Converted Bonds to investment banks and we simultaneously entered into a TRS with a notional amount of $58,000,000. We receive a fixed rate of 8.5% and pay the Securities Industry and Financial Markets Association ( SIFMA ) rate plus a spread on the TRS related to the Converted Bonds. We determined that the sale of the Converted Bonds to the investment banks and simultaneous execution of the TRS did not surrender control; therefore, the Converted Bonds have been recorded as a secured borrowing.

During the years ended January 31, 2011, 2010 and 2009, consolidated subsidiaries of ours purchased $8,000,000, $5,000,000 and $10,000,000, respectively, of the Converted Bonds from the investment banks. Simultaneous to each purchase, a corresponding amount of a related TRS was terminated and the corresponding secured borrowing was removed from the Consolidated Balance Sheets. The fair value of the Converted Bonds recorded in other assets was $58,000,000 at both January 31, 2011 and 2010. The outstanding TRS contracts on the $35,000,000 and $43,000,000 of secured borrowings related to the Converted Bonds at January 31, 2011 and 2010, respectively, were supported by collateral consisting primarily of certain notes receivable owned by us aggregating $29,112,000. We recorded net interest income of $1,966,000, $2,331,000 and $3,205,000 related to the TRS for the years ended January 31, 2011, 2010 and 2009, respectively.

***Other Financing Arrangements***

In May 2004, Lehman purchased $200,000,000 in tax increment revenue bonds issued by the 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 Lehman to purchase the DURA bonds from the trust if they were not repurchased or remarketed between June 1, 2007 and June 1, 2009. Stapleton Land, LLC was entitled to receive a fee upon removal of the DURA bonds from the trust equal to the 8.0% coupon rate, less the SIFMA index, less all fees and expenses due to Lehman (collectively, the Fee ). The Fee was accounted for as a derivative with changes in fair value recorded through earnings. On July 1, 2008, $100,000,000 of the DURA bonds were remarketed. On July 15, 2008, Stapleton Land, LLC was paid $13,838,000 of the fee, which represented the fee earned on the remarketed DURA bonds.

During the year ended January 31, 2009 Lehman filed for bankruptcy and the remaining $100,000,000 of the DURA bonds were transferred to a creditor of Lehman. As a result, we reassessed the collectability of the Fee and decreased the fair value of the Fee to $-0-, resulting in an increase to operating expenses of $13,816,000 for the year ended January 31, 2009. Stapleton Land, LLC informed Lehman that it determined that a Special Member Termination Event had occurred because Stapleton Land, LLC (a) fulfilled all of its bond purchase obligations under the transaction documents by purchasing or causing to be redeemed or repurchased all of the bonds held by Lehman and (b) fulfilled all other obligations in accordance with the transaction documents. Therefore, Stapleton Land, LLC has no other financing obligations with Lehman. We recorded interest income of $4,546,000 related to the change in fair value of the Fee for the year ended January 31, 2009.

A consolidated subsidiary of ours has committed to fund $24,500,000 to the District to be used for certain infrastructure projects and has funded $22,101,000 of this commitment as of January 31, 2011. In addition, in June 2009, the consolidated subsidiary committed to fund $10,000,000 to the City of Denver and certain of its entities to be used to fund additional infrastructure projects and has funded $2,913,000 of this commitment as of January 31, 2011.

**Nonrecourse Debt Financings**

We use taxable and tax-exempt nonrecourse debt for our real estate projects. Substantially all of our operating and development properties are separately encumbered with nonrecourse mortgage debt which in some limited circumstances is supplemented by nonrecourse notes payable (collectively nonrecourse debt ). For real estate projects financed with tax-exempt debt, we generally utilize variable-rate debt. For construction loans, we generally pursue variable-rate financings with maturities ranging from two to five years. For those real estate projects financed with taxable debt, we generally seek long-term, fixed-rate financing for those operating projects whose loans mature or are projected to open and achieve stabilized operations. However, due to the limited availability of long-term fixed rate nonrecourse debt based upon current market conditions, we are attempting to extend maturities with existing lenders.

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

| **Purpose of Financing** | **Amount**<br>*(in thousands)* |
| --- | --- |

| | |
|---|---|
| Refinancings | $ 231,255 |
| Development projects | 593,208 |
| Loan extensions/additional fundings | 521,164 |
| | $ 1,345,627 |

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**Interest Rate Exposure**

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

| | Operating Properties | Development Projects | Land Projects | Total | Total Weighted Average Rate |
|---|---|---|---|---|---|
| | | *(dollars in thousands)* | | | |
| Fixed | $ 3,693,608 | $ 172,635 | $ 9,203 | $ 3,875,446 | 6.04% |
| Variable | | | | | |
| Taxable | 1,554,487 | 1,000,775 | 6,882 | 2,562,144 | 4.50% |
| Tax-Exempt | 530,728 | 203,900 | 35,000 | 769,628 | 2.09% |
| | $ 5,778,823 | $ 1,377,310 (1) | $ 51,085 | $ 7,207,218 | 5.07% |
| Total gross commitment from lenders | | $ 2,027,549 | $ 51,085 | | |

(1) Proceeds from outstanding debt of $150,165 described above are recorded as restricted cash and escrowed funds. For bonds issued in conjunction with development, the full amount of the bonds is issued at the beginning of construction and must remain in escrow until costs are incurred.

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

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

| | Caps | | Swaps | |
|---|---|---|---|---|
| Period Covered | Notional Amount | Average Base Rate | Notional Amount | Average Base Rate |
| | | *(dollars in thousands)* | | |
| 02/01/11-02/01/12 | $ 600,192 | 5.18 % | $ 1,245,900 | 3.77 % |
| 02/01/12-02/01/13 | 491,182 | 5.53 | 949,800 | 4.46 |
| 02/01/13-02/01/14 | 489,926 | 5.53 | 685,000 | 5.43 |
| 02/01/14-09/01/17 | - | - | 640,000 | 5.50 |

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

| | Caps | |
|---|---|---|
| Period Covered | Notional Amount | Average Base Rate |
| | *(dollars in thousands)* | |
| 02/01/11-02/01/12 | $ 174,639 | 5.83 % |
| 02/01/12-02/01/13 | 146,239 | 5.80 |
| 02/01/13-02/01/14 | 10,414 | 6.96 |

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 2.79% and has never exceeded 8.00%.

**Forward Swaps**

We purchased the interest rate hedges summarized in the tables above to mitigate variable interest rate risk. We have entered into derivative contracts that are intended to economically hedge certain of our interest rate risk, even though the contracts do not qualify for hedge accounting or we have elected not to apply hedge accounting. In situations in which hedge accounting is discontinued, or not elected, and the derivative remains outstanding, we record the derivative at its fair value and recognize changes in the fair value in our Consolidated Statements of Operations.

We have entered into forward swaps to protect ourselves against fluctuations in the swap rate at terms ranging between five to ten years associated with forecasted fixed rate borrowings. At the time we secure and lock an interest rate on an anticipated financing, we intend to simultaneously terminate the forward swap associated with that financing. At January 31, 2010, we had two forward swaps with an aggregate notional amount of $189,325,000, neither of which qualified for hedge accounting. The change in fair value of these swaps is marked to market through earnings on a quarterly basis. On May 3, 2010, we terminated one of these swaps. As a result, at January 31, 2011, we have one remaining forward swap outstanding with a notional amount of $60,900,000. Subsequent to January 31, 2011, in conjunction with locking the rate on an upcoming refinancing, we terminated this swap. Related to these forward swaps, we recorded $1,200,000, $(4,761,000) and $14,564,000 for the years ended January 31, 2011, 2010 and 2009, respectively, as an increase (reduction) of interest expense.

**Sensitivity Analysis to Changes in Interest Rates**

Including the effect of the protection provided by the interest rate swaps, caps and long-term contracts in place as of January 31, 2011, a 100 basis point increase in taxable interest rates (including properties accounted for under the equity method, corporate debt and the effect of interest rate floors) would increase the annual pre-tax interest cost for the next 12 months of our variable-rate debt by approximately $9,817,000 at January 31, 2011. Although tax-exempt rates generally move in an amount that is smaller than corresponding changes in taxable interest rates, a 100 basis point increase in tax-exempt rates (including properties accounted for under the equity method) would increase the annual pre-tax interest cost for the next 12 months of our tax-exempt variable-rate debt by approximately $8,680,000 at January 31, 2011. This analysis includes a portion of our taxable and tax-exempt variable-rate debt related to construction loans for which the interest expense is capitalized.

From time to time, we and/or certain of our joint ventures (the Joint Ventures ) enter into TRS on various tax-exempt fixed-rate borrowings generally held by us and/or within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require that we and/or the Joint Ventures pay a variable rate, generally equivalent to the SIFMA rate plus a spread. At January 31, 2011 the SIFMA rate was 0.29%. Additionally, we and/or the Joint Ventures have guaranteed the fair value of the underlying borrowing. Any fluctuation in the value of the TRS would be offset by the fluctuation in the value of the underlying borrowing, resulting in minimal financial impact to us and/or the Joint Ventures. At January 31, 2011, the aggregate notional amount of TRS that are designated as fair value hedging instruments was $280,885,000. The underlying TRS borrowings are subject to a fair value adjustment. In addition, we have TRS with a notional amount of $140,800,000 that is not designated as fair value hedging instruments, but is subject to interest rate risk.

**Cash Flows**

***Operating Activities***

Net cash provided by operating activities was $267,247,000, $420,329,000 and $306,535,000 for the years ended January 31, 2011, 2010 and 2009, respectively. The decrease in net cash provided by operating activities for the year ended January 31, 2011, compared to the year ended January 31, 2010, of $153,082,000 and the increase in net cash provided by operating activities for the year ended January 31, 2010, compared to the year ended January 31, 2009, of $113,794,000 are the result of the following:

| | Years Ended January 31, | |
|---|---|---|
| | **2011 vs. 2010** | 2010 vs. 2009 |
| | *(in thousands)* | |
| Decrease in rents and other revenues received | **$ (85,924)** | $ (9,542) |
| (Decrease) increase in interest and other income received | **(18,304)** | 59,311 |
| (Increase) decrease in cash distributions from unconsolidated entities | **7,032** | (12,741) |
| Increase (decrease) in proceeds from land sales - Land Development Group | **11,405** | (9,664) |
| (Increase) decrease in proceeds from land sales - Commercial Group | **5,269** | (6,288) |
| (Increase) decrease in land development expenditures | **(17,340)** | 22,789 |

| | | |
|---|---|---|
| (Increase) decrease in operating expenditures | **(39,835)** | 67,020 |
| Increase in restricted cash and escrowed funds used for operating purposes | **(26,784)** | (11,352) |
| Decrease in interest paid | **11,399** | 14,261 |
| **Net (decrease) increase in cash provided by operating activities** | **$ (153,082)** | $ 113,794 |

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***Investing Activities***

Net cash used in investing activities was $847,049,000, $1,153,946,000 and $1,270,156,000 for the years ended January 31, 2011, 2010 and 2009, respectively. The net cash used in investing activities consisted of the following:

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | *(in thousands)* | |
| Capital expenditures | **$ (723,158)** | $ (942,609) | $ (1,086,367) |
| Payment of lease procurement costs | **(20,387)** | (13,153) | (36,826) |
| (Increase) decrease in other assets | **(57,226)** | 2,373 | (42,386) |
| (Increase) decrease in restricted cash used for investing purposes: | | | |
| *Barclays Center,* a sports arena complex in Brooklyn, New York currently under construction | **(132,542)** | - | - |
| *8 Spruce Street* (formerly *Beekman*)*,* a mixed-use residential project under construction in Manhattan, New York | **(68,485)** | (17,085) | (30,219) |
| *Foundry Lofts,* an apartment community under construction in Washington, D.C. | **(31,677)** | - | - |
| *Atlantic Yards,* a mixed-use development project in Brooklyn, New York | **(23,465)** | (141,642) | (2,842) |
| *Westchester s Ridge Hill,* a retail center currently under construction in Yonkers, New York | **(20,637)** | - | - |
| *Midtown Towers,* an apartment community in Parma, Ohio | **(3,744)** | - | - |
| *American Cigar Company,* an apartment community in Richmond, Virginia | **(3,299)** | - | - |
| *Hamel Mill Lofts,* an apartment community in Haverhill, Massachusetts | **(1,723)** | (1,730) | - |
| *Mercantile Place on Main,* an apartment community in Dallas, Texas | **(1,536)** | - | - |
| *Two MetroTech Center,* an office building in Brooklyn, New York | **(841)** | (5,668) | - |
| *One MetroTech Center,* an office building in Brooklyn, New York | **(405)** | 7,764 | (8,791) |
| *Fairmont Plaza,* an office building in San Jose, California | **(67)** | - | 1,692 |
| *Richmond Office Park,* an office building in Richmond, Virginia | **(41)** | (2,038) | - |
| Collateral returned (posted) for a forward swap on *East River Plaza,* an unconsolidated retail project in Manhattan, New York | **22,930** | (378) | (22,552) |
| *DKLB BKLN* (formerly *80 DeKalb*)*,* an apartment community in Brooklyn, New York | **19,817** | (1,958) | (20,237) |
| *250 Huron,* an office building in Cleveland, Ohio | **1,506** | 583 | (3,688) |
| *Terminal Tower,* an office building in Cleveland, Ohio | **949** | (626) | 1,610 |
| *Easthaven at the Village,* an apartment community in Beachwood, Ohio | **243** | (2,045) | - |
| *Illinois Science and Technology Park-Building A,* an office building in Skokie, Illinois | **82** | - | 2,587 |
| *Village at Gulfstream Park,* a specialty retail center in Hallandale Beach, Florida | **-** | 17,103 | - |
| Collateral returned (posted) for a TRS on *Sterling Glen of Rye Brook,* a supported-living community in Rye Brook, New York | **-** | 12,500 | (12,500) |
| *Promenade Bolingbrook,* a regional mall in Bolingbrook, Illinois | **-** | 5,064 | (5,040) |
| *New York Times,* an office building in Manhattan, New York | **-** | 3,081 | 11,677 |

| | | | |
|---|---|---|---|
| *Sky55,* an apartment complex in Chicago, Illinois | **-** | - | 4,692 |
| Other | **(6,089)** | (5,254) | 1,532 |
| Total increase in restricted cash used for investing purposes | **$ (249,024)** | $ (132,329) | $ (82,079) |

| | | | |
|---|---|---|---|
| Proceeds from disposition of rental properties and other investments: | | | |
| Disposition of partial interests in seven buildings in our *University Park* project in Cambridge, Massachusetts | **$ 139,457** | $ - | $ - |
| Disposition of partial interests in *The Grand, Lenox Club* and *Lenox Park,* apartment communities in the Washington D.C. metropolitan area | **28,922** | - | - |
| *101 San Fernando,* an apartment community in San Jose, California | **20,534** | - | - |
| Investment in triple net lease property | **1,676** | - | - |
| *Saddle Rock Village,* a specialty retail center in Aurora, Colorado | **756** | - | - |
| *Grand Avenue,* a specialty retail center in Queens, New York | **-** | 9,042 | - |
| Four *Sterling Glen* supported-living communities | **-** | 2,872 | 33,959 |
| Proceeds from a note receivable related to disposition of Lumber Group | **-** | 1,172 | 1,108 |
| Ownership interest in a parking management company and other | **-** | - | 4,150 |
| Total proceeds from disposition of rental properties and other investments | **$ 191,345** | $ 13,086 | $ 39,217 |

***Investing Activities*** (continued)

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | *(in thousands)* | |
| Change in investments in and advances to affiliates - (investment in) or return of investment: | | | |
| Acquisitions: | | | |
| *Legacy Arboretum* and *Barrington Place,* unconsolidated apartment complexes in Charlotte and Raleigh, North Carolina | **$ -** | $ - | $ (7,448) |
| *Legacy Crossroads,* an unconsolidated apartment complex in Cary, North Carolina | **-** | - | (4,631) |
| *818 Mission Street,* an unconsolidated office building in San Francisco, California | **-** | - | (7,797) |
| Dispositions: | | | |
| *Metreon,* an unconsolidated specialty retail center in San Francisco, California | **17,882** | - | - |
| *Millender Center* (hotel, parking, office and retail) in Detroit, Michigan | **14,130** | - | - |
| *Pebble Creek,* an unconsolidated apartment community in Twinsburg, Ohio | **2,065** | - | - |
| *One International Place,* an unconsolidated office building in Cleveland, Ohio | **-** | - | 1,589 |
| *Emery Richmond,* an unconsolidated office building in Warrensville Heights, Ohio | **-** | - | 300 |
| *Classic Residence by Hyatt,* three unconsolidated supported-living communities in Teaneck, New Jersey, Chevy Chase, Maryland and Yonkers, New York | **-** | 30,101 | - |
| Land Development: | | | |
| *Woodforest,* an unconsolidated project in Houston, Texas | **(3,850)** | - | - |
| *Gladden Farms II,* an unconsolidated project in Marana, Arizona [1] | **-** | (6,312) | - |
| *San Antonio I & II,* an unconsolidated project in San Antonio, Texas | **-** | (1,013) | 3,810 |
| *Paseo del Este,* an unconsolidated project in El Paso, Texas | **-** | - | 3,848 |
| *Mesa del Sol,* an unconsolidated project in Albuquerque, New Mexico | **-** | - | (2,041) |
| Residential Projects: | | | |
| *Autumn Ridge,* primarily refinancing proceeds from an unconsolidated project in Sterling Heights, Michigan | **4,886** | - | - |
| *The Grand, Lenox Club* and *Lenox Park,* primarily proceeds from additional financing at the unconsolidated entity that owns these apartment projects located in the Washington D.C. metropolitan area | **4,000** | - | - |
| *Plymouth Square,* primarily refinancing proceeds from an unconsolidated project in Detroit, Michigan | **3,467** | - | - |
| *Cambridge Towers,* primarily refinancing proceeds from an unconsolidated project in Detroit, Michigan | **3,453** | - | - |
| *Oceanpointe Towers,* primarily related to proceeds from a legal settlement at an unconsolidated project in Long Branch, New Jersey | **1,502** | - | - |
| *Uptown Apartments,* an unconsolidated project in Oakland, California | **(3,497)** | (4,239) | (4,566) |
| *Bayside Village,* primarily refinancing proceeds from an unconsolidated project in San Francisco, California | **-** | 18,819 | - |
| | **-** | 4,830 | - |

| | | | |
|---|---|---|---|
| *St. Mary s Villa,* primarily refinancing proceeds from an unconsolidated project in Newark, New Jersey | | | |
| *1100 Wilshire,* an unconsolidated condominium project in Los Angeles, California | **-** | - | 2,275 |
| *Ohana Military Communities,* an unconsolidated military housing complex in Honolulu, Hawaii | **-** | - | (2,212) |
| *Tamarac,* primarily refinancing proceeds from an unconsolidated project in Willoughby, Ohio | **-** | - | 4,988 |
| New York City Projects: | | | |
| *East River Plaza,* an unconsolidated retail project in Manhattan, New York | **-** | (20,978) | (23,429) |
| *Barclays Center,* a sports arena complex in Brooklyn, New York currently under construction; excess funds from the year ended January 31, 2009 were reinvested during construction phase(1) | **-** | (18,590) | 7,317 |
| *The Nets,* a National Basketball Association member | **-** | (45,000) | (21,678) |
| Commercial Projects: | | | |
| *Village at Gulfstream Park,* an unconsolidated specialty retail center in Hallandale Beach, Florida | **(10,445)** | - | (14,297) |
| *Liberty Center,* contribution for the repayment of debt during the year ended January 31, 2011 and refinancing proceeds from an unconsolidated office building in Pittsburgh, Pennsylvania during the year ended January 31, 2009 | **(4,300)** | - | 9,961 |
| *Metreon,* an unconsolidated specialty retail center in San Francisco, California (Prior to disposition during the second quarter of 2010) | **(2,024)** | - | - |
| *San Francisco Centre,* an unconsolidated regional mall in San Francisco, California | **(2,000)** | - | - |
| *Mesa del Sol Fidelity,* an unconsolidated office building in Albuquerque, New Mexico | **-** | - | (2,055) |
| *Golden Gate,* an unconsolidated retail project in Mayfield Heights, Ohio | **-** | (2,678) | - |
| *350 Massachusetts Avenue,* primarily refinancing proceeds from an unconsolidated office building in Cambridge, Massachusetts | **-** | - | 24,417 |
| *Marketplace at River Park,* primarily refinancing proceeds from an unconsolidated regional mall in Fresno, California | **-** | - | 1,920 |
| Unconsolidated development activity in Las Vegas, Nevada(1) | **-** | - | (17,299) |
| *Waterfront Station,* an unconsolidated development project in Washington, D.C.(1) | **-** | - | (10,961) |
| Return of temporary advances from various Commercial Group properties to implement uniform portfolio cash management process | **(9,527)** | (28,100) | - |
| Other net (advances) of investment of equity method investments and other advances to affiliates | **(4,341)** | (8,154) | (3,726) |
| Total change in investments in and advances to affiliates - (investment in) or return of investment | **$ 11,401** | $ (81,314) | $ (61,715) |
| **Net cash used in investing activities** | **$ (847,049)** | $ (1,153,946) | $ (1,270,156) |

(1) These projects changed from the equity method of accounting to full consolidation. Amounts represent investments in development projects prior to the change to full consolidation.

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***Financing Activities***

Net cash provided by financing activities was $521,769,000, $717,717,000 and $976,492,000 for the years ended January 31, 2011, 2010 and 2009, respectively. The net cash provided by financing activities consisted of the following:

| | **Years Ended January 31,** | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | *(in thousands)* | |
| Proceeds from nonrecourse mortgage debt and notes payable | **$ 658,833** | $ 770,972 | $ 1,267,807 |
| Principal payments on nonrecourse mortgage debt and notes payable | **(321,629)** | (260,294) | (590,909) |
| Borrowings on bank revolving credit facility | **876,052** | 844,000 | 670,000 |
| Payments on bank revolving credit facility | **(822,416)** | (1,125,984) | (343,500) |
| Payment of subordinated debt | **-** | (20,400) | - |
| Purchase of Puttable Equity-Linked senior Notes due 2011 and Senior Notes due 2017 | **(16,569)** | - | (10,571) |
| Proceeds received from termination of Convertible Senior Note hedge | **1,869** | - | - |
| Proceeds from Puttable Equity-Linked Senior Notes due 2014, net of $2,803 of issuance costs and discount | **-** | 29,764 | - |
| Proceeds from Convertible Senior Notes due 2016, net of $6,838 of issuance costs | **-** | 193,162 | - |
| Payment of Convertible Senior Notes hedge transaction | **-** | (15,900) | - |
| Payment of deferred financing costs | **(36,745)** | (32,756) | (34,491) |
| (Increase) decrease in restricted cash and escrowed funds: | | | |
| *Ten MetroTech Center,* an office building in Brooklyn, New York | **(4,755)** | - | - |
| *Higbee Building,* an office building in Cleveland, Ohio | **(2,520)** | - | - |
| *Shops at Wiregrass,* a regional mall in Tampa, Florida | **(1,351)** | - | - |
| *John Hopkins - 855 North Wolfe Street,* an office building in East Baltimore, Maryland | **(526)** | (13,818) | - |
| *Promenade Bolingbrook,* a regional mall in Bolingbrook, Illinois | **(252)** | (572) | 2,300 |
| *Hamel Mill Lofts,* an apartment complex in Haverhill, Massachusetts | **-** | 14,813 | 30,723 |
| *Sky55,* an apartment complex in Chicago, Illinois | **-** | 2,176 | (1,672) |
| *Easthaven at the Village,* an apartment community in Beachwood, Ohio | **-** | 2,148 | (2,148) |
| *100 Landsdowne,* an apartment complex in Cambridge, Massachusetts | **-** | 401 | 1,751 |
| *Lucky Strike,* an apartment complex in Richmond, Virginia | **-** | 396 | 7,665 |
| *Uptown Apartments,* an apartment community in Oakland, California | **-** | 230 | 2,051 |
| *Prosper,* a land development project in Prosper, Texas | **-** | 115 | 2,688 |
| *Edgeworth Building,* an office building in Richmond, Virginia | **-** | - | 2,981 |
| *Metro 417,* an apartment community in Los Angeles, California | **-** | - | 2,545 |
| *101 San Fernando,* an apartment community in San Jose, California | **-** | - | 2,509 |
| *Sterling Glen of Great Neck,* a supported-living community in Great Neck, New York | **-** | - | 1,520 |
| Other | **(228)** | (332) | (384) |
| Total (increase) decrease in restricted cash and escrowed funds | **$ (9,632)** | $ 5,557 | $ 52,529 |
| Increase (decrease) in checks issued but not yet paid | **8,310** | (9,808) | (9,617) |
| | **44,456** | - | - |

| | | | |
|---|---|---|---|
| Proceeds from issuance of Series A preferred stock, net of $5,544 of issuance costs | | | |
| Payment for equity call hedge related to the issuance of series A preferred stock | **(17,556)** | - | - |
| Dividends paid to preferred shareholders | **(11,807)** | - | - |
| Dividends paid to common shareholders | **-** | - | (33,020) |
| Sale of common stock, net | **-** | 329,917 | - |
| Payment in exchange for 119,000 Class A Common Units | **-** | - | (3,501) |
| Purchase of treasury stock | **(786)** | (133) | (663) |
| Exercise of stock options | **2,621** | 128 | 1,133 |
| Excess income tax benefit from stock-based compensation | **-** | - | (3,569) |
| Distribution of accumulated equity to noncontrolling partner | **-** | - | (3,710) |
| Contributions from redeemable noncontrolling interest | **181,909** | - | - |
| Contributions from noncontrolling interests | **5,636** | 21,831 | 45,643 |
| Distributions to noncontrolling interests | **(20,777)** | (12,339) | (27,069) |
| **Net cash provided by financing activities** | **$ 521,769** | $ 717,717 | $ 976,492 |

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## CLASS A COMMON UNITS

*Master Contribution Agreement*

We and certain of our affiliates entered into a Master Contribution and Sale Agreement (the Master Contribution Agreement ) with Bruce C. Ratner ( Mr. Ratner ), an Executive Vice President and Director of ours, and certain entities and individuals affiliated with Mr. Ratner (the BCR Entities ) on August 14, 2006. Pursuant to the Master Contribution Agreement, on November 8, 2006, we issued Class A Common Units ( Units ) in a jointly-owned limited liability company to the BCR Entities in exchange for their interests in a total of 30 retail, office and residential operating properties, and certain service companies, all in the greater New York City metropolitan area. We accounted for the issuance of the Units in exchange for the noncontrolling interests under the purchase method of accounting. The Units may be exchanged for one of the following forms of consideration at our sole discretion: (i) an equal number of shares of our Class A common stock or, (ii) cash based on a formula using the average closing price of the Class A common stock at the time of conversion or, (iii) a combination of cash and shares of our Class A common stock. We have no rights to redeem or repurchase the Units. At January 31, 2011 and 2010, 3,646,755 Units were outstanding. The carrying value of the Units of $186,021,000 is included as noncontrolling interests at January 31, 2011 and 2010.

Also pursuant to the Master Contribution Agreement, we and Mr. Ratner agreed that certain projects under development would remain owned jointly until such time as each individual project was completed and achieved stabilization. As each of the development projects achieves stabilization, it is valued and we, in our discretion, choose among various options for the ownership of the project following stabilization consistent with the Master Contribution Agreement. The development projects were not covered by the Tax Protection Agreement (the Tax Protection Agreement ) that the parties entered into in connection with the Master Contribution Agreement. The Tax Protection Agreement indemnified the BCR Entities included in the initial closing against taxes payable by reason of any subsequent sale of certain operating properties.

During the year ended January 31, 2010, we sold one of the operating properties. As a result, in accordance with the terms of the Tax Protection Agreement, we paid the BCR Entities $1,695,000 for tax indemnification during the year ended January 31, 2011.

*New York Times and Twelve MetroTech Center*

Two of the development projects, *New York Times*, an office building located in Manhattan, New York and *Twelve MetroTech Center*, an office building located in Brooklyn, New York, achieved stabilization in 2008. We elected to cause certain of our affiliates to acquire for cash the BCR Entities interests in the two projects pursuant to agreements dated May 6, 2008 and May 12, 2008, respectively. In accordance with the agreements, the applicable BCR Entities assigned and transferred their interests in the two projects to affiliates of ours and will receive approximately $121,000,000 over a 15-year period. An affiliate of ours has also agreed to indemnify the applicable BCR Entity against taxes payable by it by reason of a subsequent sale or other disposition of one of the projects. The tax indemnity provided by the affiliate of ours expires on December 31, 2014 and is similar to the indemnities provided for the operating properties under the Tax Protection Agreement.

The consideration exchanged by us for the BCR Entities interest in the two development projects has been accounted for under the purchase method of accounting. Pursuant to the agreements, the BCR Entities received an initial cash amount of $49,249,000. We calculated the net present value of the remaining payments over the 15 year period using a discounted interest rate. This initial discounted amount of $56,495,000 was recorded in accounts payable and accrued expenses and will be accreted up to the total liability through interest expense over the next 15 years using the effective interest method.

The following table summarizes the final allocation of the consideration exchanged for the BCR Entities interests in the two projects (in thousands):

| | |
|---|---|
| Completed rental properties [1] | $ 102,378 |
| Notes and accounts receivable, net [2] | 132 |
| Other assets [3] | 12,513 |
| Accounts payable and accrued expenses [4] | (9,279) |

$ 105,744

Represents allocation for:

(1) Land, building and tenant improvements associated with the underlying real estate

(2) Above market leases

(3) In-place leases, tenant relationships and leasing commissions

(4) Below market leases

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*Exchange of Units*

In July 2008, the BCR Entities exchanged 247,477 of the Units. We issued 128,477 shares of our Class A common stock for 128,477 of the Units and paid cash of $3,501,000 for 119,000 Units. We accounted for the exchange as a purchase of noncontrolling interests, resulting in a reduction of noncontrolling interests of $12,624,000. The following table summarizes the components of the exchange transaction (in thousands):

| | |
|---|---|
| Reduction of completed rental properties | $ 5,345 |
| Reduction of cash and equivalents | 3,501 |
| Increase in Class A common stock - par value | 42 |
| Increase in additional paid-in capital | 3,736 |
| Total reduction of noncontrolling interest | $ 12,624 |

**PREFERRED STOCK**

Our 7.0% Series A cumulative perpetual convertible preferred stock ( Series A preferred stock ) ranks junior to all of our existing and future debt obligations, including convertible or exchangeable debt securities; senior to our Class A common stock and Class B common stock and any future equity securities that by their terms rank junior to the Series A preferred stock with respect to distribution rights or payments upon our liquidation, winding-up or dissolution; equal with future series of preferred stock or other equity securities that by their terms are on a parity with the Series A preferred stock; and junior to any future equity securities that by their terms rank senior to the Series A preferred stock.

Holders may convert the Series A preferred stock at their option, into shares of Class A common stock, at any time. Upon conversion, the holder would receive approximately 3.3 shares of Class A common stock per $50 liquidation preference of Series A preferred stock, based on an initial conversion price of $15.12 per share of Class A common stock, subject to adjustment. We may elect to mandatorily convert some or all of the Series A preferred stock if the Daily Volume Weighted Average Price of our Class A common stock equals or exceeds 150% of the initial conversion price then in effect for at least 20 out of 30 consecutive trading days. If we elect to mandatorily convert some or all of the Series A preferred stock, we must make a Dividend Make-Whole Payment on the Series A preferred stock equal to the total value of the aggregate amount of dividends that would have accrued and become payable from March 2010 to March 2013, less any dividends already paid on the Series A preferred stock. The Dividend Make-Whole Payment is payable in cash or shares of our Class A common stock, or a combination thereof, at our option.

**COMMITMENTS AND CONTINGENCIES**

We have various guarantees, including indirect guarantees of indebtedness of others. We believe the risk of payment under these guarantees, as described below, is remote and, to date, no payments have been made under these guarantees.

As of January 31, 2011, we have a guaranteed loan of $1,400,000 relating to our share of a bond issue made by the *Village of Woodridge*, relating to a Land Development Group project in suburban Chicago, Illinois. This bond issue guarantee terminates April 30, 2015, unless the bonds are paid sooner, and is limited to $500,000 in any one year. We also had outstanding letters of credit of $63,418,000 as of January 31, 2011. The maximum potential amount of future payments on the guaranteed loan and letters of credit we could be required to make is the total amounts noted above.

We have entered into certain partnerships whereby the outside investment partner is allocated certain tax credits. These partnerships typically require us to indemnify, on an after-tax or grossed up basis, the investment partner against the failure to receive or the loss of allocated tax credits and tax losses. At January 31, 2011, the maximum potential payment under these tax indemnity guarantees was approximately $132,947,000 (of which $80,931,000 has been recorded in accounts payable and accrued expenses). We believe that all necessary requirements for qualifications for such tax credits have been and will continue to be met and that our investment partners will be able

to receive expense allocations associated with the properties. We do not expect to make any payments under these guarantees.

Our mortgage loans are nonrecourse; however, in some cases, lenders carve out certain items from the nonrecourse provisions. These carve-out items enable the lenders to seek recourse if we or the joint venture engage in certain acts as defined in the respective agreements such as commit fraud, intentionally misapply funds, or intentionally misrepresent facts. We have also provided certain environmental guarantees. Under these environmental remediation guarantees, we must remediate any hazardous materials brought onto the property in violation of environmental laws. The maximum potential amount of future payments we could be required to make on the environmental guarantees is limited to the actual losses suffered or actual remediation costs incurred. A portion of these carve-outs and guarantees have been made on behalf of joint ventures and we

believe any liability would not exceed our partners share of the outstanding principal balance of the loans in which these carve-outs and environmental guarantees have been made. At January 31, 2011, the outstanding balance of the partners share of these loans was approximately $381,665,000. We believe the risk of payment on the carve-out guarantees is mitigated, in most cases, by the fact that we manage the property, and in the event our partner did violate one of the carve-out items, we would seek recovery from our partner for any payments we would make. Additionally, we further mitigate our exposure through environmental insurance and other types of insurance coverage.

We monitor our properties for the presence of hazardous or toxic substances. Other than those environmental matters identified during the acquisition of a site (which are generally remediated prior to the commencement of development), we are not aware of any environmental liability with respect to our operating properties that would have a material adverse effect on our financial position, cash flows or results of operations. However, there can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability could have an adverse effect on our results of operations and cash flow. We carry environmental insurance and believe that the policy terms, conditions, limits and deductibles are adequate and appropriate under the circumstances, given the relative risk of loss, the cost of such coverage and current industry practice.

We customarily guarantee lien-free completion of projects under construction. Upon completion as defined, the guarantees are released. We currently provide the following completion guarantees on our completed projects and projects under construction and development:

| | Total Costs | Percent Completed |
|---|---|---|
| | *(dollars in thousands)* | |
| **At January 31, 2011** | | |
| Openings and acquisitions | $ 837,236 | 93% |
| Under construction | 2,715,018 | 67% |
| Total Real Estate | $ 3,552,254 | 73% |

Additionally, we have provided a guaranty of payment, performance and completion of certain obligations associated with certain Military Housing Privatization Initiative ( MHPI ) projects. These guarantees do not include a guaranty of available MHPI project sources and we cannot be compelled to replace a deficiency in available sources. In the event the guaranty were called upon, any money advanced by us would be replaced by appropriate sources available within the MHPI project. Inclusive of the available MHPI project sources, we believe the maximum net exposure to be $89,019,000 at January 31, 2011. Currently, we anticipate further MHPI project sources will cover this maximum exposure and future advances by us will not be required.

In addition to what is stated above, we have guaranteed the lender the lien free completion of certain horizontal infrastructure associated with certain land development projects. The maximum amount due by us under these completion guarantees is limited to $71,386,000.

Our subsidiaries have been successful in consistently delivering lien-free completion of construction and land projects, without calling our guarantees of completion.

We are also involved in certain claims and litigation related to our operations and development. Based on the facts known at this time, management has consulted with legal counsel and is of the opinion that the ultimate outcome of all such claims and litigation will not have a material adverse effect on our financial condition, results of operations or cash flows.

In connection with our (through our subsidiary NS&E) August 2004 purchase of The Nets and our May 12, 2010 sale of an 80% interest in The Nets, we, certain subsidiaries and certain members have provided an indemnity guarantee to the NBA for any losses arising from the transaction, including the potential relocation of the team. Our indemnity is effective as long as we own an interest in the team. The indemnification provisions are standard provisions that are

required by the NBA. We and the other indemnifying parties have insurance coverage of $100,000,000 in connection with such indemnity. We evaluated the indemnity guarantee and determined that the fair value of our liability for our obligations under the guarantee was not material.

Certain of our ground leases include provisions requiring us to indemnify the ground lessor against claims or damages occurring on or about the leased property during the term of the ground lease. These indemnities generally were entered into prior to the effective date of accounting guidance related to guarantees; therefore, they have not been recorded in our consolidated financial statements at January 31, 2011. The maximum potential amount of future payments we could be required to make is limited to the actual losses suffered. We mitigate our exposure to loss related to these indemnities through insurance coverage.

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We are party to an easement agreement under which we have agreed to indemnify a third party for any claims or damages arising from the use of the easement area of one of our development projects. We have also entered into an environmental indemnity at one of our development projects whereby we agree to indemnify a third party for the cost of remediating any environmental condition. The maximum potential amount of future payments we could be required to make is limited to the actual losses suffered or actual remediation costs incurred. We mitigate our exposure to loss related to the easement agreement and environmental indemnity through insurance coverage.

We issued a $40,000,000 guaranty in connection with certain environmental testing and subsurface investigation work that was performed pursuant to a temporary entry license agreement issued by the Metropolitan Transportation Authority and the Long Island Rail Road Company in connection with the development of a mixed-use project in Brooklyn, New York. Under the terms of such license agreement, the sum of the guaranty could be reduced two years after completion of the work if no environmental response action was required because of the work, and remain in place in such reduced amount for an additional four years. The work was completed on July 16, 2006, and no environmental response action arose from the work. Accordingly, the sum of the guaranty was reduced to $30,000,000 and will remain in place until July 16, 2012. We are not aware of any further environmental work related to this project or guarantee that would have a material effect on our financial position, cash flows or results of operations.

**CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS**

As of January 31, 2011, we are subject to certain contractual obligations, some of which are off-balance sheet, as described in the table below:

| | | | | Payments Due by Period January 31, | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter |
| | | | | *(in thousands)* | | | |
| Long-Term Debt: | | | | | | | |
| Nonrecourse mortgage debt and notes payable[1] | $ 7,207,218 | $ 1,210,850 | $ 1,614,780 | $ 993,328 | $ 475,486 | $ 362,627 | $ 2,550,147 |
| Share of nonrecourse mortgage debt and notes payable of unconsolidated entities | 1,713,367 | 177,957 | 148,687 | 77,753 | 175,010 | 137,133 | 996,827 |
| Bank revolving credit facility [2] | 137,152 | - | 137,152 | - | - | - | - |
| Senior and subordinated debt | 773,683 | 45,480 | - | 29,000 | 198,806 | 178,253 | 322,144 |
| Interest payments on long-term debt | 2,861,080 | 503,689 | 435,397 | 358,377 | 289,955 | 245,782 | 1,027,880 |
| Preferred stock dividends [3] | 77,000 | 15,400 | 15,400 | 15,400 | 15,400 | 15,400 | - |
| | 565,644 | 15,684 | 14,407 | 13,845 | 13,303 | 13,435 | 494,970 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Operating leases | | | | | | | |
| Share of operating leases of unconsolidated entities | 125,761 | 2,769 | 2,756 | 2,726 | 2,660 | 2,642 | 112,208 |
| Construction contracts | 96,983 | 93,040 | 3,943 | - | - | - | - |
| Military housing construction contracts (4) | 266,827 | 169,128 | 41,758 | 29,204 | 26,737 | - | - |
| Other (5)(6) | 114,638 | 89,433 | 16,471 | 4,680 | 2,562 | 1,283 | 209 |
| Total Contractual Obligations | $ 13,939,353 | $ 2,323,430 | $ 2,430,751 | $ 1,524,313 | $ 1,199,919 | $ 956,555 | $ 5,504,385 |

(1) We have a substantial amount of nonrecourse mortgage debt, the details of which are further described within the Interest Rate Exposure section of the MD&A. We are contractually obligated to pay the interest and principal when due on these mortgages. Because we utilize mortgage debt as one of our primary sources of capital, the balances and terms of the mortgages, and therefore the estimate of future contractual obligations including interest payments, are subject to frequent changes due to property dispositions, mortgage refinancings, changes in variable interest rates and new mortgage debt in connection with property additions.

(2) The bank revolving credit facility matures on February 1, 2012.

(3) These amounts represent dividends that we are obligated to declare and pay on our 7.0% Series A cumulative perpetual convertible preferred stock. For purposes of this table, we assume that all preferred stock is converted into Class A common stock on January 31, 2016.

(4) These amounts represent funds that we are obligated to pay under various construction contracts related to our military housing projects where we act as the construction manager. These obligations are primarily reimbursable costs from the respective projects and a corresponding account receivable is recorded when the costs are incurred.

(5) These amounts represent funds that we are legally obligated to pay under various service contracts, employment contracts and licenses over the next several years as well as unrecognized tax benefits. These contracts are typically greater than one year and either do not contain a cancellation clause or cannot be terminated without substantial penalty. We have several service contracts with vendors related to our property management including maintenance, landscaping, security and phone service. In addition, we have other service contacts that we enter into during our normal course of business which extend beyond one year and are based on usage including snow plowing, answering services, copier maintenance and cycle painting. As we are unable to predict the usage variables, these contracts have been excluded from our summary of contractual obligations at January 31, 2011.

(6) See the Financing Arrangements section of the MD&A for information on certain off-balance sheet arrangements related to Stapleton that are included in the table above.

## INFLATION

Substantially all of our long-term leases contain provisions designed to mitigate the adverse impact of inflation. Such provisions include clauses enabling us to receive additional rental income from escalation clauses, which generally increase rental rates during the terms of the leases and/or percentage rentals based on tenants gross sales. Such escalations are determined by negotiation, increases in the consumer price index or similar inflation indices. In addition, we seek increased rents upon renewal at market rates for our short-term leases. Most of our leases require the tenants to pay a share of operating expenses, including common area maintenance, real estate taxes, insurance and utilities, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation.

## LEGAL PROCEEDINGS

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

## NEW ACCOUNTING GUIDANCE

The following accounting pronouncements were adopted during the year ended January 31, 2011:

In January 2010, the Financial Accounting Standards Board ( FASB ) issued amendments to the accounting guidance on fair value measurements and disclosures. This guidance requires that an entity disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. It also requires an entity to present separately information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). This guidance clarifies existing disclosures related to the level of disaggregation and inputs and valuation techniques. This guidance is effective for annual and interim reporting periods beginning after December 15, 2009, except for the disclosures related to Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010. Early adoption is permitted. The adoption of this guidance related to the Level 1 and Level 2 fair value measurements on February 1, 2010 did not have a material impact on our consolidated financial statements. We do not expect the adoption of the guidance related to the Level 3 fair value measurement disclosures to have a material impact on our consolidated financial statement disclosures.

In June 2009, the FASB issued an amendment to the accounting guidance for consolidation of VIEs to require an ongoing reassessment of determining whether a variable interest gives a company a controlling financial interest in a VIE. This guidance eliminates the quantitative approach to determining whether a company is the primary beneficiary of a VIE previously required by the guidance for consolidation of VIEs. The guidance is effective for annual and interim reporting periods beginning after November 15, 2009. The adoption of this guidance on February 1, 2010 did not have a material impact on our consolidated financial statements.

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

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

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

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## SUBSEQUENT EVENTS

*CEO Succession*

On March 1, 2011, we announced that President and CEO Charles A. Ratner will become Chairman of the Board, and will be succeeded as President and CEO by David J. LaRue, currently Executive Vice President and COO. The changes are a part of our succession planning process and will be effective on the date of our Annual Meeting of Shareholders on June 10, 2011.

*Casino Related Agreements*

On February 1, 2011, we announced the closing of the sale of approximately 16 acres of land, together with air rights, to Rock Ohio Caesars Cleveland LLC ( Rock Ohio ) for $85,000,000. The land is adjacent to our, *Tower City Center* mixed-use complex. We received a deposit of $11,000,000 at closing on January 31, 2011, $33,900,000 in February 2011, with the remaining purchase price payable in installments in 2011 and 2012.

On February 23, 2011, we signed a lease agreement with Rock Ohio for space at the *Higbee Building* within our *Tower City Center* mixed-use complex. Rock Ohio will use the space for Phase I of its new Horseshoe Casino Cleveland. The five-year lease, which includes extension options, is for approximately 303,000 square feet on the lower level and first, second and third floors of the building.

*Property Disposition*

In February 2011, we completed the sale of our 50% interest in *Met Lofts,* an unconsolidated apartment community in Los Angeles, California, to our 50% partner. The sale generated net cash proceeds of approximately $13,200,000.

In February 2011, we completed the sale of the *Charleston Marriott*, in Charleston, West Virginia for $25,500,000. The sale generated net cash proceeds of approximately $8,600,000.

## INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

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

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Ongoing economic conditions continue to negatively impact the lending and capital markets. Our market risk includes the increased difficulty or inability to obtain construction loans, refinance existing construction loans into long-term fixed-rate nonrecourse financing, refinance existing nonrecourse financing at maturity, obtain renewals or replacement of credit enhancement devices, such as letters of credit, or otherwise obtain funds by selling real estate assets or by raising equity (see the Lending and Capital Market Conditions May Negatively Impact Our Liquidity and Our Ability to Finance or Refinance Projects or Repay Our Debt section of Item 1A. Risk Factors). We also have interest-rate exposure on our current variable-rate debt portfolio. During the construction period, we have historically used variable-rate debt to finance developmental projects. At January 31, 2011, our outstanding variable-rate debt consisted of $2,699,296,000 of taxable debt and $769,628,000 of tax-exempt debt. Upon opening and achieving stabilized operations, we have historically procured long-term fixed-rate financing for our rental properties. However, due to the current market conditions, when available, we are currently extending maturities with existing lenders at current market terms. Additionally, we are exposed to interest rate risk upon maturity of our long-term fixed-rate financings.

(continued on next page)

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

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

| | Caps | | Swaps | |
|---|---|---|---|---|
| **Period Covered** | **Notional Amount** | **Average Base Rate** | **Notional Amount** | **Average Base Rate** |
| | *(dollars in thousands)* | | | |
| 02/01/11-02/01/12 | $ 600,192 | 5.18 % | $ 1,245,900 | 3.77 % |
| 02/01/12-02/01/13 | 491,182 | 5.53 | 949,800 | 4.46 |
| 02/01/13-02/01/14 | 489,926 | 5.53 | 685,000 | 5.43 |
| 02/01/14-09/01/17 | - | - | 640,000 | 5.50 |

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

| | Caps | |
|---|---|---|
| **Period Covered** | **Notional Amount** | **Average Base Rate** |
| | *(dollars in thousands)* | |
| 02/01/11-02/01/12 | $ 174,639 | 5.83% |
| 02/01/12-02/01/13 | 146,239 | 5.80 |
| 02/01/13-02/01/14 | 10,414 | 6.96 |

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 2.79% and has never exceeded 8.00%.

**Forward Swaps**

We have entered into forward swaps to protect ourselves against fluctuations in the swap rate at terms ranging between five to ten years associated with forecasted fixed rate borrowings. At the time we secure and lock an interest rate on an anticipated financing, we intend to simultaneously terminate the forward swap associated with that financing. At January 31, 2010, we had two forward swaps with an aggregate notional amount of $189,325,000, neither of which qualified for hedge accounting. The change in fair value of these swaps is marked to market through earnings on a quarterly basis. On May 3, 2010, we terminated one of these swaps. As a result, at January 31, 2011, we have one remaining forward swap outstanding with a notional amount of $60,900,000. Subsequent to January 31, 2011, in conjunction with locking the rate on an upcoming refinancing, we terminated this swap.

**Sensitivity Analysis to Changes in Interest Rates**

Including the effect of the protection provided by the interest rate swaps, caps and long-term contracts in place as of January 31, 2011, a 100 basis point increase in taxable interest rates (including properties accounted for under the equity method, corporate debt and the effect of interest rate floors) would increase the annual pre-tax interest cost for the next 12 months of our variable-rate debt by approximately $9,817,000 at January 31, 2011. Although tax-exempt rates generally move in an amount that is smaller than corresponding changes in taxable interest rates, a 100 basis point increase in tax-exempt rates (including properties accounted for under the equity method) would increase the annual pre-tax interest cost for the next 12 months of our tax-exempt variable-rate debt by approximately $8,680,000

at January 31, 2011. This analysis includes a portion of our taxable and tax-exempt variable-rate debt related to construction loans for which the interest expense is capitalized.

We estimate the fair value of our hedging instruments based on interest rate market and bond pricing models. At January 31, 2011 and 2010, we reported interest rate caps and floors at fair value of approximately $195,000 and $1,771,000, respectively, in other assets. We also included interest rate swap agreements and TRS with positive fair values of approximately $4,661,000 and $2,154,000 at January 31, 2011 and 2010, respectively, in other assets. At January 31, 2011 and 2010, we included interest rate swap agreements and TRS that had a negative fair value of approximately $156,587,000 and $192,526,000, respectively, (which includes the forward swaps) in accounts payable and accrued expenses.

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

| | **Carrying Value** | **Fair Value** | **Fair Value with 100 bp Decrease in Market Rates** |
|---|---|---|---|
| | | *(in thousands)* | |
| Fixed | $ 4,649,129 | $ 4,802,728 | $ 5,165,383 |
| Variable | | | |
| Taxable | 2,699,296 | 2,754,585 | 2,850,788 |
| Tax-Exempt | 769,628 | 764,981 | 829,650 |
| Total Variable | $ 3,468,924 | $ 3,519,566 | $ 3,680,438 |
| Total Long-Term Debt | $ 8,118,053 | $ 8,322,294 | $ 8,845,821 |

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

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**Item 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)**
**January 31, 2011**

| | Expected Maturity Date Year Ending January 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **erm Debt** | **2012** | **2013** | **2014** | **2015** | **2016** | **Period Thereafter** | **Total Outstanding 1/31/11** | **F Ma Va 1/3** |
| | *(dollars in thousands)* | | | | | | | |
| te debt | $ 280,274 | $ 345,211 | $ 855,352 | $ 462,257 | $ 361,758 | $ 1,570,594 | $ 3,875,446 | $ 4,0 |
| d average rate | 6.77 % | 6.10 % | 6.56 % | 5.96 % | 5.59 % | 5.75 % | 6.04 % | |
| & nated debt | 45,480 (3) | - | 29,000 (5) | 198,806 (4) | 178,253 | 322,144 | 773,683 | 7 |
| d average rate | 3.63 % | - % | 7.88 % | 3.63 % | 7.63 % | 6.35 % | 5.84 % | |
| **ixed-Rate** | 325,754 | 345,211 | 884,352 | 661,063 | 540,011 | 1,892,738 | 4,649,129 | 4,8 |
| **e:** | | | | | | | | |
| e-rate debt | 798,146 | 1,064,953 | 46,411 | 12,414 | - | 640,220 | 2,562,144 | 2,6 |
| d average rate(2) | 3.80 % | 3.38 % | 6.05 % | 1.46 % | - % | 7.18 % | 4.50 % | |
| mpt | 132,430 | 204,616 | 91,565 | 815 | 869 | 339,333 | 769,628 | 7 |
| d average rate(2) | 2.63 % | 2.52 % | 2.78 % | 3.79 % | 3.79 % | 1.42 % | 2.09 % | |
| volving cility (1) | - | 137,152 | - | - | - | - | 137,152 | 1 |
| d average rate(2) | - % | 5.75 % | - % | - % | - % | - % | 5.75 % | |
| **e-Rate** | 930,576 | 1,406,721 | 137,976 | 13,229 | 869 | 979,553 | 3,468,924 | 3,5 |
| **erm Debt** | $ 1,256,330 | $ 1,751,932 | $ 1,022,328 | $ 674,292 | $ 540,880 | $ 2,872,291 | $ 8,118,053 | $ 8,3 |

| d average rate | 4.33 % | 4.00 % | 6.24 % | 5.19 % | 6.26 % | 5.62 % | 5.16 % |
|---|---|---|---|---|---|---|---|

(1) Represents recourse debt.

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

(3) Represents the principal amount of the puttable equity-linked senior notes of $46,891 less the unamortized discount of $1,411 as of January 31, 2011, as adjusted for the adoption of accounting guidance for convertible debt instruments. This unamortized discount is accreted through interest expense, which resulted in an effective interest rate of 7.51%.

(4) Contains the principal amount of the puttable equity-linked senior notes less the unamortized discount of $1,194 as of January 31, 2011.

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

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**Item 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)**
**January 31, 2010**

| | Expected Maturity Date Year Ending January 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Total | Fa |
| | | | | | | Period | Outstanding | Mar Va |
| 'erm Debt | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter | 1/31/10 | 1/31 |
| | (dollars in thousands) | | | | | | | |
| ate debt | $ 252,825 | $ 355,527 | $ 332,056 | $ 824,186 | $ 525,598 | $ 1,849,040 | $ 4,139,232 | $ 4,1 |
| ed average rate | 7.04 % | 7.03 % | 5.99 % | 6.09 % | 5.99 % | 5.92 % | 6.13 % | |
| & nated debt | - | 98,944 [3] | - | 29,000 [5] | 198,480 [4] | 750,000 | 1,076,424 | 8 |
| ed average rate | - % | 3.63 % | - % | 7.88 % | 3.63 % | 6.67 % | 5.86 % | |
| 'ixed-Rate | 252,825 | 454,471 | 332,056 | 853,186 | 724,078 | 2,599,040 | 5,215,656 | 4,9 |
| le: | | | | | | | | |
| e-rate debt | 599,742 | 525,372 | 695,187 | 46,411 | 12,415 | 639,999 | 2,519,126 | 2,4 |
| ed average rate[2] | 3.72 % | 4.16 % | 4.87 % | 6.05 % | 1.43 % | 6.40 % | 4.84 % | |
| empt | - | 132,430 | 204,616 | 91,565 | 815 | 532,089 | 961,515 | 9 |
| ed average rate[2] | - % | 2.60 % | 2.47 % | 1.52 % | 3.70 % | 1.60 % | 1.92 % | |
| evolving acility [1] | - | - | 83,516 | - | - | - | 83,516 | 8 |
| ed average rate[2] | - % | - % | 5.75 % | - % | - % | - % | 5.75 % | |
| le-Rate | 599,742 | 657,802 | 983,319 | 137,976 | 13,230 | 1,172,088 | 3,564,157 | 3,5 |
| 'erm Debt | $ 852,567 | $ 1,112,273 | $ 1,315,375 | $ 991,162 | $ 737,308 | $ 3,771,128 | $ 8,779,813 | $ 8,4 |

| ed average rate | 4.70 % | 4.85 % | 4.83 % | 5.72 % | 5.27 % | 5.54 % | 5.26 % |
|---|---|---|---|---|---|---|---|

(1) Represents recourse debt.

(2) Weighted average interest rate is based on current market rates as of January 31, 2010.

(3) Represents the principal amount of the puttable equity-linked senior notes of $105,067 less the unamortized discount of $6,123 as of January 31, 2010, as adjusted for the adoption of accounting guidance for convertible debt instruments. This unamortized discount is accreted through interest expense, which resulted in an effective interest rate of 7.51%.

(4) Contains the principal amount of the puttable equity-linked senior notes less the unamortized discount of $1,520 as of January 31, 2010.

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

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## Item 8. Financial Statements and Supplementary Data

## INDEX TO FINANCIAL STATEMENTS


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All other schedules are omitted because they are not applicable or the required information is presented in the consolidated financial statements or the notes thereto.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors
of Forest City Enterprises, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows present fairly, in all material respects, the financial position of Forest City Enterprises, Inc. and its subsidiaries at January 31, 2011 and January 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note A to the consolidated financial statements, Forest City Enterprises, Inc. changed the manner in which it assesses consolidation principles for variable interest entities commencing February 1, 2010.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
March 30, 2011

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**Forest City Enterprises, Inc. and Subsidiaries**
**Consolidated Balance Sheets**

| | January 31, 2011 | January 31, 2010 |
|---|---|---|
| | *(in thousands)* | |
| **Assets** | | |
| Real Estate | | |
| Completed rental properties | **$ 8,215,425** | $ 8,479,802 |
| Projects under construction and development | **2,706,235** | 2,641,170 |
| Land held for development or sale | **244,879** | 219,807 |
| Total Real Estate | **11,166,539** | 11,340,779 |
| Less accumulated depreciation | **(1,614,399)** | (1,593,658) |
| Real Estate, net - (variable interest entities $2,627.8 million at January 31, 2011) | **9,552,140** | 9,747,121 |
| Cash and equivalents - (variable interest entities $24.7 million at January 31, 2011) | **193,372** | 251,405 |
| Restricted cash and escrowed funds - (variable interest entities $471.4 million at January 31, 2011) | **720,180** | 427,921 |
| Notes and accounts receivable, net | **403,101** | 388,536 |
| Investments in and advances to affiliates | **141,017** | 265,343 |
| Other assets - (variable interest entities $166.8 million at January 31, 2011) | **759,399** | 836,385 |
| **Total Assets** | **$ 11,769,209** | $ 11,916,711 |
| **Liabilities and Equity** | | |
| **Liabilities** | | |
| Mortgage debt and notes payable, nonrecourse - (variable interest entities $1,879.0 million at January 31, 2011) | **$ 7,207,218** | $ 7,619,873 |
| Bank revolving credit facility | **137,152** | 83,516 |
| Senior and subordinated debt - (variable interest entities $29.0 million at January 31, 2011) | **773,683** | 1,076,424 |
| Accounts payable and accrued expenses - (variable interest entities $150.2 million at January 31, 2011) | **1,074,042** | 1,194,688 |
| Deferred income taxes | **489,974** | 437,370 |
| **Total Liabilities** | **9,682,069** | 10,411,871 |
| **Redeemable Noncontrolling Interest** | **226,829** | - |
| **Commitments and Contingencies** | **-** | - |

| | | |
|---|---|---|
| **Equity** | | |
| **Shareholders Equity** | | |
| Preferred stock - 7.0% Series A cumulative perpetual convertible, without par value, $50 liquidation preference; 6,400,000 and -0- shares authorized; 4,399,998 and -0- shares issued and outstanding, respectively | **220,000** | - |
| Preferred stock - without par value; 13,600,000 and 10,000,000 shares authorized, respectively; no shares issued | **-** | - |
| Common stock - $.33 1/3 par value | | |
| Class A, 371,000,000 and 271,000,000 shares authorized, 144,251,634 and 132,836,322 shares issued and 144,230,310 and 132,808,270 shares outstanding, respectively | **48,084** | 44,279 |
| Class B, convertible, 56,000,000 shares authorized, 21,218,753 and 22,516,208 shares issued and outstanding, respectively; 26,257,961 issuable | **7,073** | 7,505 |
| Total common stock | **55,157** | 51,784 |
| Additional paid-in capital | **689,004** | 571,189 |
| Retained earnings | **659,926** | 613,073 |
| Less treasury stock, at cost; 21,324 and 28,052 Class A shares, respectively | **(259)** | (154) |
| Shareholders equity before accumulated other comprehensive loss | **1,623,828** | 1,235,892 |
| Accumulated other comprehensive loss | **(94,429)** | (87,266) |
| **Total Shareholders Equity** | **1,529,399** | 1,148,626 |
| Noncontrolling interest | **330,912** | 356,214 |
| **Total Equity** | **1,860,311** | 1,504,840 |
| **Total Liabilities and Equity** | **$ 11,769,209** | $ 11,916,711 |

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 Operations**

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | *(in thousands, except per share data)* | | |
| **Revenues from real estate operations** | **$ 1,177,661** | $ 1,232,013 | $ 1,251,602 |
| **Expenses** | | | |
| Operating expenses | **685,783** | 704,552 | 767,170 |
| Depreciation and amortization | **243,847** | 260,223 | 259,487 |
| Impairment of real estate | **6,803** | 8,907 | 1,262 |
| | **936,433** | 973,682 | 1,027,919 |
| Interest expense | **(315,340)** | (343,146) | (356,503) |
| Amortization of mortgage procurement costs | **(13,487)** | (13,709) | (11,791) |
| Gain (loss) on early extinguishment of debt | **(21,035)** | 36,569 | (2,159) |
| Interest and other income | **52,826** | 53,999 | 42,423 |
| Net gain on disposition of partial interests in rental properties and other investment | **257,990** | - | - |
| **Earnings (loss) before income taxes** | **202,182** | (7,956) | (104,347) |
| **Income tax expense (benefit)** | | | |
| Current | **(275)** | 6,994 | (28,625) |
| Deferred | **69,995** | (19,223) | (1,399) |
| | **69,720** | (12,229) | (30,024) |
| Equity in earnings (loss) of unconsolidated entities | **42,265** | 21,303 | (14,300) |
| Impairment of unconsolidated entities | **(72,459)** | (36,356) | (21,285) |
| **Earnings (loss) from continuing operations** | **102,268** | (10,780) | (109,908) |
| Discontinued operations, net of tax: | | | |
| Operating earnings from rental properties before impairments | **264** | 7 | 1,639 |
| Impairment of real estate | **(48,731)** | (16,770) | - |
| Gain on disposition of rental properties | **32,209** | 2,784 | 8,159 |
| Gain on disposition of Lumber Group | **-** | 718 | 680 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | **(16,258)** | | (13,261) | | 10,478 |
| **Net earnings (loss)** | | **86,010** | | (24,041) | | (99,430) |
| **Noncontrolling interests** | | | | | | |
| Earnings from continuing operations attributable to noncontrolling interests | | **(22,974)** | | (6,727) | | (13,456) |
| (Earnings) loss from discontinued operations attributable to noncontrolling interests | | **(4,376)** | | 117 | | (361) |
| | | **(27,350)** | | (6,610) | | (13,817) |
| **Net earnings (loss) attributable to Forest City Enterprises, Inc.** | **$** | **58,660** | $ | (30,651) | $ | (113,247) |
| Preferred dividends | | **(11,807)** | | - | | - |
| **Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders** | **$** | **46,853** | $ | (30,651) | $ | (113,247) |
| **Basic earnings (loss) per common share** | | | | | | |
| Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. available to common shareholders | **$** | **0.42** | $ | (0.13) | $ | (1.20) |
| Earnings (loss) from discontinued operations attributable to Forest City Enterprises, Inc. | | **(0.13)** | | (0.09) | | 0.10 |
| **Net earnings (loss) attributable to Forest City Enterprises, Inc. available to common shareholders** | **$** | **0.29** | $ | (0.22) | $ | (1.10) |
| **Diluted earnings (loss) per common share** | | | | | | |
| Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. available to common shareholders | **$** | **0.42** | $ | (0.13) | $ | (1.20) |
| Earnings (loss) from discontinued operations attributable to Forest City Enterprises, Inc. | | **(0.12)** | | (0.09) | | 0.10 |
| **Net earnings (loss) attributable to Forest City Enterprises, Inc. available to common shareholders** | **$** | **0.30** | $ | (0.22) | $ | (1.10) |

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 (Loss)**

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | *(in thousands)* | |
| **Net earnings (loss)** | **$ 86,010** | $ (24,041) | $ (99,430) |
| Other comprehensive income (loss), net of tax: | | | |
| Unrealized net losses on investment securities | **(18)** | (187) | (172) |
| Foreign currency translation adjustments | **(30)** | 474 | (1,372) |
| Unrealized net gains (losses) on interest rate derivative contracts | **(7,178)** | 20,291 | (33,334) |
| Total other comprehensive income (loss), net of tax | **(7,226)** | 20,578 | (34,878) |
| Comprehensive income (loss) | **78,784** | (3,463) | (134,308) |
| Comprehensive income attributable to noncontrolling interest | **(27,287)** | (6,933) | (13,804) |
| **Total comprehensive income (loss) attributable to Forest City Enterprises, Inc.** | **$ 51,497** | $ (10,396) | $ (148,112) |

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 Equity**

| Common Stock | | | | Additional | Retained | Treasury Stock | | Accumulate Other |
|---|---|---|---|---|---|---|---|---|
| Class A | | Class B | | Paid-In | | | | Comprehensi |
| Shares | Amount | Shares | Amount | Capital | Earnings | Shares | Amount | (Loss) Incom |
| | | | | (in thousands) | | | | |
| 78,238 | $ 26,079 | 24,388 | $ 8,129 | $ 255,989 | $ 781,790 | 36 | $ (1,665) | $ (72,6 |
| | | | | | (113,247) | | | |
| | | | | | | | | (34,8 |
| | | | | | (24,819) | | | |
| | | | | | | 19 | (663) | |
| 1,590 | 530 | (1,590) | (530) | | | | | |
| 44 | 16 | | | (1,190) | | (53) | 2,307 | |
| | | | | (3,748) | | | | |
| | | | | (374) | | | | |
| 82 | 27 | | | (27) | | | | |
| | | | | 17,120 | | | | |
| 128 | 42 | | | 3,736 | | | | |
| | | | | (3,710) | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 80,082 | $ 26,694 | 22,798 | $ 7,599 | $ 267,796 | $ 643,724 | 2 | $ (21) | $ (107,5 |
| | | | | | (30,651) | | | |
| | | | | | | | | 20,2 |
| 52,325 | 17,442 | | | 312,475 | | | | |
| | | | | | | 26 | (133) | |
| 282 | 94 | (282) | (94) | | | | | |
| 15 | 5 | | | 123 | | | | |
| | | | | (2,068) | | | | |
| | | | | (17,490) | | | | |

(9,734)

132 44 (44)

16,738

3,393

132,836 $ 44,279 22,516 $ 7,505 $ 571,189 $ 613,073 28 $ (154) $ (87,

58,660

(7,

54 (786)

1,297 432 (1,297) (432)

| | | | | | |
|---|---|---|---|---|---|
| 9,774 | 3,258 | 133,186 | | | |
| | | 1,869 | | | |
| | | (5,544) | | | |
| | | (2,342) | | | |
| | | (17,556) | | | |
| | | | (11,807) | | |
| 123 | 41 | 1,899 | | (61) | 681 |
| | | 7 | | | |
| 222 | 74 | (74) | | | |
| | | 14,931 | | | |
| | | (2,216) | | | |
| | | (6,845) | | | |
| | | 500 | | | |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ) | 144,252 | $ | 48,084 | 21,219 | $ | 7,073 | $ | 689,004 | $ | 659,926 | 21 | $ | (259) | $ | (94,4 |

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

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

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | *(in thousands)* | |
| **Net earnings (loss)** | **$ 86,010** | $ (24,041) | $ (99,430) |
| Depreciation and amortization | **243,847** | 260,223 | 259,487 |
| Amortization of mortgage procurement costs | **13,487** | 13,709 | 11,791 |
| Impairment of real estate | **6,803** | 8,907 | 1,262 |
| Impairment of unconsolidated entities | **72,459** | 36,356 | 21,285 |
| Write-off of abandoned development projects | **8,195** | 26,739 | 52,211 |
| Loss (gain) on early extinguishment of debt, net of cash prepayment penalties | **21,035** | (36,569) | (3,325) |
| Other income - net gain on sale of ownership interest in parking management company and other investments | **-** | - | (3,500) |
| Net gain on disposition of partial interests in rental properties and other investment | **(257,990)** | - | - |
| Deferred income tax expense (benefit) | **69,995** | (19,223) | (1,399) |
| Equity in (earnings) loss of unconsolidated entities | **(42,265)** | (21,303) | 14,300 |
| Stock-based compensation expense | **7,969** | 7,509 | 8,505 |
| Excess income tax benefit from stock-based compensation | **-** | - | 3,569 |
| Amortization and mark-to-market adjustments of derivative instruments | **3,606** | 4,106 | 36,518 |
| Non-cash interest expense related to Puttable Equity-Linked Senior Notes | **1,858** | 6,917 | 8,943 |
| Cash distributions from operations of unconsolidated entities | **46,802** | 39,770 | 52,511 |
| Discontinued operations: | | | |
| Depreciation and amortization | **4,170** | 8,532 | 12,240 |
| Amortization of mortgage procurement costs | **124** | 315 | 656 |
| Impairment of real estate | **79,603** | 27,394 | - |
| Write-off of abandoned development projects | **-** | 676 | - |
| Deferred income tax benefit | **(15,085)** | (7,596) | (14,705) |
| Gain on disposition of rental properties and Lumber Group | **(51,303)** | (5,720) | (14,405) |
| Cost of sales of land included in projects under construction and development and completed rental properties | **18,490** | 35,607 | 17,541 |
| Increase in land held for development or sale | **(14,973)** | (6,861) | (16,994) |
| Decrease in notes and accounts receivable | **7,595** | 12,912 | 13,684 |
| Decrease in other assets | **15,415** | 15,566 | 2,604 |
| (Increase) decrease in restricted cash and escrowed funds used for operating purposes | **(31,701)** | (4,917) | 6,435 |
| (Decrease) increase in accounts payable and accrued expenses | **(26,899)** | 41,321 | (63,249) |
| **Net cash provided by operating activities** | **$ 267,247** | $ 420,329 | $ 306,535 |

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

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

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | *(in thousands)* | |
| **Cash Flows from Investing Activities** | | | |
| Capital expenditures | **$ (723,158)** | $ (942,609) | $ (1,086,367) |
| Payment of lease procurement costs | **(20,387)** | (13,153) | (36,826) |
| (Increase) decrease in other assets | **(57,226)** | 2,373 | (42,386) |
| Increase in restricted cash and escrowed funds used for investing purposes | **(249,024)** | (132,329) | (82,079) |
| Proceeds from disposition of partial interests in rental properties and disposition of rental properties | **191,345** | 13,086 | 39,217 |
| Decrease (increase) in investments in and advances to affiliates | **11,401** | (81,314) | (61,715) |
| **Net cash used in investing activities** | **(847,049)** | (1,153,946) | (1,270,156) |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from nonrecourse mortgage debt and notes payable | **658,833** | 770,972 | 1,267,807 |
| Principal payments on nonrecourse mortgage debt and notes payable | **(321,629)** | (260,294) | (590,909) |
| Borrowings on bank revolving credit facility | **876,052** | 844,000 | 670,000 |
| Payments on bank revolving credit facility | **(822,416)** | (1,125,984) | (343,500) |
| Payment of subordinated debt | **-** | (20,400) | - |
| Purchase of Puttable Equity-Linked Senior Notes due 2011 and Senior Notes due 2017 | **(16,569)** | - | (10,571) |
| Proceeds received from partial termination of Convertible Senior Notes hedge | **1,869** | - | - |
| Proceeds from Puttable Equity-Linked Senior Notes due 2014, net of $2,803 of issuance costs and discount | **-** | 29,764 | - |
| Proceeds from Convertible Senior Notes due 2016, net of $6,838 of issuance costs | **-** | 193,162 | **-** |
| Payment for Convertible Senior Notes hedge transaction | **-** | (15,900) | - |
| Payment of deferred financing costs | **(36,745)** | (32,756) | (34,491) |
| Change in restricted cash and escrowed funds and book overdrafts | **(1,322)** | (4,251) | 42,912 |
| Proceeds from issuance of Series A preferred stock, net of $5,544 of issuance costs | **44,456** | - | - |
| Payment for equity call hedge related to the issuance of Series A preferred stock | **(17,556)** | - | - |
| Dividends paid to preferred shareholders | **(11,807)** | - | - |
| Dividends paid to common shareholders | **-** | - | (33,020) |
| Sale of common stock, net | **-** | 329,917 | - |
| Payment in exchange for 119,000 Class A Common Units | **-** | - | (3,501) |
| Purchase of treasury stock | **(786)** | (133) | (663) |

| | | | |
|---|---|---|---|
| Exercise of stock options | **2,621** | 128 | 1,133 |
| Excess income tax benefit from stock-based compensation | **-** | - | (3,569) |
| Distribution of accumulated equity to noncontrolling partner | **-** | - | (3,710) |
| Contributions from redeemable noncontrolling interest | **181,909** | - | - |
| Contributions from noncontrolling interests | **5,636** | 21,831 | 45,643 |
| Distributions to noncontrolling interests | **(20,777)** | (12,339) | (27,069) |
| **Net cash provided by financing activities** | **521,769** | 717,717 | 976,492 |
| **Net (decrease) increase in cash and equivalents** | **(58,033)** | (15,900) | 12,871 |
| **Cash and equivalents at beginning of period** | **251,405** | 267,305 | 254,434 |
| **Cash and equivalents at end of period** | **$ 193,372** | $ 251,405 | $ 267,305 |

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

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**Supplemental Non-Cash Disclosures:**

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

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | *(in thousands)* | |
| **Operating activities** | | | |
| Increase in land held for development or sale (1)(2)(3)(4) | **$ (31,599)** | $ (50,740) | $ (36,033) |
| Decrease (increase) in notes and accounts receivable (1)(4)(5)(6)(7)(8)(9) | **22,560** | 10,842 | (2,440) |
| Decrease (increase) in other assets (4)(5)(6)(7)(8)(9)(10) | **80,953** | 46,620 | (122,254) |
| Increase in restricted cash and escrowed funds (4)(6)(7)(8) | **(1,953)** | (142) | (144) |
| (Decrease) increase in accounts payable and accrued expenses (3)(4)(5)(6)(7)(8)(9)(10)(11) | **(111,940)** | (97,233) | 214,469 |
| Total effect on operating activities | **$ (41,979)** | $ (90,653) | $ 53,598 |
| **Investing activities** | | | |
| Decrease (increase) in projects under construction and development (2)(3)(4)(5)(7)(12) | **$ 32,816** | $ 108,000 | $ (454,089) |
| Decrease (increase) in completed rental properties (2)(3)(4)(5)(6)(7)(8)(9)(13) | **514,025** | (2,551) | 25,531 |
| Increase in restricted cash and escrowed funds(4) | **-** | - | (19,571) |
| Non-cash proceeds from disposition of properties (5) | **153,470** | 70,554 | 72,881 |
| Decrease in investments in and advances to affiliates (4)(6)(7)(8)(14) | **111,644** | 12,789 | 168,987 |
| Total effect on investing activities | **$ 811,955** | $ 188,792 | $ (206,261) |
| **Financing activities** | | | |
| (Decrease) increase in nonrecourse mortgage debt and notes payable (4)(5)(6)(7)(8)(10)(14) | **$ (776,588)** | $ (112,379) | $ 124,239 |
| (Decrease) increase in senior and subordinated debt (11)(15)(16) | **(277,658)** | 11,414 | - |
| Decrease in deferred tax liability (16)(17) | **-** | (6,218) | - |
| Increase in preferred stock(15) | **170,000** | - | - |
| Increase in class A common stock (11)(13) | **2,636** | - | 42 |
| Increase in additional paid-in capital (11)(12)(13)(14)(15)(16)(17)(18) | **102,939** | 7,427 | 12,351 |
| Increase in redeemable noncontrolling interest (14) | **46,845** | - | - |
| (Decrease) increase in noncontrolling interest (1)(4)(6)(7)(8)(13)(18) | **(38,150)** | 1,617 | 16,031 |
| Total effect on financing activities | **$ (769,976)** | $ (98,139) | $ 152,663 |

(1) Receipt of land and a note receivable as contributions from noncontrolling interests during the year ended January 31, 2011.

(2) Commercial Group and Residential Group outlots reclassified prior to sale from projects under construction and development or completed rental properties to land held for sale.

(3) Increase or decrease in construction payables included in accounts payable and accrued expenses.

(4) Change in consolidation method of accounting due to the occurrence of triggering events for *Gladden Farms II* in the Land Development Group during the year ended January 31, 2010 and *Independence Place I* apartments, *Village Center* apartments and a development project in the Residential Group, *Waterfront Station*, *Village at Gulfstream Park, Shops at Wiregrass* and a mixed-use development project located in Las Vegas, Nevada in the Commercial Group and *Gladden Forest* in the Land Development Group during the year ended January 31, 2009.

(5) Disposition of *Simi Valley Town Center*, a regional mall, *Saddle Rock Village,* a specialty retail center, and an investment in a triple net lease property in the Commercial Group and *101 San Fernando*, an apartment community in the Residential Group, during the year ended January 31, 2011, *Sterling Glen of Great Neck* and *Sterling Glen of Glen Cove*, supported-living apartment communities in the Residential Group and *Grand Avenue*, a specialty retail center in the Commercial Group, during the year ended January 31, 2010, and *Sterling Glen of Rye Brook* and *Sterling Glen of Lynbrook*, supported-living apartment communities in the Residential Group during the year ended January 31, 2009, including assumption of nonrecourse mortgage debt by each of the respective buyers.

(6) Disposition of partial interests in the Company s mixed-use *University Park* project in Cambridge, Massachusetts and in *The Grand*, *Lenox Club* and *Lenox Park* apartment communities in the Residential Group, during the year ended January 31, 2011 and change to equity method of accounting from full consolidation for the remaining ownership interest.

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

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**Forest City Enterprises, Inc. and Subsidiaries**
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(7) Change in consolidation method of accounting for various entities in the Residential Group and Commercial Group during the year ended January 31, 2011, due to the adoption of accounting guidance for the consolidation of variable interest entities.

(8) Exchange of the Company s 50% ownership interest in *Boulevard Towers*, an equity method investment in the Residential Group, for 100% ownership in *North Church Towers*, an apartment complex in the Residential Group, during the year ended January 31, 2010 and exchange of the Company s controlling ownership interests in seventeen single-tenant pharmacy properties for the noncontrolling ownership interest in two entities during the year ended January 31, 2009.

(9) Amounts related to purchase price allocations for *New York Times*, *Twelve MetroTech Center*, *Commerce Court*, *Colorado Studios* and *Richmond Office Park*, office buildings in the Commercial Group, during the year ended January 31, 2009.

(10) Extinguishment for accounting purposes of a defeased loan related to *Sterling Glen of Rye Brook* applying securities that were reserved for the sole purpose of extinguishing this note payable during the year ended January 31, 2010.

(11) Exchange of a portion of the Company s Convertible Senior Notes due 2016 for Class A common stock during the year ended January 31, 2011 (see Note G - Senior and Subordinated Debt).

(12) Capitalization of stock-based compensation granted to employees directly involved with the acquisition, development and construction of real estate.

(13) Exchange of the Class A Common Units during the year ended January 31, 2009 (see Note T - Class A Common Units).

(14) Conversion of loans into investments in and advances to affiliates and redeemable noncontrolling interest in accordance with the amended operating agreement of Nets Sports and Entertainment, LLC, concurrent with the Company s closing on the purchase agreement with entities controlled by Mikhail Prokhorov and adjustments to fair value of redeemable noncontrolling interest during the year ended January 31, 2011.

(15) Exchange of the Company s senior notes due 2011, 2015 and 2017 for a new issue of 7.0% Series A Cumulative Perpetual Convertible Preferred Stock during the year ended January 31, 2011 (see Note U - Capital Stock).

(16) Exchange of a portion of the Company s Puttable Equity-Linked Senior Notes due 2011 for a new issue of Puttable Equity-Linked Senior Notes due 2014 during the year ended January 31, 2010 (see Note G - Senior and Subordinated Debt).

(17) Recording of a deferred tax asset on the purchased hedge transactions in conjunction with the issuance of the Company s Convertible Senior Notes due 2016 during the year ended January 31, 2010 (see Note G - Senior and Subordinated Debt).

(18) Acquisition of a partner s 50% noncontrolling interest in *Gladden Farms* in the Land Development Group during the year ended January 31, 2010.

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

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

A. Summary of Significant Accounting Policies

**Nature of Business**

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

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

The Company has approximately $11.8 billion of consolidated assets in 27 states and the District of Columbia at January 31, 2011. The Company s core markets include Boston, the state of California, Chicago, Denver, the New York City/Philadelphia metropolitan area and the Greater Washington D.C./Baltimore metropolitan area. The Company has offices in Albuquerque, Boston, Chicago, Dallas, Denver, London (England), Los Angeles, New York City, San Francisco, Washington, D.C., and the Company s corporate headquarters in Cleveland, Ohio.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Forest City Enterprises, Inc., its wholly-owned subsidiaries and entities in which it has a controlling interest in accordance with accounting principles generally accepted in the United States of America ( GAAP ). All intercompany balances and transactions have been eliminated in consolidation.

In June 2009, the Financial Accounting Standards Board ( FASB ) issued an amendment to the accounting guidance for consolidation of variable interest entities ( VIEs ) to require an ongoing reassessment of determining whether a variable interest gives a company a controlling financial interest in a VIE. The guidance eliminates the quantitative approach to evaluating VIEs for consolidation. The guidance identifies the primary beneficiary of a VIE as the entity that has (a) the power to direct the activities of the VIE that most significantly affect the VIE s economic performance and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In determining whether it has the power to direct the activities of the VIE that most significantly affect the VIE s performance, this standard requires a company to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed. This standard requires continuous reassessment of primary beneficiary status rather than event-driven assessments and incorporates expanded disclosure requirements. This guidance was adopted by the Company on February 1, 2010, and is being applied prospectively.

As a result of the adoption of this new consolidation accounting guidance, the Company concluded that it was deemed to be the primary beneficiary since the Company has: (a) the power to direct the matters that most significantly affect the activities of the VIE, including the development and management of the project; and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, and therefore consolidated, one previously unconsolidated entity in the Commercial Group. The Company also concluded that it was no longer the primary beneficiary of a total of nine entities (2 in the Commercial Group and 7 in the Residential Group) and, therefore, deconsolidated these entities. The 7 Residential Group entities are all operated and managed under Housing Assistance Payments Contracts ( HAP Contracts ), administered by the U.S. Department of Housing and Urban Development ( HUD ). These HAP Contracts restrict the Company s ability to make decisions as HUD holds significant control over all aspects of the Affordable Housing Program. HUD establishes the market rents and absorbs losses by providing the majority of the cash flows via rent subsidies. Furthermore, the HAP Contracts restrict the Company

from selling, transferring or encumbering their interests without prior approval from HUD. Cash distributions are also limited. Based on these limitations, it was determined the Company does not have: (a) the power to direct the matters that most significantly affect the activities of the VIE; and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, and therefore is not the primary beneficiary of these 7 Residential Group entities.

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

A. Summary of Significant Accounting Policies (continued)

The initial consolidation and deconsolidation of these entities, as a result of the new accounting guidance on February 1, 2010, resulted in the following increases (decreases) to the following line items included in the January 31, 2010 balance sheet.

| | Consolidated | Deconsolidated | Net Change |
|---|---|---|---|
| | | *(in thousands)* | |
| **Assets** | | | |
| Real estate, net | $ 251,083 | $ (227,056) | $ 24,027 |
| Cash and equivalents | 1,593 | (1,943) | (350) |
| Restricted cash and escrowed funds | 23,131 | (13,976) | 9,155 |
| Notes and accounts receivable, net | 40 | (5,689) | (5,649) |
| Investments in and advances to affiliates | (91,863) | 73,965 | (17,898) |
| Other assets | 15,638 | (68,501) | (52,863) |
| **Total assets** | **$ 199,622** | **$ (243,200)** | **$ (43,578)** |
| **Liabilities** | | | |
| Mortgage debt and notes payable, nonrecourse | $ 107,593 | $ (121,071) | $ (13,478) |
| Accounts payable and accrued expenses | 139,409 | (95,475) | 43,934 |
| **Total liabilities** | 247,002 | (216,546) | 30,456 |
| **Equity** | | | |
| Noncontrolling interest | (47,380) | (26,654) | (74,034) |
| **Total liabilities and equity** | **$ 199,622** | **$ (243,200)** | **$ (43,578)** |

**Use of Estimates**

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

**Reclassification**

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year s presentation.

**Fiscal Year**

The years 2010, 2009 and 2008 refer to the fiscal years ended January 31, 2011, 2010 and 2009, respectively.

**Recognition of Revenue**

**Real Estate Sales** The specific timing of a sale is measured against various criteria in the accounting guidance on the sales of real estate related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, the Company defers gain recognition and accounts for the continued operations of the property by applying the deposit, finance, installment or cost recovery methods, as appropriate.

Assuming no significant continuing involvement, all earnings of properties which have been sold or determined by management to be held for sale are reported as discontinued operations. The Company considers assets held for sale when the transaction has been approved by management and there are no significant contingencies related to the sale that may prevent the transaction from closing. In most transactions, these contingencies are not satisfied until the actual closing and, accordingly, the property is not identified as held for sale until the closing actually occurs. However, each potential sale is evaluated based on its separate facts and circumstances.

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

A. Summary of Significant Accounting Policies (continued)

**Leasing Operations** The Company enters into leases with tenants in its rental properties. The lease terms of tenants occupying space in the retail centers and office buildings generally range from 1 to 30 years, excluding leases with certain anchor tenants, which typically run longer. Minimum rents are recognized on a straight-line basis over the non-cancelable term of the related lease, which include the effects of rent steps and rent abatements under the leases. Overage rents are recognized only after the contingency has been removed (i.e., sales thresholds have been achieved). Recoveries from tenants for taxes, insurance and other commercial property operating expenses are recognized as revenues in the period the applicable costs are incurred. See Note N - Leases for further information on tenant reimbursements.

**Construction** Revenues and profit on long-term fixed-price contracts are recorded using the percentage-of-completion method. Revenues on reimbursable cost-plus fee contracts are recorded in the amount of the accrued reimbursable costs plus proportionate fees at the time the costs are incurred.

**Military Housing Fee Revenues** Development fees related to military housing projects are earned based on a contractual percentage of the actual development costs incurred. Additional development incentive fees are recognized based upon successful completion of certain criteria, such as incentives to realize development cost savings, encourage small and local business participation, comply with specified safety standards and other project management incentives as specified in the development agreements. Development and development incentive fees of $5,861,000, $14,030,000 and $62,180,000 were recognized during the years ended January 31, 2011, 2010 and 2009, respectively, which were recorded in revenues from real estate operations.

Construction management fees are earned based on a contractual percentage of the actual construction costs incurred. Additional construction incentive fees are recognized based upon successful completion of certain criteria as set forth in the construction contracts. Construction and incentive fees of $5,618,000, $9,857,000 and $13,505,000 were recognized during the years ended January 31, 2011, 2010 and 2009, respectively, which were recorded in revenues from real estate operations.

Property management and asset management fees are earned based on a contractual percentage of the annual net rental income and annual operating income, respectively, that is generated by the military housing privatization projects as defined in the agreements. Additional property management incentive fees are recognized based upon successful completion of certain criteria as set forth in the property management agreements. Property management, management incentive and asset management fees of $15,975,000, $15,448,000 and $14,318,000 were recognized during the years ended January 31, 2011, 2010 and 2009, respectively, which were recorded in revenues from real estate operations.

**Recognition of Costs and Expenses**

Operating expenses primarily represent the recognition of operating costs, which are charged to operations as incurred, administrative expenses and taxes other than income taxes. Interest expense and real estate taxes during active development and construction are capitalized as a part of the project cost.

Depreciation and amortization is generally computed on a straight-line method over the estimated useful life of the asset. The estimated useful lives of buildings and certain first generation tenant allowances that are considered by management as a component of the building are primarily 50 years. Subsequent tenant improvements and those first generation tenant allowances not considered a component of the building are amortized over the life of the tenant s lease. This estimate is based on the length of time the asset is expected to generate positive operating cash flows. Actual events and circumstances can cause the life of the building and tenant improvement to be different than the estimates made. Additionally, lease terminations can affect the economic life of the tenant improvements. The Company believes the estimated useful lives and classification of the depreciation and amortization of fixed assets and tenant improvements are reasonable and follow industry standards.

Major improvements and tenant improvements that are considered to be the Company s assets are capitalized in real estate costs and expensed through depreciation charges. Tenant improvements that are considered lease inducements are capitalized into other assets and amortized as a reduction of rental revenues over the life of the tenant s lease. Repairs, maintenance and minor improvements are expensed as incurred.

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

A. Summary of Significant Accounting Policies (continued)

A variety of costs are incurred in the development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. The Company s capitalization policy on development properties is based on accounting guidance for the capitalization of interest cost and accounting guidance for costs and the initial rental operations of real estate properties. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. The Company considers a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. The Company ceases capitalization on any portion substantially completed and occupied or held available for occupancy, and capitalizes only those costs associated with the portion under construction. Costs and accumulated depreciation applicable to assets retired or sold are eliminated from the respective accounts and any resulting gains or losses are reported in the Consolidated Statements of Operations.

**Termination Benefits**

During the years ended January 31, 2011, 2010 and 2009, the Company s workforce was reduced. The Company provided outplacement services to terminated employees and severance payments based on years of service and other defined criteria. Termination benefits expense (outplacement and severance) are included in operating expenses and reported in the Corporate Activities segment.

The activity in the accrued severance balance for termination costs is as follows:

| | **Total** *(in thousands)* |
|---|---|
| Accrued severance balance at February 1, 2008 | $ - |
| Termination benefits expense | 8,651 |
| Payments | (5,291) |
| Accrued severance balance at January 31, 2009 | 3,360 |
| Termination benefits expense | 8,720 |
| Payments | (8,719) |
| Accrued severance balance at January 31, 2010 | 3,361 |
| Termination benefits expense | 5,325 |
| Payments | (5,930) |
| **Accrued severance balance at January 31, 2011** | $ 2,756 |

**Impairment of Real Estate**

The Company reviews its real estate portfolio, including land held for development or sale, for impairment whenever events or changes indicate that its carrying value of the long-lived assets may not be recoverable. Impairment indicators include, but are not limited to, significant decreases in property net operating income, significant decreases in occupancy rates, the physical condition of the property and general economic conditions. A property s value is impaired only if management s estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are less than the carrying value of the property. In addition, the undiscounted cash flows may consider a probability-weighted cash flow estimation approach when alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or a range is estimated at the balance sheet date. Significant estimates are made in the determination of future undiscounted cash flows including historical and budgeted net operating income, estimated holding periods, risk of foreclosure and estimated cash proceeds received upon disposition of the asset. To the extent an impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property. Determining fair value of real estate, if required, also involves significant judgments and estimates including discount and capitalization rates. Changes to these estimates made by management could affect whether or not an impairment charge would be required and/or the amount of impairment charges recognized.

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

A. Summary of Significant Accounting Policies (continued)

**Impairment of Unconsolidated Entities**

The Company reviews its portfolio of unconsolidated entities for other-than-temporary impairments whenever events or changes indicate that its carrying value in the investments may be in excess of fair value. A loss in value of an equity method investment which is other-than-temporary is recognized as an impairment of unconsolidated entities. This determination is based upon the length of time elapsed, severity of decline and other relevant facts and circumstances. Determining fair value of a real estate investment and whether or not a loss is other-than-temporary involves significant judgments and estimates. Changes to these estimates made by management could affect whether or not an impairment charge would be required and/or the amount of impairment charges recognized.

**Stock-Based Compensation**

Stock-based compensation cost is measured at the date of grant and is based on the fair value of the equity award. The fair value of stock options is computed using the Black-Scholes option pricing model, which incorporates assumptions for risk-free rate, expected volatility, dividend yield, and expected life of the options. The fair value of restricted stock is equal to the closing price of the stock on the date of grant. The fair value cost of stock options and restricted stock, as adjusted for estimated forfeitures, are recognized over the requisite service period of the grantee using the straight-line attribution method. Cost recognition is accelerated if the grantee is retirement-eligible (as defined in the 1994 Stock Plan) or becomes retirement-eligible before the end of the nominal vesting period. The cost is recognized immediately if the grantee is retirement-eligible at the date of grant or on a straight-line basis over the period ending with the first anniversary from the date of grant which the individual becomes retirement-eligible. The fair value of performance shares is equal to the closing price of the underlying stock on the date of grant. Its cost is recognized on a straight-line basis over the related performance period if it is probable that the performance goals will be achieved.

**Earnings Per Share**

The Company s restricted stock is considered a participating security pursuant to the two-class method for computing basic earnings per share ( EPS ). The Class A Common Units issued in exchange for Bruce C. Ratner s noncontrolling interests in the Forest City Ratner Company portfolio in November 2006 (see Note T Class A Common Units), which are reflected as noncontrolling interests in the Company s Consolidated Balance Sheets, are considered convertible participating securities as they are entitled to participate in any dividends paid to the Company s common shareholders. The Class A Common Units are included in the computation of basic EPS using the two-class method and are included in the computation of diluted EPS using the if-converted method. The Class A common stock issuable in connection with the put or conversion of the Puttable Equity-Linked Senior Notes due 2014, Convertible Senior Notes due 2016 and Series A preferred stock are included in the computation of diluted EPS using the if-converted method.

**Acquisition of Rental Properties**

Upon acquisition of a rental property, the Company allocates the purchase price of the property to net tangible and identified intangible assets acquired based on fair values. Above-market and below-market in-place lease values for acquired properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) the Company s estimate of the fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. Capitalized above-market lease values are amortized as a reduction of rental revenues (or rental expense for ground leases in which the Company is the lessee) over the remaining non-cancelable terms of the respective leases. Capitalized below-market lease values are amortized as an increase to rental revenues (or rental expense for ground leases in which the Company is the lessee) over the remaining non-cancelable terms of the respective leases, including any fixed-rate renewal periods.

Intangible assets also include amounts representing the value of tenant relationships and in-place leases based on the Company s evaluation of each tenant s lease and the Company s overall relationship with the respective tenant. The Company estimates the cost to execute leases with terms similar to in-place leases, including leasing commissions, legal expenses and other related expenses. This intangible asset is amortized to expense over the remaining term of the respective lease. The Company s estimates of value are made using methods similar to those used by independent

appraisers or by using independent appraisals. Factors considered by the Company in this analysis include an estimate of the carrying costs during the expected lease-up periods, current market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from three to twelve months. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. The Company also uses the information obtained as a result of its pre-acquisition due diligence as part of its consideration of conditional asset retirement obligations, and when necessary, will record a conditional asset retirement obligation as part of its purchase price.

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

A. Summary of Significant Accounting Policies (continued)

Characteristics considered by the Company in allocating value to its tenant relationships include the nature and extent of the Company s business relationship with the tenant, growth prospects for developing new business with the tenant, the tenant s credit quality and expectations of lease renewals, among other factors. The value of tenant relationship intangibles is amortized over the remaining initial lease term and expected renewals, but in no event longer than the remaining depreciable life of the building. The value of in-place leases is amortized over the remaining non-cancelable term of the respective leases and any fixed-rate renewal periods.

In the event that a tenant terminates its lease, the unamortized portion of each intangible asset, including market rate adjustments, in-place lease values and tenant relationship values, would be charged to expense.

**Allowance for Projects Under Development**

The Company records an allowance for estimated development project write-offs for its projects under development. A specific project is written off when it is determined by management that it is probable the project will not be developed. The allowance, which is consistently applied, is adjusted on a quarterly basis based on the Company s actual development project write-off history. The allowance balance was $22,786,000 and $23,786,000 at January 31, 2011 and 2010, respectively, and is included in accounts payable and accrued expenses.

**Cash and Equivalents**

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

Cash flows associated with items intended as hedges of identifiable transactions or events are classified in the same category as the cash flows from the items being hedged. Cash flows from derivatives not designated as cash flow or fair value hedges are generally classified in the investing section in the Consolidated Statements of Cash Flows.

Cash flows associated with lease procurement costs are classified as investing activities and consist primarily of lease commissions and related legal fees associated with procuring first generation tenants under long-term lease agreements for office buildings, retail regional malls or specialty retail centers. The Company primarily incurs these costs during the development phase of the project and they are integral to starting construction and ultimately completing the project. Management views these lease procurement costs as part of the initial investment to obtain long-term cash inflow.

The Company maintains operating cash and reserves for replacement balances in financial institutions which, from time to time, may exceed federally insured limits. The Company periodically assesses the financial condition of these institutions and believes that the risk of loss is minimal.

**Restricted Cash and Escrowed Funds**

Restricted cash and escrowed funds represent legally restricted amounts with financial institutions for debt services payments, taxes and insurance, collateral, security deposits, capital replacement, improvement and operating reserves, bond funds, development escrows and construction escrows.

During the year ended January 31, 2010, $10,226,000 of certain replacement reserves previously written off were reinstated by HUD. This amount was recorded as an increase to restricted cash and as a reduction of operating expenses.

**Allowance for Doubtful Accounts and Reserves on Notes Receivable**

The Company records allowances against its rent receivables from commercial and residential tenants that it deems to be uncollectible. These allowances are based on management s estimate of receivables that will not be realized from cash receipts in subsequent periods. The Company also maintains an allowance for receivables arising from the straight-lining of rents. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates. The allowance against the Company s straight-line rent receivable is based on the Company s historical experience with early lease terminations as well as specific review of the Company s significant tenants and tenants that are having known financial difficulties. There is a risk that the Company s estimate of the expected activity of current tenants may not accurately reflect future events. If the estimate

does not accurately reflect future tenant vacancies, the reserve for straight-line rent receivable may be over or understated by the actual tenant vacancies that occur. The Company estimates the allowance for notes receivable based on its assessment of expected future cash flows estimated to be paid to the Company. If the estimate of expected future cash flows does not accurately reflect actual events, the Company s reserve on notes receivable may be over or understated by the actual cash flows that occur.

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

A. Summary of Significant Accounting Policies (continued)

**Investments in Unconsolidated Entities**

The Company accounts for its investments in unconsolidated entities (included in investments in and advances to affiliates) using the equity method of accounting whereby the cost of an investment is adjusted for the Company s share of income or loss from the date of acquisition, increased for equity contributions made and reduced by distributions received. The income or loss for each unconsolidated entity is allocated in accordance with the provisions of the applicable operating agreements, which may differ from the ownership interest held by each investor. Certain of the Company s investments in unconsolidated entities share of cumulative allocated losses and cash distributions received exceeds its cumulative allocated share of income and equity contributions. As a result, the carrying value of certain investments of unconsolidated entities is negative. Unconsolidated entities with negative carrying values are included in Investments in and Advances to Affiliates on the Company s consolidated balance sheet. Differences between the Company s carrying value of its investment in the unconsolidated entities and the Company s underlying equity of such unconsolidated entities are amortized over the respective lives of the underlying assets or liabilities, as applicable. The Company records income or loss in certain unconsolidated entities based on the distribution priorities, which may change upon the achievement of certain return thresholds.

As is customary within the real estate industry, the Company invests in certain projects through partnerships and limited liability entities. The Company may provide funding in excess of its legal ownership. Such fundings are typically interest-bearing or entitle the Company to a preference on and of such advances on property cash flows and are included in investments in and advances to affiliates.

**Other Assets**

Included in other assets are costs incurred in connection with obtaining financings which are deferred and amortized on a straight-line basis, which approximates the effective interest method, over the life of the related debt. Costs incurred in connection with leasing space to tenants are also included in other assets and are deferred and amortized using the straight-line method over the lives of the related leases.

Investments in securities classified as available-for-sale are reflected in other assets at market value with the unrealized gains or losses reflected as accumulated other comprehensive income (loss). Unrealized gains or losses were not material for any of the three years ending January 31, 2011, 2010 and 2009.

**Intangible Assets** Upon an acquisition of a rental property, the Company records intangible assets acquired at their estimated fair value separate and apart from goodwill. The Company amortizes identified intangible assets with finite lives on a straight-line basis over the period the assets are expected to contribute directly or indirectly to the future cash flows of the rental property acquired. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

In connection with the Company s military housing projects, it records intangible assets based upon the costs associated with acquiring military housing development and management contracts that are in progress. Intangible assets related to the military housing development contracts are amortized based upon the ratio of development fees earned in relation to overall fee income to be earned throughout the contract period. Intangible assets related to the military housing management contracts are amortized based upon a straight-line basis over the remaining term of the management contracts.

Included with The Nets, an investment accounted for by the Company on the equity method of accounting, is the Company s share of approximately $20,562,000 and $36,920,000 of the net intangible assets at the Company s ownership interest of approximately 10% and 23% for the years ended January 31, 2011 and 2010, respectively. The intangible assets consisted primarily of the fair value of the franchise asset and players contracts that were acquired in connection with the team in August 2004. These intangible assets were adjusted to estimated fair value on May 12, 2010 in connection with the sale of 80% of Nets Sports and Entertainment, LLC s ( NS&E ) investment in The Nets, (see The Nets section of Note K Net Gain (Loss) on Disposition of Partial Interests in Rental Properties and Other Investment). With the exception of the franchise asset, which the management of The Nets has determined is an

indefinite-lived intangible asset, such intangibles are predominantly related to players contracts and amortized over their estimated useful lives, which has been determined to be five years. The amortization of these intangible assets is included as a component of the Company s proportionate share of loss from The Nets within equity in earnings (loss) of unconsolidated entities. The Company s portion of amortization expense recorded by The Nets, primarily attributed to the intangible assets, was approximately $1,228,000, $14,517,000 and $20,862,000 for the years ended January 31, 2011, 2010 and 2009, respectively.

See Note C Investments in and Advances to Affiliates for additional information on The Nets and Note D Other Assets for additional information on intangible assets.

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

A. Summary of Significant Accounting Policies (continued)

**Capitalized Software Costs** Costs related to software developed or obtained for internal use are capitalized and amortized using the straight-line method over their estimated useful life, which is primarily three years. The Company capitalizes significant costs incurred in the acquisition or development of software for internal use, including the costs of the software, materials, consultants, interest and payroll and payroll-related costs for employees directly involved in developing internal-use computer software once final selection of the software is made. Costs incurred prior to the final selection of software, costs not qualifying for capitalization and routine maintenance costs are charged to expense as incurred.

At January 31, 2011 and 2010, the Company has capitalized software costs of $5,294,000 and $6,321,000, respectively, net of accumulated amortization of $39,057,000 and $35,333,000, respectively. Total amortization of capitalized software costs amounted to $3,864,000, $12,282,000 and $12,058,000 for the years ended January 31, 2011, 2010 and 2009, respectively.

**Accounts Payable and Accrued Expenses**

At January 31, 2011 and 2010, accounts payable and accrued expenses include book overdrafts of $10,371,000 and $2,061,000, respectively. The overdrafts are a result of the Company s cash management program and represent checks issued but not yet presented to a bank for collection.

**Accumulated Other Comprehensive Loss**

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

| | January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | *(in thousands)* | |
| Unrealized losses on securities | **$ 485** | $ 456 | $ 170 |
| Unrealized losses on foreign currency translation | **1,516** | 1,467 | 2,258 |
| Unrealized losses on interest rate contracts[(1)] | **153,432** | 141,764 | 174,838 |
| | **155,433** | 143,687 | 177,266 |
| Noncontrolling interest and income tax benefit | **(61,004)** | (56,421) | (69,745) |
| Accumulated Other Comprehensive Loss | **$ 94,429** | $ 87,266 | $ 107,521 |

(1) Included in the amounts of unrealized losses on interest rate contracts for the years ended January 31, 2011, 2010 and 2009 are $102,387, $89,637 and $109,420, respectively, of unrealized losses on an interest rate swap associated with the *New York Times*, an office building in Manhattan, New York, on its mortgage debt with a notional amount of $640,000. This swap effectively fixes the mortgage at an all in lender interest rate of 6.40% (5.50% swap rate plus 0.90% lender spread) for ten years and approximately $33,160 is expected to be reclassified from OCI to interest expense within the next twelve months.

**Fair Value of Financial Instruments**

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

payable, bank revolving credit facility and senior and subordinated debt is as follows:

| | **January 31, 2011** | | January 31, 2010 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| | *(in thousands)* | | *(in thousands)* | |
| Fixed | **$ 4,649,129** | **$ 4,802,728** | $ 5,215,656 | $ 4,978,454 |
| Variable | **3,468,924** | **3,519,566** | 3,564,157 | 3,501,698 |
| **Total long-term debt** | **$ 8,118,053** | **$ 8,322,294** | $ 8,779,813 | $ 8,480,152 |

See Note J for fair values of other financial instruments.

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

A. Summary of Significant Accounting Policies (continued)

**Historic and New Market Tax Credit Entities**

The Company has certain investments in properties that have received, or the Company believes are entitled to receive, historic preservation tax credits on qualifying expenditures under Internal Revenue Code ( IRC ) section 47 and new market tax credits on qualifying investments in designated community development entities ( CDEs ) under IRC section 45D, as well as various state credit programs including participation in the New York State Brownfield Tax Credit Program which entitles the members to tax credits based on qualified expenditures at the time those qualified expenditures are placed in service. The Company typically enters into these investments with sophisticated financial investors. In exchange for the financial investors initial contribution into the investment, the financial investor is entitled to substantially all of the benefits derived from the tax credit, but generally has no material interest in the underlying economics of the property. Typically, these arrangements have put/call provisions (which range up to 7 years) whereby the Company may be obligated (or entitled) to repurchase the financial investors interest. The Company has consolidated each of these entities in its consolidated financial statements, and has reflected these investor contributions as accounts payable and accrued expenses.

The Company guarantees the financial investor that in the event of a subsequent recapture by a taxing authority due to the Company s noncompliance with applicable tax credit guidelines it will indemnify the financial investor for any recaptured tax credits. The Company initially records a liability for the cash received from the financial investor. The Company generally records income upon completion and certification of the qualifying development expenditures for historic tax credits and upon certification of the qualifying investments in designated CDEs for new market tax credits resulting in an adjustment of the liability at each balance sheet date to the amount that would be paid to the financial investor based upon the tax credit compliance regulations, which range from 0 to 7 years. Income related to the sale of tax credits of $31,979,000, $32,698,000 and $11,168,000 was recognized during the years ended January 31, 2011, 2010 and 2009, respectively, which was recorded in interest and other income.

**Income Taxes**

Deferred tax assets and liabilities are recorded to reflect the expected tax consequences on future years attributable to temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The Company has recognized the benefit of its tax loss carryforward, which it expects to use as a reduction of the deferred tax expense. The Company records valuation allowances against deferred tax assets if it is more likely than not that a portion or all of the deferred tax asset will not be realized. The Company s financial statements reflect the expected future tax consequences of a tax position if that tax position is more likely than not of being sustained upon examination, presuming the taxing authorities have full knowledge of the position and all relevant facts. The Company records interest and penalties related to uncertain income tax positions as a component of income tax expense.

**Distribution of Accumulated Equity to Noncontrolling Partners**

Prior to the adoption of accounting guidance for noncontrolling interests effective February 1, 2009, distributions to noncontrolling partners in excess of their recorded noncontrolling interest balance related to refinancing proceeds from nonrecourse debt, which generally arise from appreciation of the underlying real estate assets, were recorded as a reduction of shareholders equity through additional paid-in-capital. During the year ended January 31, 2009, the Company refinanced *Nine MetroTech Center North*, an office building located in Brooklyn, New York. Of the total nonrecourse refinancing proceeds distributed to the Company s noncontrolling partner in this property during the year ended January 31, 2009, $3,710,000 was in excess of the noncontrolling partner s book capital account.

**Derivative Instruments and Hedging Activities**

Derivatives are recorded at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and it meets the requirement to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to

variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

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

A. Summary of Significant Accounting Policies (continued)

**Variable Interest Entities**

The Company s VIEs consist of joint ventures that are engaged, directly or indirectly, in the ownership, development and management of office buildings, regional malls, specialty retail centers, apartment communities, military housing, supported-living communities, land development and The Nets. As of January 31, 2011, the Company determined that it was the primary beneficiary of 34 VIEs representing 23 properties (18 VIEs representing 9 properties in the Residential Group, 14 VIEs representing 12 properties in the Commercial Group and 2 VIEs/properties in the Land Development Group). The creditors of the consolidated VIEs do not have recourse to the Company s general credit. As of January 31, 2011, the Company held variable interests in 61 VIEs for which it is not the primary beneficiary. The maximum exposure to loss as a result of its involvement with these unconsolidated VIEs is limited to the Company s investments in those VIEs totaling approximately $96,000,000 at January 31, 2011.

In addition to the VIEs described above, the Company has also determined that it is the primary beneficiary of a VIE which holds collateralized borrowings of $29,000,000 as of January 31, 2011 (see Note G Senior and Subordinated Debt).

During the year ended January 31, 2010, the Company settled outstanding debt of one of its unconsolidated subsidiaries, *Gladden Farms II*, a land development project located in Marana, Arizona. In addition, the outside partner communicated its intention to discontinue any future funding into the project. As a result of the loan transaction and the related negotiations with the outside partner, it has been determined that *Gladden Farms II* is a VIE and the Company is the primary beneficiary, which required consolidation of the entity during the year ended January 31, 2010. The impact of the initial consolidation of *Gladden Farms II* was an increase in net real estate of approximately $21,643,000 and an increase in noncontrolling interests of approximately $5,010,000. Based on the estimate of fair value, the Company recorded a gain of $1,774,000 upon consolidation of the entity that is recorded in interest and other income for the year ended January 31, 2010.

Upon adoption of the new accounting guidance for consolidation of VIEs, the disclosure of VIE balances as of January 31, 2011 is presented parenthetically on the Consolidated Balance Sheet. At January 31, 2010, the carrying value of real estate, nonrecourse mortgage debt and noncontrolling interests of VIEs for which the Company is the primary beneficiary are as follows.

| | **January 31, 2010** *(in thousands)* |
|---|---|
| Real estate, net | **$ 2,016,000** |
| Nonrecourse mortgage debt | **$ 1,584,000** |
| Noncontrolling interest | **$ 41,000** |

**Noncontrolling Interest**

Interests held by partners in consolidated real estate partnerships are reflected in noncontrolling interest, which represents the noncontrolling partners share of the underlying net assets of the Company s consolidated subsidiaries. Noncontrolling interest that is not redeemable is reported in the equity section of the Consolidated Balance Sheets. Noncontrolling interests where the Company may be required to repurchase the noncontrolling interest at fair value under a put option or other contractual redemption requirement are reported in the mezzanine section of the Consolidated Balance Sheets between liabilities and equity, as redeemable noncontrolling interest. The Company adjusts the redeemable noncontrolling interest to redemption value (which approximates fair value) at each balance sheet date with changes recognized as an adjustment to additional paid-in capital (see Note J Fair Value Measurements).

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

A. Summary of Significant Accounting Policies (continued)

**New Accounting Guidance**

In addition to the new accounting guidance for consolidation of VIEs discussed previously in Note A, the following accounting pronouncement was adopted during the year ended January 31, 2011:

In January 2010, the FASB issued amendments to the accounting guidance on fair value measurements and disclosures. This guidance requires that an entity disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. It also requires an entity to present separately information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). This guidance clarifies existing disclosures related to the level of disaggregation and inputs and valuation techniques. This guidance is effective for annual and interim reporting periods beginning after December 15, 2009, except for the disclosures related to Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010. Early adoption is permitted. The adoption of this guidance related to Level 1 and Level 2 fair value measurements on February 1, 2010 did not have a material impact on the Company s consolidated financial statements. The Company does not expect the adoption of the guidance related to the Level 3 fair value measurement disclosures to have a material impact on its consolidated financial statement disclosures.

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

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

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

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

B. Notes and Accounts Receivable, Net

The components of notes and accounts receivable, net are as follows:

| | Years Ended January 31, | |
|---|---|---|
| | **2011** | 2010 |
| | *(in thousands)* | |
| Straight-line rent from tenants | **$ 162,353** | $ 160,743 |
| Military Housing, primarily reimbursable construction costs receivable | **38,151** | 58,938 |
| Stapleton advances (see below) | **64,065** | 41,329 |
| Receivables from tenants | **34,724** | 39,417 |
| Other accounts receivable | **81,989** | 91,460 |
| Notes receivable | **53,011** | 30,474 |
| | **434,293** | 422,361 |
| Allowance for doubtful accounts | **(31,192)** | (33,825) |
| **Notes and Accounts Receivable, Net** | **$ 403,101** | $ 388,536 |
| Weighted average interest rate on notes receivable | **5.34%** | 6.01% |
| Notes receivable due within one year | **$ 18,330** | $ 10,001 |

**Stapleton Advances**

Stapleton Land, LLC has made certain advances to the Park Creek Metropolitan District (the District ) for in-tract infrastructure. The advances are subordinate to the District s senior and subordinated bonds (see Note H - Financing Arrangements). For the years ended January 31, 2011 and 2010, Stapleton Land, LLC had advances outstanding of $64,065,000 and $41,329,000, respectively, included in other receivables. The Company recorded approximately $4,237,000, $3,120,000 and $2,053,000 of interest income related to these advances for the years ended January 31, 2011, 2010 and 2009, respectively.

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

C. Investments in and Advances to Affiliates

Included in investments in and advances to affiliates are unconsolidated investments in entities that 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 partners and other affiliates.

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

| | January 31, | |
|---|---|---|
| | **2011** | 2010 |
| | *(in thousands)* | |
| Members and partners equity, as below | **$ 587,164** | $ 557,456 |
| Equity of other members and partners | **548,422** | 513,708 |
| Company s investment in partnerships | **38,742** | 43,748 |
| Basis differences[1] | **76,634** | 21,498 |
| Advances to and on behalf of other affiliates, net | **25,641** | 200,097 |
| **Total Investments in and Advances to Affiliates** | **$ 141,017** | $ 265,343 |
| Assets Investments in unconsolidated investments | **$ 431,509** | $ 523,409 |
| Liabilities Cash distributions and losses in excess of investments in unconsolidated investments | **(290,492)** | (258,066) |
| **Total Investments in and Advances to Affiliates** | **$ 141,017** | $ 265,343 |

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

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

| | (Combined 100%) | |
|---|---|---|
| | January 31, | |
| | **2011** | 2010 |
| | *(in thousands)* | |
| **Balance Sheet:** | | |
| Real Estate | | |
| Completed rental properties | **$ 5,514,041** | $ 4,373,423 |
| Projects under construction and development | **174,106** | 771,521 |
| Land held for development or sale | **272,930** | 271,129 |
| Total Real Estate | **5,961,077** | 5,416,073 |
| Less accumulated depreciation | **(944,968)** | (721,908) |

| | | |
|---|---|---|
| Real Estate, net | **5,016,109** | 4,694,165 |
| | | |
| Cash and equivalants | **109,246** | 102,593 |
| Restricted cash - military housing bond funds | **384,584** | 481,615 |
| Other restricted cash and escrowed funds | **206,778** | 222,752 |
| Other assets | **536,246** | 398,576 |
| Operating property assets held for sale(1) | **67,190** | - |
| | | |
| Total Assets | **$ 6,320,153** | $ 5,899,701 |
| | | |
| Mortgage debt and notes payable, nonrecourse | **$ 5,301,900** | $ 4,721,705 |
| Other liabilities | **369,871** | 620,540 |
| Liabilities of operating property held for sale(1) | **61,218** | - |
| Members and partners equity | **587,164** | 557,456 |
| | | |
| Total Liabilities and Members and Partners Equity | **$ 6,320,153** | $ 5,899,701 |

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

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

C. Investments in and Advances to Affiliates (continued)

| | (Combined 100%) Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | *(in thousands)* | | |
| **Operations:** | | | |
| Revenues | **$ 918,828** | $ 820,645 | $ 854,342 |
| Operating expenses | **(531,186)** | (529,544) | (599,040) |
| Interest expense including early extinguishment of debt | **(264,923)** | (217,517) | (217,094) |
| Impairment of real estate[1] | **(1,457)** | - | (66,873) |
| Depreciation and amortization | **(167,804)** | (145,257) | (132,604) |
| Interest and other income | **15,784** | 13,132 | 48,182 |
| Loss from continuing operations | **(30,758)** | (58,541) | (113,087) |
| **Discontinued operations:** | | | |
| Operating earnings (loss) from rental properties | **1,613** | (2,098) | 453 |
| Gain on disposition of rental properties[2] | **28,289** | - | 3,470 |
| Discontinued operations subtotal | **29,902** | (2,098) | 3,923 |
| Net loss (pre-tax) | **$ (856)** | $ (60,639) | $ (109,164) |
| Company s portion of net earnings (loss) (pre-tax) | **42,352** | (28,458) | (27,892) |
| Impairment of investment in unconsolidated entities[1] | **(71,716)** | (36,356) | (7,693) |
| Gain (loss) on disposition of equity method investments[2] | **(830)** | 49,761 | - |
| Net loss (pre-tax) from unconsolidated entities | **$ (30,194)** | $ (15,053) | $ (35,585) |

(1) The following tables show the detail of the impairments noted above:

| | | Years Ended January 31, | | |
|---|---|---|---|---|
| | | **2011** | 2010 | 2009 |
| | | *(in thousands)* | | |
| Impairment of real estate: | | | | |
| Old Stone Crossing at Caldwell Creek (Mixed-Use Land Development) | Charlotte, North Carolina | **$ 1,457** | $ - | $ - |
| Mercury (Condominiums) | Los Angeles, California | **-** | - | 28,910 |
| Navy Midwest (Land owned by a Military Housing Project) | Chicago, Illinois | **-** | - | 30,000 |
| Specialty Retail Centers: | | | | |

| | | | | |
|---|---|---|---|---|
| El Centro Mall | El Centro, California | **-** | - | 4,737 |
| Coachella Plaza | Coachella, California | **-** | - | 1,870 |
| Southgate Mall | Yuma, Arizona | **-** | - | 1,356 |
| Total impairment of real estate | | **$ 1,457** | $ - | $ 66,873 |
| Company s portion of impairment of real estate | | **$ 743** | $ - | $ 13,592 |
| Impairment of investments in unconsolidated entities: | | | | |
| Mixed-Use Land Development: | | | | |
| Central Station: | | | | |
| One Museum Park West | Chicago, Illinois | **$ 8,250** | $ - | $ - |
| Museum Park Place Two | Chicago, Illinois | **4,461** | - | - |
| One Museum Park East | Chicago, Illinois | **3,237** | - | - |
| 1600 Museum Park | Chicago, Illinois | **2,363** | - | - |
| Mercy Campus Park | Chicago, Illinois | **1,817** | - | - |
| Shamrock Business Center | Painesville, Ohio | **170** | 1,150 | - |
| Palmer | Manatee County, Florida | **-** | - | 1,214 |
| Cargor VI | Manatee County, Florida | **-** | - | 892 |
| Office Buildings: | | | | |
| 818 Mission Street | San Francisco, California | **4,018** | - | - |
| Bulletin Building | San Francisco, California | **3,543** | - | - |
| Mesa del Sol - Aperture Center | Albuquerque, New Mexico | **2,733** | - | - |
| Mesa del Sol - 5600 University SE | Albuquerque, New Mexico | **-** | 1,693 | - |
| Specialty Retail Centers: | | | | |
| Village at Gulfstream Park | Hallandale Beach, Florida | **35,000** | - | - |
| Metreon | San Francisco, California | **4,595** | - | - |
| Southgate Mall | Yuma, Arizona | **-** | 1,611 | - |
| Apartment Communities: | | | | |
| Uptown Apartments | Oakland, California | **-** | 6,781 | - |
| Metropolitan Lofts | Los Angeles, California | **-** | 2,505 | - |

| | | | | |
|---|---|---|---|---|
| Residences at University Park | Cambridge, Massachusetts | **-** | 855 | - |
| Fenimore Court | Detroit Michigan | **-** | 693 | - |
| Pittsburgh Peripheral (Commercial Group Land Project) | Pittsburgh, Pennsylvania | **-** | 7,217 | 3,937 |
| Millender Center | Detroit, Michigan | **-** | 10,317 | - |
| Classic Residence by Hyatt (Supported-Living Apartments) | Yonkers, New York | **-** | 3,152 | 1,107 |
| Other | | **1,529** | 382 | 543 |
| Total impairment of investments in unconsolidated entities | | **$ 71,716** | $ 36,356 | $ 7,693 |
| Total impairment of unconsolidated entities | | **$ 72,459** | $ 36,356 | $ 21,285 |

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

C. Investments in and Advances to Affiliates (continued)

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

| | | Years Ended January 31, | | |
|---|---|---|---|---|
| | | **2011** | 2010 | 2009 |
| | | *(in thousands)* | | |
| Gain on disposition of rental properties: | | | | |
| Millender Center (hotel, parking, office and retail) | Detroit, Michigan | **$ 17,291** | $ - | $ - |
| Pebble Creek (Apartment Community) | Twinsburg, Ohio | **4,555** | - | - |
| Office Buildings: | | | | |
| One International Place | Cleveland, Ohio | **-** | - | 3,070 |
| Emery-Richmond | Warrensville Heights, Ohio | **-** | - | 400 |
| Woodbridge Crossing (Specialty Retail Center) | Woodbridge, New Jersey | **6,443** | - | - |
| Gain on disposition of rental properties | | **$ 28,289** | $ - | $ 3,470 |
| Company s portion of gain on disposition of rental properties | | **$ 24,291** | $ - | $ 1,081 |
| Gain (loss) on disposition of unconsolidated investments: | | | | |
| Specialty Retail Centers: | | | | |
| Coachella Plaza | Coachella, California | **$ 104** | $ - | $ - |
| Southgate Mall | Yuma, Arizona | **64** | - | - |
| El Centro Mall | El Centro, California | **48** | - | - |
| Metreon | San Francisco, California | **(1,046)** | - | - |
| Apartment Communities: | | | | |
| Clarkwood | Warrensville Heights, Ohio | **-** | 6,983 | - |
| Granada Gardens | Warrensville Heights, Ohio | **-** | 6,577 | - |
| Boulevard Towers | Amherst, New York | **-** | 4,498 | - |

| | | | | |
|---|---|---|---|---|
| Sale of three Classic Residence by Hyatt (Supported-living Apartments) | Chevy Chase, Maryland, Teaneck, New Jersey and Yonkers, New York | **-** | 31,703 | - |
| Gain (loss) on disposition of unconsolidated investments, net | | **$ (830)** | $ 49,761 | $ - |

D. Other Assets

Included in other assets are costs incurred in connection with obtaining financing, which are deferred and amortized over the life of the related debt on a straight line basis, which approximates the effective interest method. Costs incurred in connection with leasing space to tenants are also included in other assets and are deferred and amortized using the straight-line method over the lives of the related leases.

| | **January 31,** | |
|---|---|---|
| | **2011** | 2010 |
| | *(in thousands)* | |
| Lease procurement costs, net | **$ 275,849** | $ 319,700 |
| Prepaid expenses and other deferred costs, net | **266,689** | 269,986 |
| Intangible assets, net(1) | **135,906** | 152,978 |
| Mortgage procurement costs, net | **80,955** | 93,721 |
| **Other Assets** | **$ 759,399** | $ 836,385 |

(1) During the years ended January 31, 2011, 2010 and 2009, the Company recorded $12,484, $16,865 and $22,337, respectively, of amortization expense related to intangible assets. The estimated aggregate amortization expense related to intangible assets is $11,296, $8,539, $7,552, $6,582 and $6,062 for the years ended January 31, 2012, 2013, 2014, 2015 and 2016, respectively.

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

E. Mortgage Debt and Notes Payable, Nonrecourse

Nonrecourse mortgage debt and notes payable, which is collateralized solely by completed rental properties, projects under construction and development and undeveloped land, was as follows:

| **January 31, 2011** | **Operating Properties** | **Development Projects** | **Land Projects** | **Total** | **Total Weighted Average Rate** |
|---|---|---|---|---|---|
| | | *(dollars in thousands)* | | | |
| Fixed | $ 3,693,608 | $ 172,635 | $ 9,203 | $ 3,875,446 | 6.04% |
| Variable | | | | | |
| Taxable | 1,554,487 | 1,000,775 | 6,882 | 2,562,144 | 4.50% |
| Tax-Exempt | 530,728 | 203,900 | 35,000 | 769,628 | 2.09% |
| | $ 5,778,823 | $ 1,377,310 (1) | $ 51,085 | $ 7,207,218 | 5.07% |
| Total gross commitment from lenders | | $ 2,027,549 | $ 51,085 | | |

| **January 31, 2010** | **Operating Properties** | **Development Projects** | **Land Projects** | **Total** | **Total Weighted Average Rate** |
|---|---|---|---|---|---|
| | | *(dollars in thousands)* | | | |
| Fixed | $ 4,071,975 | $ 57,572 | $ 9,685 | $ 4,139,232 | 6.13% |
| Variable | | | | | |
| Taxable | 1,439,828 | 1,067,599 | 11,699 | 2,519,126 | 4.84% |
| Tax-Exempt | 714,615 | 203,900 | 43,000 | 961,515 | 1.92% |
| | $ 6,226,418 | $ 1,329,071 (1) | $ 64,384 | $ 7,619,873 | 5.17% |
| Total gross commitment from lenders | | $ 1,946,393 | $ 71,242 | | |

(1) Proceeds from outstanding debt of $150,165 and $47,305 described above are recorded as restricted cash and escrowed funds as of January 31, 2011 and 2010, respectively. For bonds issued in conjunction with development, the full amount of the bonds is issued at the beginning of construction and must remain in escrow until costs are incurred.

The Company generally borrows funds for development and construction projects with maturities of two to five years utilizing variable-rate financing. Upon opening and achieving stabilized operations, the Company generally pursues

long-term fixed-rate financing.

To mitigate short-term variable-interest rate risk, the Company has purchased interest rate hedges for its mortgage debt portfolio as follows:

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

| | Caps | | Swaps | |
|---|---|---|---|---|
| **Period Covered** | **Notional Amount** | **Average Base Rate** | **Notional Amount** | **Average Base Rate** |
| | *(dollars in thousands)* | | | |
| 02/01/11-02/01/12 | $ 600,192 | 5.18 % | $ 1,245,900 | 3.77 % |
| 02/01/12-02/01/13 | 491,182 | 5.53 | 949,800 | 4.46 |
| 02/01/13-02/01/14 | 489,926 | 5.53 | 685,000 | 5.43 |
| 02/01/14-09/01/17 | - | - | 640,000 | 5.50 |

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

E. Mortgage Debt and Notes Payable, Nonrecourse (continued)

**Tax-Exempt** (Priced off of Securities Industry and Financial Markets Association ( SIFMA ) Index)

| | Caps | |
|---|---|---|
| **Period Covered** | **Notional Amount** | **Average Base Rate** |
| | *(dollars in thousands)* | |
| 02/01/11-02/01/12 | $ 174,639 | 5.83 % |
| 02/01/12-02/01/13 | 146,239 | 5.80 |
| 02/01/13-02/01/14 | 10,414 | 6.96 |

As of January 31, 2011, the composition of mortgage debt and notes payable, nonrecourse maturities including scheduled amortization and balloon payments are as follows:

| **Fiscal Years Ending January 31,** | **Total Maturities** | **Scheduled Amortization** | **Scheduled Balloon Payments** |
|---|---|---|---|
| | | *(in thousands)* | |
| 2012 | $ 1,210,850 | $ 74,551 | $ 1,136,299 |
| 2013 | 1,614,780 | 54,705 | 1,560,075 |
| 2014 | 993,328 | 45,084 | 948,244 |
| 2015 | 475,486 | 33,475 | 442,011 |
| 2016 | 362,627 | 29,745 | 332,882 |
| Thereafter | 2,550,147 | | |
| **Total** | $ 7,207,218 | | |

Subsequent to January 31, 2011, the Company addressed approximately $296,677,000 of nonrecourse debt scheduled to mature during the year ending January 31, 2012, through closed transactions, commitments and/or automatic extensions. The Company also has extension options available on $462,964,000 of nonrecourse debt scheduled to mature during the year ended January 31, 2012, all of which require some predefined condition in order to qualify for the extension, such as meeting or exceeding leasing hurdles, loan to value ratios or debt service coverage requirements. The Company cannot give assurance that the defined hurdles or milestones will be achieved to qualify for these extensions.

The following table summarizes interest incurred and paid on mortgage debt and notes payable, nonrecourse.

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | *(in thousands)* | |
| Interest incurred | **$ 428,718** | $ 394,137 | $ 394,885 |

| | | | |
|---|---|---|---|
| Interest incurred from discontinued operations | **$ 5,830** | $ 9,308 | $ 15,045 |
| Interest paid | **$ 429,586** | $ 385,689 | $ 392,524 |

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

F. Bank Revolving Credit Facility

On January 29, 2010, the Company and its 15-member bank group entered into a Second Amended and Restated Credit Agreement and a Second Amended and Restated Guaranty of Payment of Debt (collectively the Credit Agreement ). The Credit Agreement, which matures on February 1, 2012, provides for total borrowings of $500,000,000, subject to permanent reduction as the Company receives net proceeds from specified external capital raising events in excess of $250,000,000 (see below). The Credit Agreement bears interest at either a LIBOR-based rate or a Base Rate Option. The LIBOR Rate Option is the greater of 5.75% or 3.75% over LIBOR and the Base Rate Option is the greater of the LIBOR Rate Option, 1.5% over the Prime Rate or 0.5% over the Federal Funds Effective Rate. Up to 20% of the available borrowings may be used for letters of credit or surety bonds. Additionally, the Credit Agreement requires a specified amount of available borrowings to be reserved for the retirement of indebtedness. The Credit Agreement has a number of restrictive covenants including a prohibition on certain consolidations and mergers, limitations on the amount of debt, guarantees and property liens that it may incur, restrictions on the pledging of ownership interests in subsidiaries, limitations on the use of cash sources and a prohibition on common stock dividends through the maturity date. The Credit Agreement also contains certain financial covenants, including maintenance of minimum liquidity, debt service and cash flow coverage ratios, and specified levels of shareholders equity (all as defined in the Credit Agreement). At January 31, 2011, the Company was in compliance with all of these financial covenants.

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

On March 4, 2010, the Company entered into a first amendment to the Credit Agreement that permitted it to issue 7.0% Series A Cumulative Perpetual Convertible Preferred Stock ( Series A preferred stock ) for cash or in exchange for certain of its senior notes. The amendment also permitted payment of dividends on the Series A preferred stock, so long as no event of default has occurred or would occur as a result of the payment. To the extent the Series A preferred stock was exchanged for specified indebtedness, the reserve required under the Credit Agreement was reduced on a dollar for dollar basis under the terms of the first amendment.

On August 24, 2010, the Company entered into a second amendment to the Credit Agreement that sets forth the terms and conditions under which the Company may in the future issue additional preferred equity with and without the prior consent of the administrative agent but, in either case, without a further specific amendment to the Credit Agreement. These terms and conditions include, among others, that a majority of the proceeds from the additional preferred equity shall be used to retire outstanding senior notes and that any dividends payable with respect to the additional preferred equity shall not exceed the aggregate debt service on the senior notes retired plus $3,000,000 annually.

On January 18, 2011, the Company entered into a third amendment to the Credit Agreement. This amendment permitted the Company to make certain amendments to convertible notes hedge transactions in connection with the retirement of $110,000,000 of its 5% Convertible Senior Notes due 2016 ( 2016 Notes ) in exchange for Class A common stock (see Note G - Senior and Subordinated Debt). In addition, this amendment temporarily suspended the permanent reduction of total revolving loan commitments as the Company receives net proceeds from specified external capital raising events from January 18, 2011 through March 31, 2011.

The available credit on the bank revolving credit facility is as follows:

| | January 31, | |
|---|---|---|
| | **2011** | 2010 |

| | *(in thousands)* | |
|---|---|---|
| **Maximum borrowings** | **$ 470,336** [(1)] | $ 500,000 |
| **Less outstanding balances and reserves:** | | |
| Borrowings | **137,152** | 83,516 |
| Letters of credit | **63,418** | 90,939 |
| Surety bonds | **-** | - |
| Reserve for retirement of indebtedness | **46,891** | 105,067 |
| **Available credit** | **$ 222,875** | $ 220,478 |

(1) Effective February 4, 2011, maximum borrowings were further reduced to $464,762 for specified external capital raising events prior to January 18, 2011.

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

F. Bank Revolving Credit Facility (continued)

Interest incurred and paid on the bank revolving credit facility is as follows:

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | *(in thousands)* | | |
| Interest incurred | **$ 7,694** | $ 7,298 | $ 8,211 |
| Interest paid | **$ 7,670** | $ 7,156 | $ 7,422 |

G. Senior and Subordinated Debt

The Company s Senior and Subordinated Debt is comprised of the following:

| | January 31, | |
|---|---|---|
| | **2011** | 2010 |
| | *(in thousands)* | |
| **Senior Notes:** | | |
| 3.625% Puttable Equity-Linked Senior Notes due 2011, net of discount | **$ 45,480** | $ 98,944 |
| 3.625% Puttable Equity-Linked Senior Notes due 2014, net of discount | **198,806** | 198,480 |
| 7.625% Senior Notes due 2015 | **178,253** | 300,000 |
| 5.000% Convertible Senior Notes due 2016 | **90,000** | 200,000 |
| 6.500% Senior Notes due 2017 | **132,144** | 150,000 |
| 7.375% Senior Notes due 2034 | **100,000** | 100,000 |
| Total Senior Notes | **744,683** | 1,047,424 |
| **Subordinated Debt:** | | |
| Subordinate Tax Revenue Bonds due 2013 | **29,000** | 29,000 |
| **Total Senior and Subordinated Debt** | **$ 773,683** | $ 1,076,424 |

On January 27, 2011, the Company entered into separate, privately negotiated exchange agreements with certain holders of its 2016 Notes to exchange the notes for shares of Class A common stock. In order to induce the holders to make the exchange, the Company agreed to increase the conversion rate from 71.8894 shares of Class A common stock per $1,000 principal amount of notes to 88.8549 shares, which factors in foregone interest to the holders among other inducements. Under the terms of the agreements, holders agreed to exchange $110,000,000 in aggregate principal amount of notes for a total of 9,774,039 shares of Class A common stock. Any accrued but unpaid interest was paid in cash. Under the accounting guidance for induced conversions of convertible debt, the additional amounts paid to induce the holders to exchange their notes was expensed resulting in a loss of $31,689,000 during the year ended January 31, 2011, which is recorded as early extinguishment of debt.

On June 7, 2010 and June 22, 2010, the Company purchased on the open market $12,030,000 in principal amount of its 6.500% senior notes due 2017 and $7,000,000 in principal amount of our 3.625% puttable equity-linked senior

notes due 2011, respectively. These purchases resulted in a gain, net of associated deferred financing costs, of $1,896,000 during the year ended January 31, 2011, which is recorded as early extinguishment of debt.
On March 4, 2010, the Company entered into separate, privately negotiated exchange agreements with certain holders of three separate series of the Company s senior notes due 2011, 2015 and 2017. Under the terms of the agreements, these holders agreed to exchange their notes for a new issue of Series A preferred stock. Amounts exchanged in each series are as follows: $51,176,000 of 3.625% puttable equity-linked senior notes due 2011, $121,747,000 of 7.625% senior notes due 2015 and $5,826,000 of 6.500% senior notes due 2017, which were exchanged for $50,664,000, $114,442,000 and $4,894,000 of Series A preferred stock, respectively. This exchange resulted in a gain, net of associated deferred financing costs, of $6,297,000 during the year ended January 31, 2011, which is recorded as early extinguishment of debt.


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

G. Senior and Subordinated Debt (continued)

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

On October 10, 2006, the Company issued $287,500,000 of 3.625% puttable equity-linked senior notes due October 15, 2011 ( 2011 Notes ) in a private placement. The notes were issued at par and accrued interest is payable semi-annually in arrears on April 15 and October 15. During the year ended January 31, 2009, the Company purchased on the open market $15,000,000 in principal of its 2011 Notes resulting in a gain, net of associated deferred financing costs of $3,692,000, which is recorded as early extinguishment of debt. During the year ended January 31, 2010, the Company entered into privately negotiated exchange agreements with certain holders of the 2011 Notes to exchange $167,433,000 of aggregate principal amount of their 2011 Notes for a new issue of 3.625% puttable equity-linked senior notes due October 2014. This exchange resulted in a gain, net of associated deferred financing costs of $4,683,000, which is recorded as early extinguishment of debt. As discussed above, on June 22, 2010, the Company purchased on the open market $7,000,000 in principal amount of its 2011 Notes. Also discussed above, on March 4, 2010, the Company retired $51,176,000 of its 2011 Notes in exchange for Series A preferred stock. There was $46,891,000 ($45,480,000, net of discount) and $105,067,000 ($98,944,000, net of discount) of principal outstanding at January 31, 2011 and 2010, respectively.

Holders may put their notes to the Company at their option on any day prior to the close of business on the scheduled trading day immediately preceding July 15, 2011 only under the following circumstances: (1) during the five business-day period after any five consecutive trading-day period (the measurement period ) in which the trading price per note for each day of that measurement period was less than 98% of the product of the last reported sale price of the Company s Class A common stock and the put value rate (as defined) on each such day; (2) during any fiscal quarter, if the last reported sale price of the Company s Class A common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the applicable put value price in effect on the last trading day of the immediately preceding fiscal quarter; or (3) upon the occurrence of specified corporate events as set forth in the applicable indenture. On and after July 15, 2011 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may put their notes to the Company at any time, regardless of the foregoing circumstances. In addition, upon a designated event, as defined, holders may require the Company to purchase for cash all or a portion of their notes for 100% of the principal amount of the notes plus accrued and unpaid interest, if any, as set forth in the applicable indenture. At January 31, 2011, none of the aforementioned circumstances have been met.

If a note is put to the Company, a holder would receive (i) cash equal to the lesser of the principal amount of the note or the put value and (ii) to the extent the put value exceeds the principal amount of the note, shares of the Company s Class A common stock, cash, or a combination of Class A common stock and cash, at the Company s option. The initial put value rate was 15.0631 shares of Class A common stock per $1,000 principal amount of notes (equivalent to a put value price of $66.39 per share of Class A common stock). The put value rate will be subject to adjustment in some events but will not be adjusted for accrued interest. In addition, if a fundamental change, as defined in the applicable indenture, occurs prior to the maturity date, the Company will in some cases increase the put value rate for a holder that elects to put their notes.

Concurrent with the issuance of the notes, the Company purchased a call option on its Class A common stock in a private transaction. The purchased call option allows the Company to receive shares of its Class A common stock and/or cash from counterparties equal to the amounts of Class A common stock and/or cash related to the excess put value that it would pay to the holders of the notes if put to the Company. These purchased call options will terminate upon the earlier of the maturity date of the notes or the first day all of the notes are no longer outstanding due to a put or otherwise. In a separate transaction, the Company sold warrants to issue shares of the Company s Class A common stock at an exercise price of $74.35 per share in a private transaction. If the average price of the Company s Class A common stock during a defined period ending on or about the respective settlement dates exceeds the exercise price of the warrants, the warrants will be settled in shares of the Company s Class A common stock.

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

G. Senior and Subordinated Debt (continued)

The 2011 Notes are the Company s only senior notes that qualify as convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. The carrying amounts of the Company s debt and equity balances related to the 2011 Notes are as follows:

| | January 31, 2011 | January 31, 2010 |
|---|---|---|
| | *(in thousands)* | |
| Carrying amount of equity component | **$ 7,484** | $ 16,769 |
| Outstanding principal amount of the puttable equity-linked senior notes | **46,891** | 105,067 |
| Unamortized discount | **(1,411)** | (6,123) |
| Net carrying amount of the puttable equity-linked senior notes | **$ 45,480** | $ 98,944 |

The unamortized discount will be amortized as additional interest expense through October 15, 2011. The effective interest rate for the liability component of the puttable equity-linked senior notes is 7.51%. The Company recorded non-cash interest expense of $1,532,000, $6,809,000 and $8,943,000 for the years ended January 31, 2011, 2010 and 2009, respectively. The Company recorded contractual interest expense of $2,001,000, $7,973,000 and $10,252,000 for the years ended January 31, 2011, 2010 and 2009, respectively.

**Puttable Equity-Linked Senior Notes due 2014**

On October 7, 2009, the Company issued $167,433,000 of 3.625% puttable equity-linked senior notes due October 15, 2014 ( 2014 Notes ) to certain holders in exchange for $167,433,000 of 2011 Notes discussed above. Concurrent with the exchange of 2011 Notes for the 2014 Notes, the Company issued an additional $32,567,000 of 2014 Notes in a private placement, net of a 5% discount. Interest on the 2014 Notes is payable semi-annually in arrears on April 15 and October 15, beginning April 15, 2010. Net proceeds from the exchange and additional issuance transaction, net of discounts and estimated offering expenses, was $29,764,000.

Holders may put their notes to the Company at any time prior to the earlier of (i) stated maturity or (ii) the Put Termination Date, as defined below. Upon a put, a note holder would receive 68.7758 shares of the Company s Class A common stock per $1,000 principal amount of notes, based on a put value price of $14.54 per share of Class A common stock, subject to adjustment. The amount payable upon a put of the notes is only payable in shares of the Company s Class A common stock, except for cash paid in lieu of fractional shares. If the daily volume weighted average price of the Class A common stock has equaled or exceeded 130% ($18.90 at January 31, 2011) of the put value price then in effect for at least 20 trading days in any 30 trading day period, the Company may, at its option, elect to terminate the rights of the holders to put their notes to the Company. If elected, the Company is required to issue a put termination notice that shall designate an effective date on which the holders termination put rights will be terminated, which shall be a date at least 20 days after the mailing of such put termination notice (the Put Termination Date ). Holders electing to put their notes after the mailing of a put termination notice shall receive a coupon make-whole payment in an amount equal to the remaining scheduled interest payments attributable to such notes from the last applicable interest payment date through and including October 15, 2013. The coupon make-whole payment is payable, at the Company s option, in either cash or Class A common stock.

**Senior Notes due 2015**

On May 19, 2003, the Company issued $300,000,000 of 7.625% senior notes due June 1, 2015 ( 2015 Notes ) in a public offering. Accrued interest is payable semi-annually on December 1 and June 1. These senior notes may be redeemed by the Company, in whole or in part, at any time on or after June 1, 2008 at an initial redemption price of 103.813% that is systematically reduced to 100% through June 1, 2011. As of June 1, 2010, the redemption price was reduced to 101.271%. As previously discussed, on March 4, 2010, the Company retired $121,747,000 of 2015 Notes in exchange for Series A preferred stock.

**Convertible Senior Notes due 2016**

On October 26, 2009, the Company issued $200,000,000 of 2016 Notes in a private placement. The notes were issued at par and accrued interest is payable semi-annually on April 15 and October 15, beginning April 15, 2010. Net proceeds from the issuance, net of the cost of the convertible note hedge transaction described below and estimated offering costs, were $177,262,000. As previously discussed, the Company retired $110,000,000 of 2016 Notes in exchange for Class A common stock.

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

G. Senior and Subordinated Debt (continued)

Holders may convert their notes at their option at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date. Upon conversion, a note holder would receive 71.8894 shares of the Company s Class A common stock per $1,000 principal amount of notes, based on a put value price of approximately $13.91 per share of Class A common stock, subject to adjustment. The amount payable upon a conversion of the notes is only payable in shares of the Company s Class A common stock, except for cash paid in lieu of fractional shares.

In connection with the issuance of the notes, the Company entered into a convertible note hedge transaction. The convertible note hedge transaction is intended to reduce, subject to a limit, the potential dilution with respect to the Company s Class A common stock upon conversion of the notes. The net effect of the convertible note hedge transaction, from the Company s perspective, is to approximate an effective conversion price of $16.37 per share. The terms of the Notes are not affected by the convertible note hedge transaction. The convertible note hedge transaction, which cost $15,900,000 ($9,734,000 net of the related tax benefit), was recorded as a reduction of shareholders equity through additional paid in capital. In connection with the exchange transaction previously discussed, the Company terminated a portion of the convertible note hedge which resulted in the receipt of cash proceeds of $1,869,000.

**Senior Notes due 2017**

On January 25, 2005, the Company issued $150,000,000 of 6.500% senior notes due February 1, 2017 ( 2017 Notes ) in a public offering. Accrued interest is payable semi-annually on February 1 and August 1. These senior notes may be redeemed by the Company, in whole or in part, at any time on or after February 1, 2010 at a redemption price of 103.250% beginning February 1, 2010 and systematically reduced to 100% through February 1, 2013. As previously discussed, on June 7, 2010, the Company purchased on the open market $12,030,000 in principal of its 2017 Notes. Also previously discussed, on March 4, 2010, the Company retired $5,826,000 of 2017 Notes in exchange for Series A preferred stock.

**Senior Notes due 2034**

On February 10, 2004, the Company issued $100,000,000 of 7.375% senior notes due February 1, 2034 in a public offering. 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 at a redemption price of 100% of the principal amount plus accrued interest.

All of the Company s senior notes are unsecured senior obligations and rank equally with all existing and future unsecured indebtedness; however, they are effectively subordinated to all existing and future secured indebtedness and other liabilities of the Company s subsidiaries to the extent of the value of the collateral securing such other debt, including the bank revolving credit facility. The indentures governing the senior notes contain 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 bonds bear a fixed interest rate of 7.875%. The Company evaluated the transfer pursuant to the accounting guidance on accounting for transfers and servicing of financial assets and extinguishment of liabilities 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 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 Company is the primary beneficiary of this VIE and the book value (which approximated amortized costs) of the bonds was recorded as a collateralized borrowing reported as senior and subordinated debt and as held-to-maturity securities reported as other assets.

The following table summarizes interest incurred and paid on senior and subordinated debt.

**Years Ended January 31,**

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| | *(in thousands)* | | |
| Interest incurred | **$ 51,592** | $ 54,598 | $ 60,629 |
| Interest paid | **$ 54,318** | $ 51,426 | $ 52,095 |

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

G. Senior and Subordinated Debt (continued)

**Consolidated Interest Expense**

The following table summarizes interest incurred, capitalized and paid on all forms of indebtedness (included in Notes E, F and G).

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | | *(in thousands)* | |
| Interest incurred | **$ 488,004** | $ 456,033 | $ 463,725 |
| Interest capitalized | **(172,664)** | (112,887) | (107,222) |
| Net interest expense | **$ 315,340** | $ 343,146 | $ 356,503 |
| Interest incurred from discontinued operations | **$ 5,830** | $ 9,308 | $ 15,045 |
| Cash paid for interest (net of amount capitalized) | **$ 318,910** | $ 330,309 | $ 352,459 |

H. Financing Arrangements

**Collateralized Borrowings**

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

During the years ended January 31, 2011, 2010 and 2009, consolidated subsidiaries of the Company purchased $8,000,000, $5,000,000 and $10,000,000, respectively, of the Converted Bonds from the investment banks. Simultaneous to each purchase, a corresponding amount of a related TRS was terminated and the corresponding secured borrowing was removed from the Consolidated Balance Sheets. The fair value of the Converted Bonds

recorded in other assets was $58,000,000 at both January 31, 2011 and 2010. The outstanding TRS contracts on the $35,000,000 and $43,000,000 of secured borrowings related to the Converted Bonds at January 31, 2011 and 2010, respectively, were supported by collateral consisting primarily of certain notes receivable owned by the Company aggregating $29,112,000. The Company recorded net interest income of $1,966,000, $2,331,000 and $3,205,000 related to the TRS for the years ended January 31, 2011, 2010 and 2009, respectively.

**Other Financing Arrangements**

In May 2004, Lehman Brothers, Inc. ( Lehman ) purchased $200,000,000 in tax increment revenue bonds issued by the Denver Urban Renewal Authority ( 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 Lehman to purchase the DURA bonds from the trust if they were not repurchased or remarketed between June 1, 2007 and June 1, 2009. Stapleton Land, LLC was entitled to receive a fee upon removal of the DURA bonds from the trust equal to the 8.0% coupon rate, less the SIFMA index, less all fees and expenses due to Lehman (collectively, the Fee ). The Fee was accounted for as a derivative with changes in fair value recorded through earnings. On July 1, 2008, $100,000,000 of the DURA bonds were remarketed. On July 15, 2008, Stapleton Land, LLC was paid $13,838,000 of the fee, which represented the fee earned on the remarketed DURA bonds.

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

H. Financing Arrangements (continued)

During the year ended January 31, 2009, Lehman filed for bankruptcy and the remaining $100,000,000 of the DURA bonds were transferred to a creditor of Lehman. As a result, the Company reassessed the collectability of the Fee and decreased the fair value of the Fee to $-0-, resulting in an increase to operating expenses of $13,816,000 for the year ended January 31, 2009. Stapleton Land, LLC informed Lehman that it determined that a Special Member Termination Event had occurred because Stapleton Land, LLC (a) fulfilled all of its bond purchase obligations under the transaction documents by purchasing or causing to be redeemed or repurchased all of the bonds held by Lehman and (b) fulfilled all other obligations in accordance with the transaction documents. Therefore, Stapleton Land, LLC has no other financing obligations with Lehman. The Company recorded interest income of $4,546,000 related to the change in fair value of the Fee for the year ended January 31, 2009.

A consolidated subsidiary of the Company has committed to fund $24,500,000 to the District to be used for certain infrastructure projects and has funded $22,101,000 of this commitment as of January 31, 2011. In addition, in June 2009, the consolidated subsidiary committed to fund $10,000,000 to the City of Denver and certain of its entities to be used to fund additional infrastructure projects and has funded $2,913,000 of this commitment as of January 31, 2011.

I. Derivative Instruments and Hedging Activities

**Risk Management Objective of Using Derivatives**

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned decreases in earnings and cash flows that may be caused by interest rate volatility. Derivative instruments that are used as part of the Company s strategy include interest rate swaps and option contracts that have indices related to the pricing of specific balance sheet liabilities. The Company enters into interest rate swaps to convert certain floating-rate debt to fixed-rate long-term debt, and vice-versa, depending on market conditions or forward starting swaps to hedge the changes in benchmark interest rates on forecasted financings. Option products utilized include interest rate caps, floors, interest rate swaptions and Treasury options. The use of these option products is consistent with the Company s risk management objective to reduce or eliminate exposure to variability in future cash flows primarily attributable to changes in benchmark rates relating to forecasted financings, and the variability in cash flows attributable to increases relating to interest payments on its floating-rate debt. The caps and floors have typical durations ranging from one to three years while the Treasury options are for periods of five to ten years. The Company also enters into interest rate swap agreements for hedging purposes for periods that are generally one to ten years. The Company does not have any Treasury options outstanding at January 31, 2011.

**Cash Flow Hedges of Interest Rate Risk**

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

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in accumulated OCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company recorded $(1,000), $1,012,000 and $515,000 as an increase (reduction) of interest expense for the years ended January 31, 2011, 2010 and 2009, respectively, which represented total ineffectiveness of all fully consolidated cash flow hedges. Included in the total ineffectiveness charged to earnings are derivative losses reclassified from accumulated OCI as a result of forecasted transactions that did not occur by the end of the originally specified time period or within an additional two-month period of time thereafter (missed forecasted transaction). For

the year ended January 31, 2010, there was one missed forecasted transaction that resulted in $928,000 of the total ineffectiveness recognized in the period. There were no missed forecasted transactions for the years ended January 31, 2011 and 2009. As of January 31, 2011, the Company expects that within the next twelve months it will reclassify amounts recorded in accumulated OCI into earnings as an increase in interest expense of approximately $29,994,000, net of tax. However, the actual amount reclassified could vary due to future changes in fair value of these derivatives.

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

I. Derivative Instruments and Hedging Activities (continued)

**Fair Value Hedges of Interest Rate Risk**

From time to time, the Company and/or certain of its joint ventures (the Joint Ventures ) enter into TRS on various tax-exempt fixed-rate borrowings generally held by the Company and/or within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require that the Company and/or the Joint Ventures pay a variable rate, generally equivalent to the SIFMA rate plus a spread. At January 31, 2011, the SIFMA rate is 0.29%. Additionally, the Company and/or the Joint Ventures have guaranteed the fair value of the underlying borrowing. Any fluctuation in the value of the TRS would be offset by the fluctuation in the value of the underlying borrowing, resulting in minimal financial impact to the Company and/or the Joint Ventures. At January 31, 2011, the aggregate notional amount of TRS that are designated as fair value hedging instruments is $280,885,000. The underlying TRS borrowings are subject to a fair value adjustment (see Note J Fair Value Measurements).

**Nondesignated Hedges of Interest Rate Risk**

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

The Company has entered into forward swaps to protect itself against fluctuations in the swap rate at terms ranging between five to ten years associated with forecasted fixed rate borrowings. At the time the Company secures and locks an interest rate on an anticipated financing, it intends to simultaneously terminate the forward swap associated with that financing. At January 31, 2010, the Company had two forward swaps with an aggregate notional amount of $189,325,000, neither of which qualified for hedge accounting. The change in fair value of these swaps is marked to market through earnings on a quarterly basis. On May 3, 2010, the Company terminated one of these swaps. As a result, at January 31, 2011, the Company has one remaining forward swap outstanding with a notional amount of $60,900,000, which was terminated subsequent to January 31, 2011. Related to these forward swaps, the Company recorded $1,200,000, $(4,761,000) and $14,564,000 for the years ended January 31, 2011, 2010 and 2009, respectively, as an increase (reduction) of interest expense.

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

I. Derivative Instruments and Hedging Activities (continued)

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

| | Fair Value of Derivative Instruments January 31, 2011 | | | |
|---|---|---|---|---|
| | Asset Derivatives (included in Other Assets) | | Liability Derivatives (included in Accounts Payable and Accrued Expenses) | |
| | Current Notional | Fair Value | Current Notional | Fair Value |
| | *(in thousands)* | | | |
| **Derivatives Designated as Hedging Instruments** | | | | |
| Interest rate caps | $ 476,100 | $ 184 | $ - | $ - |
| Interest rate swap agreements | 300,000 | 716 | 1,285,000 | 110,398 |
| TRS | - | - | 280,885 | 21,938 |
| Total derivatives designated as hedging instruments | $ 776,100 | $ 900 | $ 1,565,885 | $ 132,336 |
| **Derivatives Not Designated as Hedging Instruments** | | | | |
| Interest rate caps and floors | $ 1,943,202 | $ 11 | $ - | $ - |
| Interest rate swap agreements | 20,117 | 1,801 | 60,900 | 14,011 |
| TRS | 140,800 | 2,144 | 30,600 | 10,240 |
| Total derivatives not designated as hedging instruments | $ 2,104,119 | $ 3,956 | $ 91,500 | $ 24,251 |
| | **January 31, 2010** *(in thousands)* | | | |
| **Derivatives Designated as Hedging Instruments** | | | | |
| Interest rate caps and floors | $ 549,600 | $ 1,738 | $ - | $ - |

| | | | | |
|---|---|---|---|---|
| Interest rate swap agreements | - | - | 1,149,081 | 101,549 |
| TRS | - | - | 390,090 | 42,989 |
| Total derivatives designated as hedging instruments | $ 549,600 | $ 1,738 | $ 1,539,171 | $ 144,538 |
| **Derivatives Not Designated as Hedging Instruments** | | | | |
| Interest rate caps and floors | $ 1,350,811 | $ 33 | $ - | $ - |
| Interest rate swap agreements | 20,667 | 2,154 | 189,325 | 36,582 |
| TRS | - | - | 40,531 | 11,406 |
| Total derivatives not designated as hedging instruments | $ 1,371,478 | $ 2,187 | $ 229,856 | $ 47,988 |

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

I. Derivative Instruments and Hedging Activities (continued)

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

| Derivatives Designated as Cash Flow Hedging Instruments | Gain (Loss) Recognized in OCI (Effective Portion) | Gain (Loss) Reclassified from Accumulated OCI (Effective Portion) Location on Consolidated Statements of Operations | Gain (Loss) Reclassified from Accumulated OCI (Effective Portion) Amount | Ineffectiveness Recognized in Interest Expense on Derivatives |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| **Year Ended January 31, 2011** | | | | |
| Interest rate caps, interest rate swaps and Treasury options | $ (14,854) | Interest expense | $ (2,841) | $ 1 |
| Treasury options | - | Equity in loss of unconsolidated entities | (80) | (5) |
| **Total** | $ (14,854) | | $ (2,921) | $ (4) |
| **Year Ended January 31, 2010** | | | | |
| Interest rate caps, interest rate swaps and Treasury options[(1)] | $ 27,386 | Interest expense | $ (3,266) | $ (1,012) |
| Treasury options | - | Equity in loss of unconsolidated entities | (178) | (1,099) |
| **Total** | $ 27,386 | | $ (3,444) | $ (2,111) |

(1) The gain recognized in OCI and the gain reclassified from accumulated OCI for the year ended January 31, 2010 have been revised to appropriately exclude $51,976 of interest payments on certain interest rate swaps.

The following table presents the impact of gains and losses related to derivative instruments designated as fair value hedges included in interest expense:

| | Net Gain (Loss) Recognized [1] Year Ended January 31 | |
|---|---|---|
| | **2011** | 2010 |
| | *(in thousands)* | |
| **Derivatives Designated as Fair Value Hedging Instruments** | | |
| TRS | **$ 1,924** | $ 16,351 |
| **Derivatives Not Designated as Hedging Instruments** | | |
| Interest rate caps, interest rate swaps and floors | **$ (2,158)** | $ 1,388 |
| TRS | **1,341** | (2,873) |
| **Total** | **$ (817)** | $ (1,485) |

(1) The net loss recognized in interest expense from the change in fair value of the underlying TRS borrowings was $1,924 and $16,351 for the years ended January 31, 2011 and 2010, respectively, offsetting the gain recognized on the TRS (see Note J Fair Value Measurements).

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

I. Derivative Instruments and Hedging Activities (continued)

**Credit-risk-related Contingent Features**

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

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

As of January 31, 2011, the aggregate fair value of all derivative instruments in a liability position, prior to the adjustment for nonperformance risk of $(13,187,000), is $169,774,000, for which the Company had posted collateral consisting primarily of cash and notes receivable of $109,145,000. If all credit risk contingent features underlying these agreements had been triggered on January 31, 2011, as discussed above, the Company would have been required to post collateral of the full amount of the liability position referred to above, or $169,774,000.

J. Fair Value Measurements

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

**Fair Value Hierarchy**

The accounting guidance related to estimating fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (also referred to as observable inputs). The following summarizes the fair value hierarchy:

Level 1 Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant observable inputs are available, either directly or indirectly such as interest rates and yield curves that are observable at commonly quoted intervals; and

Level 3 Prices or valuations that require inputs that are unobservable.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires

judgment and considers factors specific to the asset or liability.

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**Forest City Enterprises, Inc. and Subsidiaries**
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J. Fair Value Measurements (continued)

**Measurement of Fair Value**

The Company estimates the fair value of its hedging instruments based on interest rate market pricing models. Although the Company has determined that the significant inputs used to value its hedging instruments fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company s counterparties and its own credit risk utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. As of January 31, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its hedging instruments positions and has determined that the credit valuation adjustments are significant to the overall valuation of one interest rate swap and is not significant to the overall valuation of all of its other hedging instruments. As a result, the Company has determined that one interest rate swap is classified in Level 3 of the fair value hierarchy and all of its other hedging instruments valuations are classified in Level 2 of the fair value hierarchy.

The Company s TRS have termination values equal to the difference between the fair value of the underlying bonds and the bonds base (acquired) price times the stated par amount of the bonds. Upon termination of the contract with the counterparty, the Company is entitled to receive the termination value if the underlying fair value of the bonds is greater than the base price and is obligated to pay the termination value if the underlying fair value of the bonds is less than the base price. The underlying borrowings generally have call features at par and without prepayment penalties. The call features of the underlying borrowings would result in a significant discount factor to any value attributed to the exchange of cash flows in these contracts by another market participant willing to purchase the Company s positions. Therefore, the Company believes the termination value of the TRS approximates the fair value another market participant would assign to these contracts. The Company compares estimates of fair value to those provided by the respective counterparties on a quarterly basis. The Company has determined its fair value estimate of TRS is classified in Level 3 of the fair value hierarchy.

To determine the fair value of the underlying borrowings subject to TRS, the base price is initially used as the estimate of fair value. The Company adjusts the fair value based upon observable and unobservable measures such as the financial performance of the underlying collateral interest rate risk spreads for similar transactions and loan to value ratios. In the absence of such evidence, management s best estimate is used. At January 31, 2011, the notional amount of TRS borrowings subject to fair value adjustments are approximately $280,885,000. The Company compares estimates of fair value to those provided by the respective counterparties on a quarterly basis. The Company has determined its fair value estimate of borrowings subject to TRS is classified in Level 3 of the fair value hierarchy.

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

The Company s financial assets consist of interest rate caps, interest rate swap agreements and TRS with positive fair values that are included in other assets. The Company s financial liabilities consist of interest rate swap agreements and TRS with negative fair values that are included in accounts payable and accrued expenses and borrowings subject to TRS included in mortgage debt and notes payable, nonrecourse. The Company records the redeemable noncontrolling interest related to Brooklyn Arena, LLC at redemption value, which approximates fair value (see The Nets section of Note K). The following table presents information about the Company s financial assets and liabilities that were measured at fair value on a recurring basis as of January 31, 2011 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

| | Fair Value Measurements at January 31, 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | *(in thousands)* | | | |
| Interest rate caps | $ - | $ 195 | $ - | $ 195 |

| | | | | |
|---|---|---|---|---|
| Interest rate swap agreements (positive fair value) | - | 2,517 | - | 2,517 |
| Interest rate swap agreements (negative fair value) | - | (22,022) | (102,387) | (124,409) |
| TRS (positive fair value) | - | - | 2,144 | 2,144 |
| TRS (negative fair value) | - | - | (32,178) | (32,178) |
| Fair value adjustment to the borrowings subject to TRS | - | - | 21,938 | 21,938 |
| Redeemable noncontrolling interest | - | - | (226,829) | (226,829) |
| Total | $ - | $ (19,310) | $ (337,312) | $ (356,622) |

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**Forest City Enterprises, Inc. and Subsidiaries**
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J. Fair Value Measurements (continued)

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

| | **Fair Value Measurements Year Ended January 31, 2011** | | | | | |
|---|---|---|---|---|---|---|
| | Redeemable Noncontrolling Interest | Interest Rate Swaps | Net TRS | Fair value adjustment to the borrowings subject to TRS | Total TRS Related | Total |
| | *(in thousands)* | | | | | |
| Balance, February 1, 2010 | $ - | $ (89,637) | $ (54,395) | $ 42,989 | $ (11,406) | $ (101,043) |
| Contribution of redeemable noncontrolling interest | (221,909) | - | - | - | - | (221,909) |
| Total realized and unrealized gains (losses): | | | | | | |
| Included in earnings | 1,925 | - | 3,265 | (1,924) | 1,341 | 3,266 |
| Included in other comprehensive income | - | (12,750) | - | - | - | (12,750) |
| Included in additional paid-in capital | (6,845) | - | - | - | - | (6,845) |
| Transfers [(1)] | - | - | 18,477 | (16,508) | 1,969 | 1,969 |
| Settlement | - | - | 2,619 | (2,619) | - | - |
| Balance, January 31, 2011 | $ (226,829) | $ (102,387) | $ (30,034) | $ 21,938 | $ (8,096) | $ (337,312) |

(1) Transfers during the year ended January 31, 2011 are due to change in consolidation methods primarily related to the Company s deconsolidation of certain entities as a result of a partial disposition of rental properties (see Note K Net Gain (Loss) on Disposition of Partial Interests in Rental Properties and Other Investment) and the Company s adoption of new consolidation accounting guidance.

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

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

| | **Years Ended January 31,** | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | *(in thousands)* | | |
| University Park Joint Venture | **$ 176,192** | $ - | $ - |
| The Nets | 55,112 | - | - |
| Bernstein Joint Venture | **29,342** | - | - |
| Other transaction costs | **(2,656)** | - | - |

| **$ 257,990** | $ - | $ - |
|---|---|---|

**University Park Joint Venture**

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

| **Property** | |
|---|---|
| 35 Landsdowne Street | 202,000 square feet |
| 40 Landsdowne Street | 215,000 square feet |
| 45/75 Sidney Street | 277,000 square feet |
| 65/80 Landsdowne Street | 122,000 square feet |
| 88 Sidney Street | 145,000 square feet |
| Jackson Building | 99,000 square feet |
| Richards Building | 126,000 square feet |

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

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

For its 49% share of the joint venture, the outside partner invested cash and the joint venture assumed approximately $320,000,000 of nonrecourse mortgage debt on the seven buildings. In exchange for the contributed ownership interest, the Company received net cash proceeds of $140,545,000, of which $135,117,000 was in the form of a loan from the joint venture, resulting in a gain of $176,192,000 net of transaction costs of $31,268,000 during the year ended January 31, 2011. Included in these transaction costs were $23,251,000 of participation payments made to the ground lessor of the seven properties in accordance with the respective ground lease agreements. As a result of this transaction, the Company is accounting for the new joint venture and the seven properties as equity method investments since both partners have joint control of the new venture and the properties. The Company will serve as asset and property manager for the buildings.

**The Nets**

On May 12, 2010, the Company, through its consolidated subsidiary, NS&E, closed on a purchase agreement with entities controlled by Mikhail Prokhorov ( MP Entities ). Pursuant to the terms of the purchase agreement, the MP Entities invested $223,000,000 and made certain funding commitments ( Funding Commitments ) to acquire 80% of The Nets, 45% of Brooklyn Arena, LLC ( Arena ), the entity that through its subsidiaries is overseeing the construction of and has a long-term lease in the *Barclays Center* arena, and the right to purchase up to 20% of Atlantic Yards Development Company, LLC, which will develop non-arena real estate. In accordance with the Funding Commitments, the MP Entities agreed to fund The Nets operating needs up to $60,000,000 including reimbursements to the Company for loans made to cover The Nets operating needs from March 1, 2010 to May 12, 2010 totaling $15,000,000.

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

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

The MP Entities have the right to put their Arena ownership interests to the Company during a four-month period following the ten-year anniversary of the completion of the *Barclays Center* arena for fair market value, as defined in the agreement. Due to the put option, the noncontrolling interest is redeemable and does not qualify as permanent equity. As a result, this redeemable noncontrolling interest is recorded in the mezzanine section of the Company s consolidated balance sheet and will be reported at redemption value, which represents fair market value, on a recurring basis. At January 31, 2011, the estimated fair value, which is a Level 3 input, is based on a projected discounted cash flow model (see Note J Fair Value Measurements).

NS&E has a similar right to put its noncontrolling interest in The Nets to the MP Entities at fair market value during the same time period as the MP Entities have their put right on Arena.

**Bernstein Joint Venture**

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

- *The Grand,* 549 units in North Bethesda, Maryland;
- *Lenox Club,* 385 units in Arlington, Virginia; and
- *Lenox Park,* 406 units in Silver Spring, Maryland.

The Company received $28,922,000 in cash proceeds and the joint venture assumed $163,000,000 of the nonrecourse mortgage debt on the properties resulting in gains on disposition of partial interests in rental properties and other investment of $29,342,000 for the year ended January 31, 2011. As a result of this transaction, the Company is

accounting for the new joint venture and the three properties as equity method investments since both partners have joint control of the new venture and the properties. The Company continues to lease and manage the three properties on behalf of the joint venture.

**Other Transaction Costs**

Other transaction costs of $2,656,000 represent costs incurred in connection with a potential partial disposition in certain rental properties. During the year ended January 31, 2011, the Company abandoned the proposed transaction and all related transaction costs were expensed.

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

L. Income Taxes

The income tax expense (benefit) related to continuing operations consists of the following:

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | *(in thousands)* | | |
| Current | | | |
| Federal | **$ (4,525)** | $ 1,772 | $ (28,191) |
| State | **4,250** | 5,222 | (434) |
| | **(275)** | 6,994 | (28,625) |
| Deferred | | | |
| Federal | **$ 64,065** | $ (17,775) | $ (17,111) |
| State | **5,930** | (1,448) | 15,712 |
| | **69,995** | (19,223) | (1,399) |
| Total income tax expense (benefit) | **$ 69,720** | $ (12,229) | $ (30,024) |

The effective tax rate for income taxes from continuing operations varies from the federal statutory rate of 35% due to the following items:

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | *(dollars in thousands)* | | |
| Earnings (loss) from continuing operations, before income taxes | **$ 202,182** | $ (7,956) | $ (104,347) |
| Equity in loss of unconsolidated entities, net of impairment | **(30,194)** | (15,053) | (35,585) |
| Less: Noncontrolling interests | **(22,974)** | (6,727) | (13,456) |
| Earnings (loss) from continuing operations, including noncontrolling interest, before income taxes | **$ 149,014** | $ (29,736) | $ (153,388) |
| Income taxes computed at the statutory rate | **$ 52,155** | $ (10,408) | $ (53,686) |
| Increase (decrease) in tax resulting from: | | | |
| State taxes, net of federal benefit | **5,082** | 4,929 | (3,687) |
| Cumulative effect of change in state tax rate, net of federal benefit | **-** | (6,082) | 7,930 |
| State net operating loss, net of federal benefit | **466** | (8,849) | (3,596) |
| General Business Credits | **(1,556)** | (2,415) | (1,233) |
| Valuation allowance | **(86)** | 10,597 | 21,516 |

| | | | |
|---|---|---|---|
| Charitable contributions | **4,040** | 2,195 | 3,002 |
| Permanent adjustments | **390** | 229 | 909 |
| Conversion/Exchange of senior debt | **10,274** | (5,588) | - |
| Other items | **(1,045)** | 3,163 | (1,179) |
| Total income tax expense (benefit) | **$ 69,720** | $ (12,229) | $ (30,024) |
| Effective tax rate | **46.79%** | 41.13% | 19.57% |

| The components of the deferred income tax expense (benefit) for continuing operations are as follows: | | | |
|---|---|---|---|
| Excess of tax over financial statement depreciation and amortization | **$ 8,178** | $ (236) | $ 4,599 |
| Costs on land and rental properties under development expensed for tax purposes | **29,712** | 12,520 | 9,274 |
| Revenues and expenses recognized in different periods for tax and financial statement purposes | **32,955** | 15,614 | (21,425) |
| Difference between tax and financial statements related to unconsolidated entities | **(13,339)** | 1,901 | (4,114) |
| Impairment of real estate | **(1,847)** | (3,117) | (442) |
| Deferred state taxes, net of federal benefit | **1,735** | (6,010) | (7,467) |
| Utilization of (addition to) tax loss carryforward excluding effect of stock options | **13,066** | (41,019) | (11,695) |
| Cumulative effect of change in state tax rate, net of federal benefit | **-** | (6,082) | 7,930 |
| Valuation allowance | **(86)** | 10,597 | 21,516 |
| General Business Credits | **(1,556)** | (2,415) | (1,233) |
| Alternative Minimum Tax credits | **1,177** | (976) | 1,658 |
| Deferred income tax expense (benefit) | **$ 69,995** | $ (19,223) | $ (1,399) |

See Note S for disclosure of income taxes for discontinued operations.

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

L. Income Taxes (continued)

The components of the deferred income tax liability are as follows.

| | At January 31, | | | |
|---|---|---|---|---|
| | Temporary Differences | | Deferred Tax | |
| | **2011** | 2010 | **2011** | 2010 |
| | *(in thousands)* | | | |
| Depreciation | **$ 459,207** | $ 510,203 | **$ 178,094** | $ 197,872 |
| Capitalized costs | **1,162,185** | 1,002,731 | **450,730** | 388,889 |
| Tax loss carryforward | **(150,821)** | (170,987) | **(52,787)** | (59,845) |
| State loss carryforward, net of federal benefit | **-** | - | **(27,934)** | (27,659) |
| Valuation allowance | **-** | - | **61,744** | 61,140 |
| Federal tax credits and other carryforwards | **-** | - | **(63,860)** | (63,937) |
| Other comprehensive income (loss) | **(154,226)** | (142,543) | **(59,796)** | (55,278) |
| Basis in unconsolidated entities | **128,703** | 143,903 | **49,488** | 55,810 |
| Other | **(114,675)** | (153,732) | **(45,705)** | (59,622) |
| Total | **$ 1,330,373** | $ 1,189,575 | **$ 489,974** | $ 437,370 |

Income taxes paid (refunded) were $9,026,000, $(709,000) and $4,698,000 for the years ended January 31, 2011, 2010 and 2009, respectively. At January 31, 2011, the Company had a federal net operating loss carryforward for tax purposes of $206,051,000 (generated primarily from the impact on its net earnings of tax depreciation expense from real estate properties and excess deductions from stock-based compensation) that will expire in the years ending January 31, 2024 through January 31, 2031, a charitable contribution deduction carryforward of $37,273,000 that will expire in the years ending January 31, 2012 through January 31, 2016, General Business Credit carryovers of $19,070,000 that will expire in the years ending January 31, 2012 through January 31, 2031, and an alternative minimum tax ( AMT ) credit carryforward of $29,315,000 that is available until used to reduce federal tax to the AMT amount.

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

The Company applies the with-and-without methodology for recognizing excess tax benefits from the deduction of stock-based compensation. The net operating loss available for the tax return, as is noted in the paragraph above, is

greater than the net operating loss available for the tax provision due to excess deductions from stock-based compensation reported on the return, as well as the impact of adjustments to the net operating loss under accounting guidance on accounting for uncertainty in income taxes. As of January 31, 2011, the Company has not recorded in its financial statements a net deferred tax asset of approximately $17,264,000 from excess stock-based compensation deductions taken on the tax return for which a benefit has not yet been recognized in the Company s tax provision.

| | **At January 31,** | |
|---|---|---|
| | **2011** | 2010 |
| | *(in thousands)* | |
| Deferred tax liabilities | **$ 1,588,086** | $ 1,419,914 |
| Deferred tax assets | **1,159,856** | 1,043,684 |
| Less: valuation allowance [1] | **(61,744)** | (61,140) |
| | **1,098,112** | 982,544 |
| Net deferred tax liability | **$ 489,974** | $ 437,370 |

(1) The valuation allowance is related to state net operating losses and credits, general business credits and charitable contributions.

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

L. Income Taxes (continued)

**Accounting for Uncertainty in Income Taxes**

Unrecognized tax benefits represent those tax benefits related to tax positions that have been taken or are expected to be taken in tax returns that are not recognized in the financial statements because management has either concluded that it is not more likely than not that the tax position will be sustained if audited by the appropriate taxing authority or the amount of the benefit will be less than the amount taken or expected to be taken in its income tax returns.

As of January 31, 2011 and 2010, the Company had unrecognized tax benefits of $408,000 and $1,611,000, respectively. The Company recognizes estimated interest payable on underpayments of income taxes and estimated penalties as components of income tax expense. As of January 31, 2011 and 2010, the Company had approximately $100,000 and $525,000, respectively, of accrued interest and penalties related to uncertain income tax positions. The Company recorded income tax expense (benefit) relating to interest and penalties on uncertain tax positions of $(424,000), $61,000 and $(377,000) for the years ended January 31, 2011, 2010 and 2009, respectively. The Company settled an Internal Revenue Service audit of one of its partnership investments during the year ended January 31, 2010 which resulted in a decrease in the Company s unrecognized tax benefits in the amount of $174,000 and a decrease in the associated accrued interest and penalties in the amount of $59,000.

The Company files a consolidated United States federal income tax return. Where applicable, the Company files combined income tax returns in various states and it files individual separate income tax returns in other states. The Company s federal consolidated income tax returns for the year ended January 31, 2008 and subsequent years are subject to examination by the Internal Revenue Service. Certain of the Company s state returns for the years ended January 31, 2003 through January 31, 2007 and all state returns for the year ended January 31, 2008 and subsequent years are subject to examination by various taxing authorities.

A reconciliation of the total amounts of the Company s unrecognized tax benefits, exclusive of interest and penalties, is depicted in the following table:

| | **Unrecognized Tax Benefit January 31,** | |
|---|---|---|
| | **2011** | **2010** |
| | *(in thousands)* | |
| Beginning balance, February 1, 2010 and 2009 | **$ 1,611** | $ 1,481 |
| Gross increases for tax positions of prior years | **-** | 330 |
| Gross decreases for tax positions of prior years | **(45)** | - |
| Gross increases for tax positions of current year | **-** | - |
| Settlements | **(7)** | (174) |
| Lapse of statutes of limitation | **(1,151)** | (26) |

| | | |
|---|---|---|
| Unrecognized tax benefits balance at January 31, 2011 and 2010 | **$ 408** | $ 1,611 |

The total amount of unrecognized tax benefits that would affect the Company s effective tax rate, if recognized as of January 31, 2011 and 2010, is $121,000 and $155,000, respectively. Based upon the Company s assessment of the outcome of examinations that are in progress, the settlement of liabilities, or as a result of the expiration of the statutes of limitation for certain jurisdictions, it is reasonably possible that the related unrecognized tax benefits for tax positions taken regarding previously filed tax returns will change from those recorded at January 31, 2011. Included in the $408,000 of unrecognized benefits noted above is $265,000 which, due to the reasons above, could decrease during the next twelve months.

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

M. Segment Information

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

| | **January 31,** | | **Years Ended January 31,** | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | 2009 |
| | Identifiable Assets | | Capital Expenditures | | |
| Commercial Group | **$ 8,471,427** | $ 8,626,937 | **$ 500,336** | $ 552,241 | $ 742,541 |
| Residential Group | **2,680,895** | 2,674,639 | **222,712** | 390,088 | 342,877 |
| Land Development Group | **498,190** | 460,513 | **-** | - | 339 |
| The Nets(1) | **-** | (333) | **-** | - | - |
| Corporate Activities | **118,697** | 154,955 | **110** | 280 | 610 |
| | **$ 11,769,209** | $ 11,916,711 | **$ 723,158** | $ 942,609 | $ 1,086,367 |

| | **Years Ended January 31,** | | | **Years Ended January 31,** | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | **2011** | 2010 | 2009 |
| | Revenues from Real Estate Operations | | | Operating Expenses | | |
| Commercial Group | **$ 909,303** | $ 927,601 | $ 908,756 | **$ 443,837** | $ 451,281 | $ 480,759 |
| Commercial Group Land Sales | **24,742** | 27,068 | 35,437 | **19,970** | 21,609 | 15,699 |
| Residential Group | **211,485** | 257,077 | 273,561 | **136,296** | 158,686 | 173,737 |
| Land Development Group | **32,131** | 20,267 | 33,848 | **38,650** | 33,119 | 52,878 |
| The Nets | **-** | - | - | **-** | - | - |
| Corporate Activities | **-** | - | - | **47,030** | 39,857 | 44,097 |
| | **$ 1,177,661** | $ 1,232,013 | $ 1,251,602 | **$ 685,783** | $ 704,552 | $ 767,170 |

| | Depreciation and Amortization Expense | | | Interest Expense | | |
|---|---|---|---|---|---|---|
| Commercial Group | **$ 187,838** | $ 198,688 | $ 196,882 | **$ 227,216** | $ 232,631 | $ 247,441 |
| Residential Group | **53,906** | 57,992 | 58,257 | **21,233** | 27,515 | 35,910 |
| Land Development Group | **334** | 830 | 1,318 | **3,007** | 2,109 | (98) |
| The Nets | **-** | - | - | **-** | - | - |
| Corporate Activities | **1,769** | 2,713 | 3,030 | **63,884** | 80,891 | 73,250 |
| | **$ 243,847** | $ 260,223 | $ 259,487 | **$ 315,340** | $ 343,146 | $ 356,503 |

| | Interest and Other Income | | | Net Earnings (Loss) Attributable to Forest City Enterprises, Inc. | | |
|---|---|---|---|---|---|---|
| Commercial Group | **$ 23,392** | $ 19,569 | $ 8,626 | **$ 113,040** | $ 48,571 | $ (15,946) |
| Residential Group | **19,830** | 23,673 | 19,620 | **54,845** | 31,167 | 21,102 |
| Land Development Group | **9,162** | 9,508 | 12,612 | **(13,593)** | 511 | 10,878 |
| The Nets | **-** | - | - | **9,651** | (28,674) | (29,967) |
| Corporate Activities | **442** | 1,249 | 1,565 | **(105,283)** | (82,226) | (99,314) |
| | **$ 52,826** | $ 53,999 | $ 42,423 | **$ 58,660** | $ (30,651) | $ (113,247) |

(1) The identifiable assets of $(333) at January 31, 2010 represent losses in excess of the Company s investment basis in The Nets.

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

M. Segment Information (continued)

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

The Company believes that, although its business has many facets such as development, acquisitions, disposals and property management, the core of its business is the recurring operations of its portfolio of real estate assets. The Company s Chief Executive Officer, the chief operating decision maker, uses EBDT, as presented, to assess performance of its portfolio of real estate assets by operating segment because it provides information on the financial performance of the core real estate portfolio operations. EBDT measures the profitability of a real estate segment s operations of collecting rent, paying operating expenses and servicing its debt. The Company s segments adhere to the accounting policies described in Note A. Unlike the real estate segments, EBDT for The Nets segment equals net earnings (loss). All amounts in the following tables are presented in thousands.

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

M. Segment Information (continued)

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

| Year Ended January 31, 2011 | Commercial Group | Residential Group | Land Development Group | The Nets | Corporate | Total |
|---|---|---|---|---|---|---|
| **EBDT** | **$ 277,480** | **$ 106,556** | **$ 2,376** | **$ 9,651** | **$ (86,188)** | **$ 309,875** |
| Depreciation and amortization Real Estate Groups | **(205,876)** | **(75,606)** | **(264)** | **-** | **-** | **(281,746)** |
| Amortization of mortgage procurement costs Real Estate Groups | **(11,377)** | **(2,568)** | **(273)** | **-** | **-** | **(14,218)** |
| Deferred taxes Real Estate Groups | **(13,746)** | **(3,118)** | **(591)** | **-** | **(19,095)** | **(36,550)** |
| Straight-line rent adjustment | **17,037** | **522** | **(8)** | **-** | **-** | **17,551** |
| Preference payment | **(2,341)** | **-** | **-** | **-** | **-** | **(2,341)** |
| Gain on disposition of partial interests in rental properties, net of tax | **106,943** | **18,083** | **-** | **-** | **-** | **125,026** |
| Gain on disposition of unconsolidated entities, net of tax | **3,436** | **10,926** | **-** | **-** | **-** | **14,362** |
| Impairment of real estate, net of tax | **(2,213)** | **-** | **(1,016)** | **-** | **-** | **(3,229)** |
| Impairment of unconsolidated entities, net of tax | **(30,115)** | **-** | **(13,817)** | **-** | **-** | **(43,932)** |
| Discontinued operations, net of tax: | | | | | | |
| Depreciation and amortization Real Estate Groups | **(3,660)** | **(636)** | **-** | **-** | **-** | **(4,296)** |
| Amortization of mortgage procurement costs Real Estate Groups | **(110)** | **(13)** | **-** | **-** | **-** | **(123)** |
| Deferred taxes Real Estate Groups | **(1,195)** | **(400)** | **-** | **-** | **-** | **(1,595)** |
| Straight-line rent adjustment | **609** | - | - | - | - | **609** |
| Gain on disposition of rental properties | **26,899** | **1,099** | **-** | **-** | **-** | **27,998** |
| Impairment of real estate, net of tax | **(48,731)** | **-** | **-** | **-** | **-** | **(48,731)** |
| **Net earnings (loss) attributable to Forest City Enterprises, Inc.** | **$ 113,040** | **$ 54,845** | **$ (13,593)** | **$ 9,651** | **$ (105,283)** | **$ 58,660** |
| Preferred dividends | **-** | **-** | **-** | **-** | **(11,807)** | **(11,807)** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders** | **$ 113,040** | **$ 54,845** | **$ (13,593)** | **$ 9,651** | **$ (117,090)** | **$ 46,853** |
| **Year Ended January 31, 2010** | | | | | | |
| **EBDT** | $ 286,420 | $ 122,769 | $ 12,828 | $ (28,674) | $ (92,237) | $ 301,106 |
| Depreciation and amortization Real Estate Groups | (205,277) | (79,910) | (387) | - | - | (285,574) |
| Amortization of mortgage procurement costs Real Estate Groups | (12,019) | (2,627) | (624) | - | - | (15,270) |
| Deferred taxes Real Estate Groups | (11,122) | (11,312) | (7,987) | - | 9,293 | (21,128) |
| Straight-line rent adjustment | 12,287 | 86 | - | - | - | 12,373 |
| Preference payment | (2,341) | - | - | - | - | (2,341) |
| Gain on disposition of unconsolidated entities, net of tax | - | 30,462 | - | - | - | 30,462 |
| Impairment of real estate, net of tax | (2,174) | (897) | (2,381) | - | - | (5,452) |
| Impairment of unconsolidated entities, net of tax | (6,441) | (14,877) | (938) | - | - | (22,256) |
| Discontinued operations, net of tax: | | | | | | |
| Depreciation and amortization Real Estate Groups | (5,421) | (2,874) | - | - | - | (8,295) |
| Amortization of mortgage procurement costs Real Estate Groups | (237) | (76) | - | - | - | (313) |
| Deferred taxes Real Estate Groups | (690) | (874) | - | - | - | (1,564) |
| Straight-line rent adjustment | 869 | - | - | - | - | 869 |
| Gain on disposition of rental properties | 2,784 | - | - | - | - | 2,784 |
| Impairment of real estate, net of tax | (8,067) | (8,703) | - | - | - | (16,770) |
| Deferred gain on disposition of Lumber Group | - | - | - | - | 718 | 718 |
| **Net earnings (loss) attributable to Forest City Enterprises, Inc.** | $ 48,571 | $ 31,167 | $ 511 | $ (28,674) | $ (82,226) | $ (30,651) |
| **Year Ended January 31, 2009** | | | | | | |
| **EBDT** | $ 221,576 | $ 120,402 | $ 2,277 | $ (29,967) | $ (95,351) | $ 218,937 |
| Depreciation and amortization Real Estate Groups | (204,530) | (73,522) | (735) | - | - | (278,787) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Amortization of mortgage procurement costs Real Estate Groups | (9,822) | (2,739) | (573) | - | - | (13,134) |
| Deferred taxes Real Estate Groups | (15,037) | (18,599) | 11,206 | - | 4,448 | (17,982) |
| Straight-line rent adjustment | (556) | 5 | (3) | - | - | (554) |
| Preference payment | (3,329) | - | - | - | - | (3,329) |
| Preferred return on disposition, net of tax | - | (576) | - | - | - | (576) |
| Gain on sale of other investments, net of tax | - | - | - | - | 92 | 92 |
| Gain on disposition of unconsolidated entities, net of tax | 663 | - | - | - | - | 663 |
| Impairment of real estate, net of tax | - | (774) | - | - | - | (774) |
| Impairment of unconsolidated entities, net of tax | (5,606) | (5,795) | (1,626) | - | - | (13,027) |
| Retrospective adoption of accounting guidance for convertible debt instruments | 6,095 | 1,213 | 332 | - | (9,183) | (1,543) |
| Discontinued operations, net of tax: | | | | | | |
| Depreciation and amortization Real Estate Groups | (6,443) | (5,719) | - | - | - | (12,162) |
| Amortization of mortgage procurement costs Real Estate Groups | (233) | (421) | - | - | - | (654) |
| Deferred taxes Real Estate Groups | 364 | (532) | - | - | - | (168) |
| Straight-line rent adjustment | 912 | - | - | - | - | 912 |
| Gain on disposition of rental properties | - | 8,159 | - | - | - | 8,159 |
| Deferred gain on disposition of Lumber Group | - | - | - | - | 680 | 680 |
| **Net earnings (loss) attributable to Forest City Enterprises, Inc.** | $ (15,946) | $ 21,102 | $ 10,878 | $ (29,967) | $ (99,314) | $ (113,247) |

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

N. Leases

The following tables include all lease obligations of the Company.

**The Company as Lessor**

The following table summarizes the minimum future rental income to be received on non-cancelable operating leases of commercial properties that generally extend for periods of more than one year.

| **Years Ending January 31,** | *(in thousands)* |
|---|---|
| 2012 | $ 602,324 |
| 2013 | 557,549 |
| 2014 | 532,154 |
| 2015 | 501,702 |
| 2016 | 474,692 |
| Later years | 2,931,892 |
| | $ 5,600,313 |

Most of the commercial leases include provisions for reimbursements of other charges including real estate taxes, utilities and operating costs which are included in revenues from real estate operations. The following table summarizes total reimbursements.

| **Years Ended January 31,** | *(in thousands)* |
|---|---|
| 2011 | $ 212,790 |
| 2010 | $ 194,253 |
| 2009 | $ 198,606 |

**The Company as Lessee**

The Company is a lessee under various operating leasing arrangements for real property and equipment. The most significant of these involve ground leases which expire between the years 2011 and 2100, excluding optional renewal periods. The Company is subject to participation payments under certain of its ground leases, the most significant of which are in Boston and New York City. These payments are triggered by defined events within the respective lease agreements and the timing and future amounts are not determinable by the Company.

Minimum fixed rental payments under long-term leases (over one year) in effect at January 31, 2011 are as follows.

| **Years Ending January 31,** | *(in thousands)* |
|---|---|
| 2012 | $ 15,684 |
| 2013 | 14,407 |
| 2014 | 13,845 |
| 2015 | 13,303 |
| 2016 | 13,435 |

| | |
|---|---|
| Later years | 494,970 |
| | $ 565,644 |

The following table summarizes rent expense.

| **Years Ended January 31,** | *(in thousands)* |
|---|---|
| 2011 | $ 19,565 |
| 2010 | $ 25,748 |
| 2009 | $ 25,621 |

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

O. Commitments and Contingencies

The Company has various guarantees, including indirect guarantees of indebtedness of others. The Company believes the risk of payment under these guarantees, as described below, is remote and, to date, no payments have been made under these guarantees.

As of January 31, 2011, the Company has a guaranteed loan of $1,400,000 relating to the Company s share of a bond issue made by the *Village of Woodridge*, relating to a Land Development Group project in suburban Chicago, Illinois. This bond issue guarantee terminates April 30, 2015, unless the bonds are paid sooner, and is limited to $500,000 in any one year. The Company also had outstanding letters of credit of $63,418,000 as of January 31, 2011. The maximum potential amount of future payments on the guaranteed loan and letters of credit the Company could be required to make is the total amounts noted above.

The Company has entered into certain partnerships whereby the outside investment partner is allocated certain tax credits. These partnerships typically require the Company to indemnify, on an after-tax or grossed up basis, the investment partner against the failure to receive or the loss of allocated tax credits and tax losses. At January 31, 2011, the maximum potential payment under these tax indemnity guarantees was approximately $132,947,000 (of which $80,931,000 has been recorded in accounts payable and accrued expenses). The Company believes that all necessary requirements for qualifications for such tax credits have been and will continue to be met and that the Company s investment partners will be able to receive expense allocations associated with the properties. The Company does not expect to make any payments under these guarantees.

The Company s mortgage loans are nonrecourse; however, in some cases, lenders carve out certain items from the nonrecourse provisions. These carve-out items enable the lenders to seek recourse if the Company or the joint venture engages in certain acts as defined in the respective agreements such as commit fraud, intentionally misapply funds, or intentionally misrepresent facts. The Company has also provided certain environmental guarantees. Under these environmental remediation guarantees, the Company must remediate any hazardous materials brought onto the property in violation of environmental laws. The maximum potential amount of future payments the Company could be required to make on the environmental guarantees is limited to the actual losses suffered or actual remediation costs incurred. A portion of these carve-outs and guarantees have been made on behalf of joint ventures and the Company believes any liability would not exceed its partners share of the outstanding principal balance of the loans in which these carve-outs and environmental guarantees have been made. At January 31, 2011, the outstanding balance of the partners share of these loans was approximately $381,665,000. The Company believes the risk of payment on the carve-out guarantees is mitigated, in most cases, by the fact that the Company manages the property, and in the event the Company s partner did violate one of the carve-out items, the Company would seek recovery from its partner for any payments the Company would make. Additionally, the Company further mitigates its exposure through environmental insurance and other types of insurance coverage.

The Company monitors its properties for the presence of hazardous or toxic substances. Other than those environmental matters identified during the acquisition of a site (which are generally remediated prior to the commencement of development), the Company is not aware of any environmental liability with respect to its operating properties that would have a material adverse effect on its financial position, cash flows or results of operations. However, there can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability could have an adverse effect on the Company s results of operations and cash flow. The Company carries environmental insurance and believes that the policy terms, conditions, limits and deductibles are adequate and appropriate under the circumstances, given the relative risk of loss, the cost of such coverage and current industry practice.

The Company customarily guarantees lien-free completion of projects under construction. Upon completion as defined, the guarantees are released. The Company currently provides the following completion guarantees on its completed projects and projects under construction and development:

**Percent**

| | Total Costs | Completed |
|---|---|---|
| | *(dollars in thousands)* | |
| **At January 31, 2011** | | |
| Openings and acquisitions | $ 837,236 | 93% |
| Under construction | 2,715,018 | 67% |
| Total Real Estate | $ 3,552,254 | 73% |

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

O. Commitments and Contingencies (continued)

Additionally, the Company has provided a guaranty of payment, performance and completion of certain obligations associated with certain Military Housing Privatization Initiative ( MHPI ) projects. These guarantees do not include a guaranty of available MHPI project sources and the Company cannot be compelled to replace a deficiency in available sources. In the event the guaranty were called upon, any money advanced by the Company would be replaced by appropriate sources available within the MHPI project. Inclusive of the available MHPI project sources, the Company believes the maximum net exposure to be $89,019,000 at January 31, 2011. Currently, the Company anticipates further MHPI project sources will cover this maximum exposure and future advances by the Company will not be required.

In addition to what is stated above, the Company has guaranteed the lender the lien free completion of certain horizontal infrastructure associated with certain land development projects. The maximum amount due by the Company under these completion guarantees is limited to $71,386,000.

The Company is also involved in certain claims and litigation related to its operations and development. Based on the facts known at this time, management has consulted with legal counsel and is of the opinion that the ultimate outcome of all such claims and litigation will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

In connection with the Company s (through its subsidiary NS&E) August 2004 purchase of The Nets and its May 12, 2010 sale of an 80% interest in The Nets, the Company, certain subsidiaries and certain members have provided an indemnity guarantee to the NBA for any losses arising from the transaction, including the potential relocation of the team. The Company s indemnity is effective as long as the Company owns an interest in the team. The indemnification provisions are standard provisions that are required by the NBA. The Company and the other indemnifying parties have insurance coverage of $100,000,000 in connection with such indemnity. The Company evaluated the indemnity guarantee and determined that the fair value of the Company s liability for its obligations under the guarantee was not material.

Certain of the Company s ground leases include provisions requiring it to indemnify the ground lessor against claims or damages occurring on or about the leased property during the term of the ground lease. These indemnities generally were entered into prior to the effective date of accounting guidance related to guarantees; therefore, they have not been recorded in the Company s consolidated financial statements at January 31, 2011. The maximum potential amount of future payments the Company could be required to make is limited to the actual losses suffered. The Company mitigates its exposure to loss related to these indemnities through insurance coverage.

The Company is party to an easement agreement under which it has agreed to indemnify a third party for any claims or damages arising from the use of the easement area of one of its development projects. The Company has also entered into an environmental indemnity at one of its development projects whereby it agrees to indemnify a third party for the cost of remediating any environmental condition. The maximum potential amount of future payments the Company could be required to make is limited to the actual losses suffered or actual remediation costs incurred. The Company mitigates its exposure to loss related to the easement agreement and environmental indemnity through insurance coverage.

The Company issued a $40,000,000 guaranty in connection with certain environmental testing and subsurface investigation work that was performed pursuant to a temporary entry license agreement issued by the Metropolitan Transportation Authority and the Long Island Rail Road Company in connection with the development of a mixed-use project in Brooklyn, New York. Under the terms of such license agreement, the sum of the guaranty could be reduced two years after completion of the work if no environmental response action was required because of the work, and remain in place in such reduced amount for an additional four years. The work was completed on July 16, 2006, and no environmental response action arose from the work. Accordingly, the sum of the guaranty was reduced to $30,000,000 and will remain in place until July 16, 2012. The Company is not aware of any further environmental work related to this project or guarantee that would have a material effect on its financial position, cash flows or results of operations.

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

P. Stock-Based Compensation

The Company s 1994 Stock Plan as amended in June 2010 (the Plan ) permits the award of Class A stock options, restricted shares, performance shares and other equity awards to key employees and nonemployee directors of the Company. The aggregate maximum number of shares that may be issued under the Plan is 16,750,000 for all types of awards including 5,400,000 for restricted shares and performance shares.

As of January 31, 2011, the total number of shares available for granting of all types of awards was 5,248,788, of which 3,220,849 may be restricted shares or performance shares. The maximum annual award to an individual is 400,000 stock options, 225,000 restricted shares and 100,000 performance shares. Stock options have a maximum term of 10 years and are awarded with an exercise price at least equal to the market value of the stock on the date of grant. Class A common stock issued upon the exercise of stock options may be issued out of authorized and unissued shares or treasury stock. The Plan, which is administered by the Compensation Committee of the Board of Directors, does not allow the reduction of option prices without shareholder approval, except for the anti-dilution adjustments permitted by the Plan. The Company has not amended the terms of any previously issued equity award. All outstanding stock options have an exercise price equal to the fair market value of the underlying stock at the date of grant, a 10-year term, and graded vesting over three to four years. All outstanding restricted shares have graded vesting over three to four years.

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

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | *(in thousands)* | | |
| Stock option costs | **$ 6,085** | $ 8,472 | $ 9,775 |
| Restricted stock costs | **8,846** | 8,266 | 7,345 |
| Total stock-based compensation costs | **14,931** | 16,738 | 17,120 |
| Less amount capitalized into qualifying real estate projects | **(6,962)** | (9,229) | (8,615) |
| Amount charged to operating expenses | **7,969** | 7,509 | 8,505 |
| Depreciation expense on capitalized stock-based compensation | **602** | 417 | 245 |
| Total stock-based compensation expense | **$ 8,571** | $ 7,926 | $ 8,750 |
| Deferred income tax benefit | **$ 2,935** | $ 2,666 | $ 2,812 |

The amount of stock-based compensation expensed at the date of grant for awards granted to retirement-eligible grantees during the years ended January 31, 2011, 2010 and 2009 were $1,136,000, $350,000 and $1,298,000, respectively.

The accounting guidance for share-based payment requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those options or shares (excess tax benefits) to be classified as financing cash flows in the Consolidated Statements of Cash Flows. The Company records excess tax benefits only if the excess tax deductions reduce taxes payable computed on a with-and-without basis. Excess tax

benefits recorded (reversed) under this accounting guidance and classified as financing cash flows amounted to $-0-, $-0- and $(3,569,000) for the years ended January 31, 2011, 2010 and 2009, respectively. The reversal of the excess tax benefits during the year ended January 31, 2009 resulted from the Company s 2007 tax return being filed during 2008 with less taxable income than originally estimated resulting in the Company being unable to utilize the excess tax deductions previously recorded.

**Stock Options**

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for options granted during the respective years.

| | **Years Ended January 31,** | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| Risk-free interest rate | **2.79%** | 2.02% | 3.73% |
| Expected volatility | **71.51%** | 65.90% | 22.97% |
| Expected dividend yield | **0.00%** | 0.00% | 0.54% |
| Expected term (in years) | **5.50** | 5.50 | 5.50 |

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

P. Stock-Based Compensation (continued)

The risk-free interest rate was based on published yields of U.S. Treasury Strips having a maturity date approximating the expected term of the options. Expected volatility was based on the historical volatility of the Company s stock using the daily closing prices of the Company s Class A common stock over a period of time equivalent to the expected term of the options. The expected dividend yield was based on the Company s recent annual dividend divided by the average price of the Company s Class A common stock during that period. Historical plan experience was used to estimate the expected term of options granted.

The following table provides a summary of stock option activity for the year ended January 31, 2011:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding at January 31, 2010 | 3,982,942 | $ 38.35 | | |
| Granted | 434,977 | $ 15.89 | | |
| Exercised | (183,716) | $ 14.27 | | |
| Forfeited/expired | (107,525) | $ 49.39 | | |
| Outstanding at January 31, 2011 | 4,126,678 | $ 36.76 | 5.63 | $ 3,975 |
| Options exercisable (fully vested) at January 31, 2011 | 2,734,730 | $ 38.50 | 4.56 | $ 1,143 |

The weighted average grant-date fair value of stock options granted during 2010, 2009 and 2008 was $9.99, $4.56 and $10.11, respectively. The total intrinsic value of stock options exercised during 2010, 2009 and 2008 was $389,000, $72,000 and $1,870,000, respectively. Cash received from stock options exercised during 2010, 2009 and 2008 was $2,621,000, $128,000 and $1,133,000, respectively. There was no material income tax benefit realized as a reduction of income taxes payable from stock options exercised during 2010, 2009 or 2008. At January 31, 2011, there was $4,168,000 of unrecognized compensation cost related to stock options that is expected to be recognized over a weighted-average period of 2.40 years.

**Restricted Stock**

The following table provides a summary of restricted stock activity for the year ended January 31, 2011:

| | Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Unvested shares at January 31, 2010 | 1,088,487 | $ 22.84 |

| | | | |
|---|---|---|---|
| Granted | 724,059 | $ | 15.89 |
| Vested | (221,562) | $ | 39.81 |
| Forfeited | (20,846) | $ | 19.80 |
| Unvested shares at January 31, 2011 | 1,570,138 | $ | 17.16 |

Restricted stock represents a grant of Class A common stock to key employees and nonemployee directors subject to restrictions on disposition, transferability and risk of forfeiture, while having the rights to vote the shares and receive dividends. The restrictions generally lapse on the second, third and fourth anniversary of the date of grant. Grants that have graded vesting over three years lapse one-third on each anniversary of the date of grant. Restricted shares subject to the restrictions mentioned above are considered to be nonvested shares under the accounting guidance for share-based payment and are not reflected as issued and outstanding shares until the restrictions lapse. At that time, the shares are released to the grantee and the Company records the issuance of the shares. At January 31, 2011, 1,570,138 unvested shares of restricted stock were excluded from issued and outstanding shares of Class A common stock in the accompanying consolidated financial statements.

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

P. Stock-Based Compensation (continued)

The weighted average grant-date fair value of restricted stock granted during 2010, 2009 and 2008 was $15.89, $7.80 and $36.51, respectively. The total fair value of shares that vested during 2010, 2009 and 2008 was $8,821,000, $5,884,000 and $3,460,000, respectively. At January 31, 2011, there was $14,001,000 of unrecognized compensation cost related to restricted stock that is expected to be recognized over a weighted-average period of 2.60 years.

In connection with the vesting of restricted stock during 2010, 2009 and 2008, the Company repurchased into treasury 54,732, 26,188 and 18,757 shares, respectively, of Class A common stock to satisfy the employees related minimum statutory tax withholding requirements. These shares were placed in treasury with an aggregate cost basis of $786,000, $133,000 and $663,000, respectively.

**Performance Shares**

Performance shares may be granted to selected executives and the vesting of the shares is contingent upon meeting management objectives established by the Compensation Committee of the Board of Directors. The management objectives may be company-wide or business unit performance goals that must be met within a performance period of at least one year. Performance shares will generally be granted at target levels and the ultimate number of shares earned will depend upon the degree performance goals are met at the end of the performance period. The fair value of performance shares are based on the closing price of the underlying stock on the date of grant and recorded as stock-based compensation cost over the performance period. If the performance goals are not met or below target, then any related recognized compensation costs will be reversed. If the performance goals are exceeded, additional compensation costs will be recorded, as applicable, up to the maximum specified in the grant.

In June 2008, the Company granted 172,609 performance shares under the 1994 Stock Plan to selected key executives having a grant-date fair value of $36.38 per share. The performance shares will vest if performance goals are achieved during the period from May 1, 2008 to January 31, 2012. The performance shares were granted at target levels and the ultimate number of shares earned can range from 0% to 175% depending upon the degree the performance goals are met. The cost of this grant is not being recorded because it is not probable that the performance goals will be achieved at or above threshold levels.

The following table provides a summary of the performance share activity for the year ended January 31, 2011:

| | Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Unvested shares at January 31, 2010 | 172,609 | $ 36.38 |
| Granted | - | $ - |
| Vested | - | $ - |
| Forfeited | - | $ - |
| Unvested shares at January 31, 2011 | 172,609 | $ 36.38 |

The range of performance shares that can be earned as of January 31, 2011 is as follows:

| PERFORMANCE PERIOD | Minimum Shares | Target Shares | Maximum Shares |
|---|---|---|---|
| May 1, 2008 to January 31, 2012 | - | 172,609 | 301,064 |

At January 31, 2011, there was $6,280,000 of unrecognized compensation costs related to unvested performance shares.

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

Q. Earnings Per Share

The Company s restricted stock is considered a participating security pursuant to the two-class method for computing basic earnings per share ( EPS ). The Class A Common Units, which are reflected as noncontrolling interests in the Company s Consolidated Balance Sheets, are considered convertible participating securities as they are entitled to participate in any dividends paid to the Company s common shareholders. The Class A Common Units are included in the computation of basic EPS using the two-class method and are included in the computation of diluted EPS using the if-converted method. The Class A common stock issuable in connection with the put or conversion of the 2014 Notes, 2016 Notes and Series A preferred stock are included in the computation of diluted EPS using the if-converted method. The loss from continuing operations attributable to Forest City Enterprises, Inc. for the years ended January 31, 2010 and 2009 as well as the net loss attributable to Forest City Enterprises, Inc. for the years ended January 31, 2010 and 2009 were allocated solely to holders of common stock as the participating security holders do not share in the losses.

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

Q. Earnings Per Share (continued)

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

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **Numerators** *(in thousands)* | | | |
| Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. | **$ 79,294** | $ (17,507) | $ (123,364) |
| Dividends on preferred stock | **(11,807)** | - | - |
| Undistributed earnings allocated to participating securities | **(2,162)** | - | - |
| **Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Basic** | **65,325** | (17,507) | (123,364) |
| Undistributed earnings allocated to participating securities | **2,162** | - | - |
| Interest on convertible debt | **4,438** | - | - |
| Preferred distribution on Class A Common Units | **1,433** | - | - |
| **Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Diluted** | **$ 73,358** | $ (17,507) | $ (123,364) |
| Net earnings (loss) attributable to Forest City Enterprises, Inc. | **$ 58,660** | $ (30,651) | $ (113,247) |
| Dividends on preferred stock | **(11,807)** | - | - |
| Undistributed earnings allocated to participating securities | **(1,501)** | - | - |
| **Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Basic** | **45,352** | (30,651) | (113,247) |
| Undistributed earnings allocated to participating securities | **1,501** | - | - |
| Interest on convertible debt | **4,438** | - | - |
| Preferred distribution on Class A Common Units | **1,433** | - | - |
| **Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Diluted** | **$ 52,724** | $ (30,651) | $ (113,247) |
| **Denominators** | | | |
| **Weighted average shares outstanding - Basic** | **155,485,243** | 139,825,349 | 102,755,315 |
| Effect of stock options and restricted stock | **550,730** | - | - |
| Effect of convertible debt | **13,755,158** | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Effect of convertible Class A Common Units | | **3,646,755** | | - | | - |
| **Weighted average shares outstanding - Diluted** [(1)] | | **173,437,886** | | 139,825,349 | | 102,755,315 |
| **Earnings Per Share** | | | | | | |
| Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Basic | **$** | **0.42** | $ | (0.13) | $ | (1.20) |
| Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Diluted | **$** | **0.42** | $ | (0.13) | $ | (1.20) |
| Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Basic | **$** | **0.29** | $ | (0.22) | $ | (1.10) |
| Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Diluted [(2)] | **$** | **0.30** | $ | (0.22) | $ | (1.10) |

(1) a) Incremental shares from dilutive options, restricted stock and convertible securities aggregating 12,065,194 and 4,213,684 for the years ended January 31, 2010 and 2009, respectively, were not included in the computation of diluted EPS because their effect is anti-dilutive due to the loss from continuing operations.

b) Weighted-average options and restricted stock of 4,447,652, 4,520,436 and 3,133,200 for the years ended January 31, 2011, 2010 and 2009, respectively, were not included in the computation of diluted EPS because their effect is anti-dilutive. Weighted-average shares issuable upon the conversion of preferred stock and 2016 Notes of 13,115,165 and 14,356,215, respectively, for the year ended January 31, 2011, were not included in the computation of diluted EPS because their effect is anti-dilutive under the if-converted method.

c) Weighted-average performance shares of 172,609 for both of the years ended January 31, 2011 and 2010 and 106,943 for the year ended January 31, 2009, were not included in the computation of diluted EPS because the performance criteria were not satisfied as of the end of the respective periods.

d) The 2011 Notes can be put to the Company by the holders under certain circumstances (see Note G Senior and Subordinated Debt). If the Company exercises its net share settlement option upon a put of the 2011 Notes by the holders, it will then issue shares of its Class A common stock. The effect of these shares was not included in the computation of diluted EPS for the years ended January 31, 2011, 2010 and 2009 because the Company s average stock price did not exceed the put value price of the 2011 Notes. These notes will be dilutive when the average stock price for the period exceeds $66.39. Additionally, the Company sold a warrant with an exercise price of $74.35, which has also been excluded from diluted EPS for the years ended January 31, 2011, 2010 and 2009 because the Company s stock price did not exceed the exercise price.

(2) The accounting guidance on earnings per share requires that the number of diluted common shares used in computing the diluted per-share amount for earnings from continuing operations also be used in computing the diluted per-share amount for net earnings (loss) even if those amounts are anti-dilutive to the diluted per-share amount for net earnings (loss). Certain dilutive common shares had such an effect for the year ended January 31, 2011.

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

R. Impairment of Real Estate, Impairment of Unconsolidated Entities, Write-Off of Abandoned Development Projects and Gain (Loss) on Early Extinguishment of Debt

**Impairment of Real Estate**

The Company reviews its real estate portfolio, including land held for development or sale, for impairment whenever events or changes indicate that its carrying value of the long-lived assets may not be recoverable. In cases where the Company does not expect to recover its carrying costs, an impairment charge is recorded. In order to determine whether the long-lived asset carrying costs are recoverable from estimated future undiscounted cash flows, the Company uses various assumptions that include historical and budgeted net operating income, estimated holding periods, risk of foreclosure and estimated cash proceeds received upon the disposition of the asset. If the carrying costs are not recoverable, the Company is required to record an impairment to reduce the carrying costs to estimated fair value. The assumptions used to estimate fair value are considered to be Level 3 inputs. The Company s assumptions were based on the most current information available at January 31, 2011. If the conditions mentioned above continue to deteriorate, or if the Company s plans regarding its assets change, it could result in additional impairment charges in the future.

The impairments recorded during the years ended January 31, 2011, 2010 and 2009 represent a write down to the estimated fair value due to changes in events, such as bona fide third-party purchase offers and consideration of current market conditions and the impact of these events to the properties estimated future cash flows. The following table summarizes the Company s impairment of real estate included in continuing operations.

| | | Years Ended January 31, | | |
|---|---|---|---|---|
| | | **2011** | 2010 | 2009 |
| | | *(in thousands)* | | |
| Development property at Waterfront Station | Washington, D.C. | **$ 3,103** | $ - | $ - |
| 250 Huron (Office Building) | Cleveland, Ohio | **2,040** | - | - |
| Land Projects: | | | | |
| Gladden Farms | Marana, Arizona | **650** | 2,985 | - |
| Tangerine Crossing | Tucson, Arizona | **-** | 905 | - |
| Investment in triple net lease property | Portage, Michigan | **-** | 3,552 | - |
| Residential development property sold in February 2009 | Mamaroneck, New York | **-** | 1,124 | 1,262 |
| Other | | **1,010** | 341 | - |
| | | **$ 6,803** | $ 8,907 | $ 1,262 |

In addition, the Company had impairments related to consolidated real estate assets that were disposed of during the periods presented. The following table summarizes the Company s impairment of real estate included in discontinued operations.

| | | Years Ended January 31, | | |
|---|---|---|---|---|
| | | **2011** | 2010 | 2009 |
| | | *(in thousands)* | | |
| Simi Valley Town Center (Regional Mall) | Simi Valley, California | **$ 76,962** | $ - | $ - |
| Investment in triple net lease property | Pueblo, Colorado | **2,641** | - | - |
| Saddle Rock Village (Specialty Retail Center) | Aurora, Colorado | **-** | 13,179 | - |

| | | | | |
|---|---|---|---|---|
| Supported-living apartment communities: | | | | |
| Sterling Glen of Great Neck | Great Neck, New York | **-** | 7,138 | - |
| Sterling Glen of Glen Cove | Glen Cove, New York | **-** | 2,637 | - |
| 101 San Fernando (Apartment Community) | San Jose, California | **-** | 4,440 | - |
| | | **$ 79,603** | $ 27,394 | $ - |

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

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

Occupancy levels and estimated future cash flows were significantly decreasing during 2010 at *Simi Valley Town Center*, a regional mall located in Simi Valley, California, due to the consolidation of two anchor stores at the property, greater competition than originally anticipated and the general economic downturn. The Company had ongoing discussions with the mortgage lender regarding the performance of the property and the expectation that it would be unable to generate sufficient cash flow to cover the debt service of the nonrecourse mortgage note. During the year ended January 31, 2011, the mortgage lender determined it wanted to exit the investment by selling the nonrecourse mortgage note and the Company agreed to transfer the property to the purchaser of the nonrecourse mortgage upon a sale. Based on these events and changes in circumstances, the Company dramatically shortened its estimated asset holding period. As a result, estimated future undiscounted cash flows were not sufficient to recover the carrying value and the asset was recorded at its estimated fair value resulting in an impairment charge of $76,962,000 during the year ended January 31, 2011. The impairment, which was recorded prior to the ultimate disposition in December 2010, resulted in the carrying value of the real estate being less than the nonrecourse mortgage. As a result, upon disposition, the Company recorded a gain of $46,802,000 for the year ended January 31, 2011. The Company reclassified all revenues and expenses, as well as the gain on disposition of the property to discontinued operations (see Note S - Discontinued Operations and Gain on Disposition of Rental Properties and Lumber Group).

In addition, the Company recorded impairments of real estate for other properties included in discontinued operations as described in the table above. These impairments represent a write down to the estimated fair value due to changes in events, related to a bona fide third-party purchase offer and consideration of current market conditions and the impact of these events to the properties estimated future cash flows.

**Impairment of Unconsolidated Entities**

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

The impairments recorded during the year ended January 31, 2011 at *Central Station*, a mixed-use land development project in Chicago, Illinois represent other-than-temporary impairments in the Company s investments of four unconsolidated entities which hold investments in certain condominium buildings. Due to the continued price deterioration of the Chicago condominium prices, the Company made a strategic business decision during the year ended January 31, 2011 to rent these condominium units. This decision combined with other changes in circumstances resulted in a reduction of estimated discounted cash flows expected from these entities which are a key component in the associated fair value estimates. As a result, the investments in the unconsolidated entities were recorded at these reduced estimated fair values as of January 31, 2011, resulting in the impairment charges during the year ended January 31, 2011.

The impairment recorded during the year ended January 31, 2011 at *Village at Gulfstream Park*, a specialty retail center in Hallandale Beach, Florida represents an other-than-temporary impairment in the Company s investment. The specialty retail center was fully opened in February 2010 and was leased during the general economic downturn which resulted in a longer initial lease up period than originally projected and increased rent concessions to the existing tenant base once it was opened. Based on these conditions, management revised its estimate of future discounted cash flows, which are a key component in the associated fair value estimate. As a result, the investment in the unconsolidated entity was recorded at its reduced estimated fair value as of January 31, 2011, resulting in a

impairment charge during the year ended January 31, 2011.

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

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

The following table summarizes the Company s impairment of unconsolidated entities.

| | | Years Ended January 31, | | |
|---|---|---|---|---|
| | | **2011** | 2010 | 2009 |
| | | *(in thousands)* | | |
| Mixed-Use Land Development: | | | | |
| Central Station: | | | | |
| One Museum Park West | Chicago, Illinois | **$ 8,250** | $ - | $ - |
| Museum Park Place Two | Chicago, Illinois | **4,461** | - | - |
| One Museum Park East | Chicago, Illinois | **3,237** | - | - |
| 1600 Museum Park | Chicago, Illinois | **2,363** | - | - |
| Mercy Campus Park | Chicago, Illinois | **1,817** | - | - |
| Old Stone Crossing at Caldwell Creek | Charlotte, North Carolina | **947** | 122 | 365 |
| Aberdeen | Highland Heights, Ohio | **510** | - | - |
| Shamrock Business Center | Painesville, Ohio | **170** | 1,150 | - |
| Palmer | Manatee County, Florida | **-** | - | 1,214 |
| Cargor VI | Manatee County, Florida | **-** | - | 892 |
| Office Buildings: | | | | |
| 818 Mission Street | San Francisco, California | **4,018** | - | - |
| Bulletin Building | San Francisco, California | **3,543** | - | - |
| Mesa del Sol - Aperture Center | Albuquerque, New Mexico | **2,733** | - | - |
| Mesa del Sol 5600 University SE | Albuquerque, New Mexico | **-** | 1,693 | - |
| Specialty Retail Centers: | | | | |
| Village at Gulfstream Park | Hallandale Beach, Florida | **35,000** | - | - |
| Metreon | San Francisco, California | **4,595** | - | - |
| Southgate Mall | Yuma, Arizona | **-** | 1,611 | 1,356 |
| El Centro Mall | El Centro, California | **-** | - | 2,030 |
| Coachella Plaza | Coachella, California | **-** | - | 1,870 |
| Apartment Communities: | | | | |
| Uptown Apartments | Oakland, California | **-** | 6,781 | - |
| Metropolitan Lofts | Los Angeles, California | **-** | 2,505 | - |
| Residences at University Park | Cambridge, Massachusetts | **-** | 855 | - |
| Fenimore Court | Detroit, Michigan | **-** | 693 | - |
| Pittsburgh Peripheral (Commercial Group Land Project) | Pittsburgh, Pennsylvania | **-** | 7,217 | 3,937 |

| | | | | |
|---|---|---|---|---|
| Millender Center | Detroit, Michigan | **-** | 10,317 | - |
| Classic Residence by Hyatt (Supported-Living Apartments) | Yonkers, New York | **-** | 3,152 | 1,107 |
| Mercury (Condominium) | Los Angeles, California | **-** | - | 8,036 |
| Other | | **815** | 260 | 478 |
| | | **$ 72,459** | $ 36,356 | $ 21,285 |

**Write-Off of Abandoned Development Projects**

On a quarterly basis, the Company reviews each project under development to determine whether it is probable the project will be developed. If management determines that the project will not be developed, project costs are written off as an abandoned development project cost. The Company may abandon certain projects under development for a number of reasons, including, but not limited to, changes in local market conditions, increases in construction or financing costs or due to third party challenges related to entitlements or public financing. The Company wrote off abandoned development projects of $8,195,000, $26,739,000 and $52,211,000 for the years ended January 31, 2011, 2010 and 2009, respectively, which were recorded in operating expenses.

In addition, included in equity in earnings (loss) of unconsolidated entities are write-offs of $3,045,000 and $304,000 for the years ended January 31, 2011 and 2010, respectively, which represent the Company s proportionate share of write-offs of abandoned development projects of equity method investments. The Company had no write-offs of abandoned development projects related to unconsolidated entities for the year ended January 31, 2009.

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

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

**Gain (Loss) on Early Extinguishment of Debt**

For the years ended January 31, 2011, 2010 and 2009, the Company recorded $(21,035,000), $36,569,000 and $(2,159,000), respectively, as gain (loss) on early extinguishment of debt. The amounts for the year ended January 31, 2011 include a $31,689,000 loss related to the exchange of a portion of the Company s 2016 Notes for Class A common stock, offset by a $2,472,000 gain on early extinguishment of nonrecourse mortgage debt at *Botanica on the Green* and *Crescent Flats,* apartment communities located in Denver, Colorado, a $6,297,000 gain related to the exchange of a portion of the 2011, 2015 and 2017 Notes for a new issue of Series A preferred stock and a $1,896,000 gain on the early extinguishment of a portion of the 2011 and 2017 Notes.

For the year ended January 31, 2010, the amount primarily represents gains on early extinguishment of nonrecourse mortgage debt at an underperforming retail project, a land development project in Marana, Arizona, *Gladden Farms*, and the gain related to the exchange of a portion of the Company s 2011 Notes for a new issue of 2014 Notes. These gains were partially offset by a charge to early extinguishment of debt related to $20,400,000 of subordinated debt.

For the year ended January 31, 2009, the loss represents the impact of early extinguishment of nonrecourse mortgage debt at *Galleria at Sunset*, a regional mall located in Henderson, Nevada, *1251 S. Michigan* and *Sky55*, apartment communities located in Chicago, Illinois, and *Grand Lowry Lofts*, an apartment community located in Denver, Colorado, in order to secure more favorable financing terms. These charges were offset by gains on the early extinguishment of a portion of the Company s 2011 Notes and on the early extinguishment of the Urban Development Action Grant loan at *Post Office Plaza*, an office building located in Cleveland, Ohio.

S. Discontinued Operations and Gain on Disposition of Rental Properties and Lumber Group

**Discontinued Operations**

All revenues and expenses of discontinued operations sold or held for sale, assuming no significant continuing involvement, have been reclassified in the Consolidated Statements of Operations for the years ended January 31, 2011, 2010 and 2009. The Company considers assets 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. There were no assets classified as held for sale at January 31, 2011 or 2010.

The following table lists rental properties included in discontinued operations:

| Property | Location | Square Feet/ Number of Units | Period Disposed | Year Ended 1/31/2011 | Year Ended 1/31/2010 | Year Ended 1/31/2009 |
|---|---|---|---|---|---|---|
| *Commercial Group:* | | | | | | |
| Simi Valley Town Center | Simi Valley, California | 612,000 square feet | Q4-2010 | Yes | Yes | Yes |
| Investment in triple net lease property | Pueblo, Colorado | 203,000 square feet | Q4-2010 | Yes | Yes | Yes |
| Saddle Rock Village | Aurora, Colorado | 294,000 square feet | Q3-2010 | Yes | Yes | Yes |
| Grand Avenue | Queens, New York | 100,000 square feet | Q1-2009 | - | Yes | Yes |
| *Residential Group:* | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 101 San Fernando | San Jose, California | 323 units | Q2-2010 | Yes | Yes | Yes |
| Sterling Glen of Glen Cove | Glen Cove, New York | 80 units | Q3-2009 | - | Yes | Yes |
| Sterling Glen of Great Neck | Great Neck, New York | 142 units | Q3-2009 | - | Yes | Yes |
| Sterling Glen of Rye Brook | Rye Brook, New York | 168 units | Q4-2008 | - | - | Yes |
| Sterling Glen of Lynbrook | Lynbrook, New York | 130 units | Q2-2008 | - | - | Yes |

In addition, the Company s Lumber Group strategic business unit was sold during the year ended January 31, 2005 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 was to be paid in four annual installments commencing November 12, 2006. The Company 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 is recognized in discontinued operations and interest income is recognized in continuing operations as the note receivable principal and interest are collected. During the years ended January 31, 2010 and 2009, the Company received the last two annual installments of $1,250,000 each, which included $1,172,000 ($718,000, net of tax) and $1,108,000 ($680,000, net of tax) of the deferred gain, respectively, and $78,000 and $142,000 of interest income recorded in continuing operations, respectively.

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

S. Discontinued Operations and Gain on Disposition of Rental Properties and Lumber Group (continued)

The operating results related to discontinued operations were as follows:

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | (in thousands) | | |
| **Revenues from real estate operations** | **$ 17,980** | $ 30,685 | $ 46,144 |
| **Expenses** | | | |
| Operating expenses | **7,537** | 12,449 | 16,027 |
| Depreciation and amortization | **4,170** | 8,532 | 12,240 |
| Impairment of real estate | **79,603** | 27,394 | - |
| | **91,310** | 48,375 | 28,267 |
| Interest expense | **(5,830)** | (9,308) | (15,045) |
| Amortization of mortgage procurement costs | **(124)** | (315) | (656) |
| Interest income | **6** | 6 | 269 |
| Gain on disposition of rental properties and Lumber Group | **51,303** | 5,720 | 14,405 |
| **Earnings (loss) before income taxes** | **(27,975)** | (21,587) | 16,850 |
| **Income tax expense (benefit)** | | | |
| Current | **3,368** | (730) | 21,077 |
| Deferred | **(15,085)** | (7,596) | (14,705) |
| | **(11,717)** | (8,326) | 6,372 |
| **Earnings (loss) from discontinued operations** | **(16,258)** | (13,261) | 10,478 |
| **Noncontrolling interest, net of tax** | | | |
| Gain on disposition of rental properties | **4,211** | - | - |
| Operating earnings (loss) from rental properties | **165** | (117) | 361 |
| | **4,376** | (117) | 361 |
| **Gain (loss) from discontinued operations attributable to Forest City Enterprises, Inc.** | **$ (20,634)** | $ (13,144) | $ 10,117 |

**Gain (Loss) on Disposition of Rental Properties and Lumber Group**

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

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | *(in thousands)* | | |
| Simi Valley Town Center (Regional Mall) | **$ 46,802** | $ - | $ - |
| 101 San Fernando (Apartment Community) | **6,204** | - | - |
| Specialty Retail Centers: | | | |
| Saddle Rock Village | **(1,428)** | - | - |
| Grand Avenue | **-** | 4,548 | - |
| Investment in triple net lease property | **(275)** | - | - |
| Sterling Glen Properties (Supported-Living Apartments) | **-** | - | 13,297 |
| Lumber Group | **-** | 1,172 | 1,108 |
| **Total** | **$ 51,303** | $ 5,720 | $ 14,405 |

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

S. Discontinued Operations and Gain on Disposition of Rental Properties and Lumber Group (continued)

**Gain (Loss) on Disposition of Unconsolidated Entities**

Upon disposition, investments accounted for on the equity method are not classified as discontinued operations; therefore, gains or losses on the sale of equity method investments are reported in continuing operations when sold. The following table summarizes the Company s proportionate share of gains and losses on the disposition of equity method investments, which are included in equity in earnings (loss) of unconsolidated entities.

| | | Years Ended January 31, | | |
|---|---|---|---|---|
| | | **2011** | 2010 | 2009 |
| | | | (in thousands) | |
| Millender Center (hotel, parking, office and retail) | Detroit, Michigan | **$ 15,633** | $ - | $ - |
| Apartment Communities: | | | | |
| Pebble Creek | Twinsburg, Ohio | **2,215** | - | - |
| Clarkwood | Warrensville Heights, Ohio | **-** | 6,983 | - |
| Granada Gardens | Warrensville Heights, Ohio | **-** | 6,577 | - |
| Boulevard Towers | Amherst, New York | **-** | 4,498 | - |
| Specialty Retail Centers: | | | | |
| Woodbridge Crossing | Woodbridge, New Jersey | **6,443** | - | - |
| Coachella Plaza | Coachella, California | **104** | - | - |
| Southgate Mall | Yuma, Arizona | **64** | - | - |
| El Centro Mall | El Centro, California | **48** | - | - |
| Metreon | San Francisco, California | **(1,046)** | - | - |
| Classic Residence by Hyatt properties | | **-** | 31,703 | - |
| Office Buildings: | | | | |
| One International Place | Cleveland, Ohio | **-** | - | 881 |
| Emery-Richmond | Warrensville Heights, Ohio | **-** | - | 200 |
| **Total** | | **$ 23,461** | $ 49,761 | $ 1,081 |

T. Class A Common Units

*Master Contribution Agreement*

The Company and certain of its affiliates entered into a Master Contribution and Sale Agreement (the Master Contribution Agreement ) with Bruce C. Ratner ( Mr. Ratner ), an Executive Vice President and Director of the Company, and certain entities and individuals affiliated with Mr. Ratner (the BCR Entities ) on August 14, 2006. Pursuant to the Master Contribution Agreement, on November 8, 2006, the Company issued Class A Common Units ( Units ) in a jointly-owned limited liability company to the BCR Entities in exchange for their interests in a total of 30 retail, office and residential operating properties, and certain service companies, all in the greater New York City metropolitan area. The Company accounted for the issuance of the Units in exchange for the noncontrolling interests under the purchase method of accounting. The Units may be exchanged for one of the following forms of consideration at the Company s sole discretion: (i) an equal number of shares of the Company s Class A common stock

or, (ii) cash based on a formula using the average closing price of the Class A common stock at the time of conversion or, (iii) a combination of cash and shares of the Company s Class A common stock. The Company has no rights to redeem or repurchase the Units. At January 31, 2011 and 2010, 3,646,755 Units were outstanding. The carrying value of the Units of $186,021,000 is included as noncontrolling interests at January 31, 2011 and 2010.

Also pursuant to the Master Contribution Agreement, the Company and Mr. Ratner agreed that certain projects under development would remain owned jointly until such time as each individual project was completed and achieved stabilization. As each of the development projects achieves stabilization, it is valued and the Company, in its discretion, chooses among various options for the ownership of the project following stabilization consistent with the Master Contribution Agreement. The development projects were not covered by the Tax Protection Agreement (the Tax Protection Agreement ) that the parties entered into in connection with the Master Contribution Agreement. The Tax Protection Agreement indemnified the BCR Entities included in the initial closing against taxes payable by reason of any subsequent sale of certain operating properties.

During the year ended January 31, 2010, the Company sold one of the operating properties. As a result, in accordance with the terms of the Tax Protection Agreement, the Company paid BCR Entities $1,695,000 for tax indemnification during the year ended January 31, 2011.

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

T. Class A Common Units (continued)

*New York Times and Twelve MetroTech Center*

Two of the development projects, *New York Times*, an office building located in Manhattan, New York and *Twelve MetroTech Center*, an office building located in Brooklyn, New York, achieved stabilization in 2008. The Company elected to cause certain of its affiliates to acquire for cash the BCR Entities interests in the two projects pursuant to agreements dated May 6, 2008 and May 12, 2008, respectively. In accordance with the agreements, the applicable BCR Entities assigned and transferred their interests in the two projects to affiliates of the Company and will receive approximately $121,000,000 over a 15 year period. An affiliate of the Company has also agreed to indemnify the applicable BCR Entity against taxes payable by it by reason of a subsequent sale or other disposition of one of the projects. The tax indemnity provided by the affiliate of the Company expires on December 31, 2014 and is similar to the indemnities provided for the operating properties under the Tax Protection Agreement.

The consideration exchanged by the Company for the BCR Entities interest in the two development projects has been accounted for under the purchase method of accounting. Pursuant to the agreements, the BCR Entities received an initial cash amount of $49,249,000. The Company calculated the net present value of the remaining payments over the 15 year period using a discounted interest rate. This initial discounted amount of $56,495,000 was recorded in accounts payable and accrued expenses and will be accreted up to the total liability through interest expense over the next 15 years using the effective interest method.

The following table summarizes the final allocation of the consideration exchanged for the BCR Entities interests in the two projects (in thousands):

| | | |
|---|---|---|
| Completed rental properties [1] | $ | 102,378 |
| Notes and accounts receivable, net [2] | | 132 |
| Other assets [3] | | 12,513 |
| Accounts payable and accrued expenses [4] | | (9,279) |
| | $ | 105,744 |

Represents allocation for:

(1) Land, building and tenant improvements associated with the underlying real estate

(2) Above market leases

(3) In-place leases, tenant relationships and leasing commissions

(4) Below market leases

*Exchange of Units*

In July 2008, the BCR Entities exchanged 247,477 of the Units. The Company issued 128,477 shares of its Class A common stock for 128,477 of the Units and paid cash of $3,501,000 for 119,000 Units. The Company accounted for the exchange as a purchase of noncontrolling interests, resulting in a reduction of noncontrolling interests of $12,624,000. The following table summarizes the components of the exchange transaction (in thousands):

| | | |
|---|---|---|
| Reduction of completed rental properties | $ | 5,345 |
| Reduction of cash and equivalents | | 3,501 |
| Increase in Class A common stock - par value | | 42 |

| | | |
|---|---|---|
| Increase in additional paid-in capital | | 3,736 |
| Total reduction of noncontrolling interest | $ | 12,624 |

*Other Related Party Transactions*

During the year ended January 31, 2009, in accordance with the parties prior understanding but unrelated to the transactions discussed above, the Company redeemed Mr. Ratner s noncontrolling interests in two entities in exchange for the Company s majority ownership interests in 17 single-tenant pharmacy properties and $9,043,000 in cash. This transaction was accounted for in accordance with accounting guidance on business combinations as acquisitions of the noncontrolling interests in the subsidiaries. The fair value of the consideration paid was allocated to the acquired ownership interests, which approximated the fair value of the 17 single-tenant pharmacy properties. This transaction resulted in a reduction of noncontrolling interests of $14,503,000 and did not result in a gain or loss. The earnings of these properties were not reclassified to discontinued operations for the year ended January 31, 2009 as the results do not have a material impact on the Consolidated Statements of Operations.

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

T. Class A Common Units (continued)

From time to time the Company uses subcontractors on its construction projects that qualify as related parties. The Company has contracted with such a subcontractor for certain trades work on *8 Spruce Street* (formerly *Beekman*), a mixed-use residential project under construction in Manhattan, New York. The total contract price was less than 5% of the estimated total construction costs of the project of $875,700,000. This transaction is unrelated to the transactions discussed above.

U. Capital Stock

*Common Stock*

The Company s authorized common stock consists of Class A common stock and Class B common stock. The economic rights of each class of common stock are identical, but the voting rights differ. The Class A common stock, voting as a separate class, is entitled to elect 25% of the members of the Company s board of directors, while the Class B common stock, voting as a separate class, is entitled to elect the remaining 75% of the Company s board of directors. When the Class A common stock and Class B common stock vote together as a single class, each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Class B Common Stock is convertible into Class A common stock on a share-for-share basis at the option of the holder. In June 2010, the shareholders of the Company approved increasing the number of authorized shares of Class A common stock to 371,000,000 shares.

On January 27, 2011, the Company entered into separate, privately negotiated exchange agreements with certain holders of its 2016 Notes to exchange the notes for shares of Class A common stock. In order to induce the holders to make the exchange, the Company agreed to increase the conversion rate from 71.8894 shares of Class A common stock per $1,000 principal amount of notes to 88.8549 shares, which factors in lost interest to the holders among other inducements. Under the terms of the agreements, holders agreed to exchange $110,000,000 in aggregate principal amount of notes for a total of 9,774,039 shares of Class A common stock.

In May 2009, the Company sold 52,325,000 shares of its Class A common stock in a public offering at a price of $6.60 per share, which included 6,825,000 shares issued as a result of the underwriters exercise of their over-allotment option in full. The offering generated net proceeds of $329,917,000 after deducting underwriting discounts, commissions and other offering expenses, which were used to reduce a portion of the Company s outstanding borrowings under its bank revolving credit facility.

*Preferred Stock*

The Company s Amended Articles of Incorporation authorizes the Company to issue, from time to time, shares of preferred stock. On March 4, 2010, the Company further amended its Amended Articles of Incorporation to designate a series of preferred stock as Series A preferred stock, authorized 6,400,000 shares of Series A preferred stock, and set forth the dividend rate, the designations, and certain other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions, of the Series A preferred stock. The Series A preferred stock will rank junior to all of the Company s existing and future debt obligations, including convertible or exchangeable debt securities; senior to the Company s Class A common stock and Class B common stock and any future equity securities that by their terms rank junior to the Series A preferred stock with respect to distribution rights or payments upon the Company s liquidation, winding-up or dissolution; equal with future series of preferred stock or other equity securities that by their terms are on a parity with the Series A preferred stock; and junior to any future equity securities that by their terms rank senior to the Series A preferred stock.

On March 4, 2010, the Company entered into separate, privately negotiated exchange agreements with certain holders of three separate series of the Company s senior notes due 2011, 2015 and 2017. Under the terms of the agreements, these holders agreed to exchange their notes for a new issue of Series A preferred stock. Amounts exchanged in each series are as follows: $51,176,000 of 2011 Notes, $121,747,000 of 2015 Notes and $5,826,000 of 2017 Notes, which were exchanged for $50,664,000, $114,442,000 and $4,894,000 of Series A preferred stock, respectively. The Company also issued an additional $50,000,000 of Series A preferred stock for cash pursuant to separate, privately negotiated purchase agreements. Net proceeds from the issuance, net of the cost of an equity call hedge transaction

described below and offering expenses, were $26,900,000. The closing of the exchanges and the issuance described above occurred on March 9, 2010 and the Company issued approximately 4,400,000 shares of Series A preferred stock.

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

U. Capital Stock (continued)

Holders may convert the Series A preferred stock at their option, into shares of Class A common stock, at any time. Upon conversion, the holder would receive approximately 3.3 shares of Class A common stock per $50 liquidation preference of Series A preferred stock, based on an initial conversion price of $15.12 per share of Class A common stock, subject to adjustment. The Company may elect to mandatorily convert some or all of the Series A preferred stock if the Daily Volume Weighted Average Price of its Class A common stock equals or exceeds 150% of the initial conversion price then in effect for at least 20 out of 30 consecutive trading days. If the Company elects to mandatorily convert some or all of the Series A preferred stock, the Company must make a Dividend Make-Whole Payment on the Series A preferred stock equal to the total value of the aggregate amount of dividends that would have accrued and become payable from March 2010 to March 2013, less any dividends already paid on the Series A preferred stock. The Dividend Make-Whole Payment is payable in cash or shares of the Company s Class A common stock, or a combination thereof, at the Company s option.

In connection with the exchanges and issuance described above, the Company entered into equity call hedge transactions. The equity call hedge transactions are intended to reduce, subject to a limit, the potential dilution of the Company s Class A common stock upon conversion of the Series A preferred stock. The net effect of the equity call hedge transactions, from the Company s perspective, is to approximate an effective conversion price of $18.27 per share. The terms of the Series A preferred stock are not affected by the equity call hedge transactions.

During the year ended January 31, 2011, the Company declared and paid Series A preferred stock dividends of $11,807,000 to preferred stock shareholders. Undeclared Series A preferred stock dividends were $1,925,000 at January 31, 2011. Effective February 1, 2011, pursuant to a Unanimous Written Consent, the Company s Board of Directors declared cash dividends on the outstanding shares of Series A preferred stock dividends of $3,850,000 for the period from December 15, 2010 to March 14, 2011 to shareholders of record at the close of business on March 1, 2011, which will be paid on March 15, 2011.

In June 2010, the shareholders of the Company approved increasing the number of authorized shares of preferred stock to 20,000,000 shares.

V. Subsequent Events

*Casino Related Agreements*

On February 1, 2011, the Company announced the closing of the sale of approximately 16 acres of land, together with air rights, to Rock Ohio Caesars Cleveland LLC ( Rock Ohio ) for $85,000,000. The land is adjacent to the Company s, *Tower City Center* mixed-use complex. The Company received a deposit of $11,000,000 at closing on January 31, 2011, $33,900,000 in February 2011, with the remaining purchase price payable in installments in 2011 and 2012.

On February 23, 2011, the Company signed a lease agreement with Rock Ohio for space at the *Higbee Building* within the Company s *Tower City Center* mixed-use complex. Rock Ohio will use the space for Phase I of its new Horseshoe Casino Cleveland. The five-year lease, which includes extension options, is for approximately 303,000 square feet on the lower level and first, second and third floors of the building.

*Property Disposition*

In February 2011, the Company completed the sale of its 50% interest in *Met Lofts,* an unconsolidated apartment community in Los Angeles, California, to its 50% partner. The sale generated net cash proceeds of approximately $13,200,000.

In February 2011, the Company completed the sale of the *Charleston Marriott*, in Charleston, West Virginia for $25,500,000. The sale generated net cash proceeds of approximately $8,600,000.

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**Forest City Enterprises, Inc. and Subsidiaries**
**Quarterly Consolidated Financial Data (Unaudited)**

Revenues from real estate operations and earnings (loss) before income taxes have been reclassified for properties disposed of and/or classified as held for sale.

| | Quarter Ended | | | |
|---|---|---|---|---|
| | **January 31, 2011** | **October 31, 2010** | **July 31, 2010** | **April 30, 2010** |
| | *(in thousands, except per share data)* | | | |
| Revenues from real estate operations | **$ 297,790** | **$ 299,368** | **$ 304,946** | **$ 275,557** |
| Earnings (loss) before income taxes | **$ (34,745)** | **$ (5,695)** | **$ 255,828** | **$ (13,206)** |
| Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders | **$ (5,683)** | **$ (50,641)** | **$ 118,739** | **$ (15,562)** |
| Basic net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders per common share(1) | **$ (0.04)** | **$ (0.33)** | **$ 0.74** | **$ (0.10)** |
| Diluted net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders per common share(1) | **$ (0.04)** | **$ (0.33)** | **$ 0.62** | **$ (0.10)** |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | January 31, 2010 | October 31, 2009 | July 31, 2009 | April 30, 2009 |
| | *(in thousands, except per share data)* | | | |
| Revenues from real estate operations | $ 318,530 | $ 299,236 | $ 309,276 | $ 304,971 |
| Earnings (loss) before income taxes | $ 414 | $ 11,381 | $ 18,666 | $ (38,417) |
| Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders | $ 6,201 | $ (4,384) | $ (1,789) | $ (30,679) |
| Basic net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders per common share(1) | $ 0.04 | $ (0.03) | $ (0.01) | $ (0.30) |
| Diluted net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders per common share(1) | $ 0.04 | $ (0.03) | $ (0.01) | $ (0.30) |

(1) The Company s restricted stock is considered a participating security pursuant to the two-class method for computing basic earnings per share ( EPS ). The Class A Common Units are considered convertible participating securities as they are entitled to participate in any dividends paid to the Company s common shareholders. The Class A Common Units are included in the computation of basic EPS using the two-class method and are included in the computation of diluted EPS using the if-converted method. Basic EPS is computed by dividing net earnings less the allocable undistributed earnings of all participating securities by the weighted average number of common shares outstanding during the period. Diluted EPS includes the effect of applying the if-converted method to the Class A Common Units, convertible debt securities, convertible preferred stock and the potential dilutive effect of the Company s stock plan by adjusting the

denominator using the treasury stock method. The sum of the four quarters EPS may not equal the annual EPS due to the weighting of stock and option activity occurring during the year and the exclusion of dilutive securities from the computation during loss periods.

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**Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**DISCLOSURE CONTROLS**

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

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

**Management s Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of the President and Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions involving our assets;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has used the framework set forth in the report entitled Internal Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to evaluate the effectiveness of our internal control over financial reporting. Based on our evaluation under the framework in Internal Control Integrated Framework, our management has concluded that our internal control over financial reporting was effective as of January 31, 2011.

The effectiveness of our internal control over financial reporting as of January 31, 2011 has been audited by our independent registered public accounting firm, PricewaterhouseCoopers LLP, as stated in their report, which appears on page 92 of this Annual Report on Form 10-K.

**Changes in Internal Control over Financial Reporting**

In connection with the evaluation required by Rule 13a-15(d) under the Securities Exchange Act, the Company s management, including the CEO and CFO, concluded that there were no changes in the Company s internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act, that occurred during the Company s most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Respectfully,

/s/ Charles A. Ratner

Charles A. Ratner
President and Chief Executive Officer

/s/ Robert G. O Brien

Robert G. O Brien
Executive Vice President and Chief Financial Officer

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

(a) Information about our Directors will be contained in the Election of Directors section of the definitive proxy statement, to be filed in connection with the annual meeting of shareholders to be held on June 10, 2011, and is incorporated herein by reference.

(b) Pursuant to General Instruction G of Form 10-K and Item 401(b) of Regulation S-K, information about Executive Officers of the Company is reported in Part I of this Annual Report on Form 10-K.

(c) The disclosure of delinquent filers, if any, under Section 16(a) of the Securities Exchange Act of 1934 will be contained in the Section 16(a) Beneficial Ownership Reporting/Compliance section of the definitive proxy statement, to be filed in connection with the annual meeting of shareholders to be held on June 10, 2011, and is incorporated herein by reference.

The Company has a separately-designated standing audit committee. Information about the Company s audit committee and the audit committee financial expert will be contained in the Meetings and Committees of the Board of Directors section of the definitive proxy statement, to be filed in connection with the annual meeting of shareholders to be held on June 10, 2011, and are incorporated herein by reference.

The Company s Code of Legal and Ethical Conduct can be found on the Company s website at www.forestcity.net under Investors - Corporate Governance and is also available in print, free of charge, to any shareholder upon written request addressed to Corporate Secretary, Forest City Enterprises, Inc., Suite 1360, 50 Public Square, Cleveland, Ohio 44113. Additional information about the Company s Code of Legal and Ethical Conduct will be contained in the Corporate Governance section of the definitive proxy statement, to be filed in connection with the annual meeting of shareholders to be held on June 10, 2011, and is incorporated herein by reference. The Company intends to disclose on its website any amendment to, or waiver of, any provision of this code applicable to its directors and executive officers that would otherwise be required to be disclosed under the rules of the SEC or New York Stock Exchange.

**Item 11. Executive Compensation**

The information required by this item will be contained in the Director Compensation, Compensation Committee Interlocks and Insider Participation, Compensation Discussion & Analysis, Potential Payments Upon Termination and Executive Compensation Tables sections of the definitive proxy statement, to be filed in connection with the annual meeting of shareholders to be held on June 10, 2011, and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item will be contained in the Election of Directors, Principal Security Holders and Equity Compensation Plan Information sections of the definitive proxy statement, to be filed in connection with the annual meeting of shareholders to be held on June 10, 2011 and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item will be contained in the Corporate Governance Independence Determinations and Certain Relationships and Related Transactions sections of the definitive proxy statement, to be filed in connection with the annual meeting of shareholders to be held on June 10, 2011, and is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The information required by this item will be contained in the Independent Registered Public Accounting Firm Fees and Services section of the definitive proxy statement, to be filed in connection with the annual meeting of shareholders to be held on June 10, 2011, and is incorporated herein by reference.

## PART IV

## Item 15. Exhibits and Financial Statements Schedules

(a) List of Documents filed as part of this report.

1. Financial statements and supplementary data included in Part II, Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets January 31, 2011 and 2010

Consolidated Statements of Operations for the years ended January 31, 2011, 2010 and 2009

Consolidated Statements of Comprehensive Income (Loss) for the years ended January 31, 2011, 2010 and 2009

Consolidated Statements of Shareholders Equity for the years ended January 31, 2011, 2010 and 2009

Consolidated Statements of Cash Flows for the years ended January 31, 2011, 2010 and 2009

Notes to Consolidated Financial Statements

Supplementary Data Quarterly Consolidated Financial Data (Unaudited)

2. Financial statements and schedules required by Part II, Item 8 are included in Part IV, Item 15(c):

| | Page No. |
|---|---|
| Schedule II Valuation and Qualifying Accounts for the years ended January 31, 2011, 2010 and 2009 | 165 |
| Schedule III Real Estate and Accumulated Depreciation at January 31, 2011 with reconciliations for the years ended January 31, 2011, 2010 and 2009 | 166 |

Schedules other than those listed above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the consolidated financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

3. Exhibits see (b) starting on page 160.

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(b) Exhibits

| Exhibit Number | | Description of Document |
|---|---|---|
| 3.1 | - | Amended Articles of Incorporation of Forest City Enterprises, Inc., restated effective October 1, 2008, incorporated by reference to Exhibit 3.1 to the Company s Form 10-Q for the quarter ended October 31, 2008 (File No. 1-4372). |
| 3.1.1 | - | Certificate of Amendment by Directors to the Amended Articles of Incorporation of Forest City Enterprises, Inc. dated March 4, 2010 (setting forth Section C(2), Article IV, Preferred Stock Designation of the Series A Cumulative Perpetual Convertible Preferred Stock), incorporated by reference to Exhibit 3.1 to the Company s Form 8-K filed on March 9, 2010 (File No. 1-4372). |
| 3.1.2 | - | Certificate of Amendment by Shareholders to the Amended Articles of Incorporation of Forest City Enterprises, Inc. dated June 25, 2010, incorporated by reference to Exhibit 3.3 to the Company s Form 10-Q for the quarter ended July 31, 2010 (File No. 1-4372). |
| 3.2 | - | Code of Regulations as amended August 11, 2010, incorporated by reference to Exhibit 3.4 to the Company s Form 10-Q for the quarter ended July 31, 2010 (File No. 1-4372). |
| 4.1 | - | 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). |
| 4.2 | - | Form of 7.625% Senior Note due 2015, incorporated by reference to Exhibit 4.2 to the Company s Form 8-K filed on May 20, 2003 (File No. 1-4372). |
| 4.3 | - | Form of 7.375% Senior Note due 2034, incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form 8-A filed on February 10, 2004 (File No. 1-4372). |
| 4.4 | - | Form of 6.5% Senior Note due 2017, incorporated by reference to Exhibit 4.2 to the Company s Form 8-K filed on January 26, 2005 (File No. 1-4372). |
| 4.5 | - | Indenture, dated as of October 10, 2006, between Forest City Enterprises, Inc., as issuer, and The Bank of New York Trust Company, N.A., as trustee, including, as Exhibit A thereto, the Form of 3.625% Puttable Equity-Linked Senior Note due 2011, incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed on October 16, 2006 (File No. 1-4372). |
| 4.6 | - | Indenture, dated as of October 7, 2009, between Forest City Enterprises, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, including as Exhibit A thereto, the Form of 3.625% Puttable Equity-Linked Senior Note due 2014, incorporated by reference to Exhibit 4.6 to the Company s Form 10-Q for the quarter ended October 31, 2009 (File No. 1-4372). |
| 4.6.1 | - | First Supplemental Indenture, dated as of May 21, 2010, between Forest City Enterprises, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, supplemental to Indenture dated as of October 7, 2009, incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed on May 26, 2010 (File No. 1-4372). |

| | | |
|---|---|---|
| 4.7 | - | Indenture, dated October 26, 2009, between Forest City Enterprises, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, including as Exhibit A thereto, the Form of 5.00% Convertible Senior Note due 2016, incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed on October 26, 2009 (File No. 1-4372). |
| 9.1 | - | Voting Agreement, dated November 8, 2006, by and among Forest City Enterprises, Inc., RMS Limited Partnership, Powell Partners, Limited, Joseph M. Shafran and Bruce C. Ratner, incorporated by reference to Exhibit 9.1 to the Company s Form 10-K for the year ended January 31, 2007 (File No. 1-4372). |
| +10.1 | - | Dividend Reinvestment and Stock Purchase Plan, incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q for the quarter ended October 31, 2009 (File No. 1-4372). |
| +10.2 | - | 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). |

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| Exhibit Number | | Description of Document |
|---|---|---|
| +10.3 | - | 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). |
| +10.3.1 | - | 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 the quarter ended April 30, 2005 (File No. 1-4372). |
| +10.3.2 | - | 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 the quarter ended April 30, 2005 (File No. 1-4372). |
| +10.4 | - | Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Executives (As Amended and Restated Effective January 1, 2008), incorporated by reference to Exhibit 10.21 to the Company s Form 10-K for the year ended January 31, 2008 (File No. 1-4372). |
| +10.4.1 | - | First Amendment to Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Executives (As Amended and Restated Effective January 1, 2008), effective as of December 17, 2009, incorporated by reference to Exhibit 10.7 to the Company s Form 10-K for the year ended January 31, 2010 (File No. 1-4372). |
| +10.5 | - | 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). |
| +10.5.1 | - | 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). |
| +10.5.2 | - | 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). |
| +10.5.3 | - | 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). |
| +10.5.4 | - | 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 the quarter ended April 30, 2005 (File No. 1-4372). |
| +10.5.5 | - | Fifth Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective as of March 26, 2008, incorporated by reference to Exhibit 10.60 to the Company s Form 10-K for the year ended January 31, 2008 (File No. 1-4372). |

+10.5.6 - Sixth Amendment to Deferred Compensation Plan for Nonemployee Directors, effective as of December 17, 2009, incorporated by reference to Exhibit 10.14 to the Company s Form 10-K for the year ended January 31, 2010 (File No. 1-4372).

+10.6 - Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Nonemployee Directors (As Amended and Restated effective January 1, 2008), incorporated by reference to Exhibit 10.60 to the Company s Form 10-Q for the quarter ended April 30, 2008 (File No. 1-4372).

+10.6.1 - First Amendment to Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Nonemployee Directors (As Amended and Restated effective January 1, 2008), effective December 17, 2009, incorporated by reference to Exhibit 10.16 to the Company s Form 10-K for the year ended January 31, 2010 (File No. 1-4372).

+10.7 - Forest City Enterprises, Inc. Executive Short-Term Incentive Plan (As Amended and Restated as of June 19, 2008), incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on June 24, 2008 (File No. 1-4372).

+10.8 - Forest City Enterprises, Inc. Executive Long-Term Incentive Plan (As Amended and Restated as of June 19, 2008), incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on June 24, 2008 (File No. 1-4372).

| Exhibit Number | | Description of Document |
|---|---|---|
| +10.9 | - | Forest City Enterprises, Inc. Senior Management Short-Term Incentive Plan (Effective February 1, 2008), incorporated by reference to Exhibit 10.4 to the Company s Form 8-K filed on June 24, 2008 (File No. 1-4372). |
| +10.10 | - | Forest City Enterprises, Inc. Senior Management Long-Term Incentive Plan (Effective February 1, 2008), incorporated by reference to Exhibit 10.5 to the Company s Form 8-K filed on June 24, 2008 (File No. 1-4372). |
| +10.11 | - | Forest City Enterprises, Inc. Amended Board of Directors Compensation Policy, effective February 1, 2008, incorporated by reference to Exhibit 10.33 to the Company s Form 10-K for the year ended January 31, 2008 (File No. 1-4372). |
| +10.12 | - | Forest City Enterprises, Inc. Unfunded Nonqualified Supplemental Retirement Plan for Executives (As Amended and Restated Effective January 1, 2008), incorporated by reference to Exhibit 10.59 to the Company s Form 10-K for the year ended January 31, 2008 (File No. 1-4372). |
| +10.13 | - | Amended and Restated Form of Incentive and Nonqualified Stock Option Agreement, effective as of March 25, 2010, incorporated by reference to Exhibit 10.23 to the Company s Form 10-K for the year ended January 31, 2010 (File No. 1-4372). |
| +10.14 | - | Amended and Restated Form of Restricted Stock Agreement, effective as of March 25, 2010, incorporated by reference to Exhibit 10.24 to the Company s Form 10-K for the year ended January 31, 2010 (File No. 1-4372). |
| +10.15 | - | Form of Forest City Enterprises, Inc. Performance Shares Agreement, incorporated by reference to Exhibit 10.6 to the Company s Form 8-K filed on June 24, 2008 (File No. 1-4372). |
| +10.16 | - | Form of Forest City Enterprises, Inc. Nonqualified Stock Option Agreement for Nonemployee Directors, incorporated by reference to Exhibit 10.66 to the Company s Form 10-Q for the quarter ended July 31, 2008 (File No. 1-4372). |
| +10.17 | - | Form of Forest City Enterprises, Inc. Restricted Shares Agreement for Nonemployee Directors, incorporated by reference to Exhibit 10.67 to the Company s Form 10-Q for the quarter ended July 31, 2008 (File No. 1-4372). |
| +10.18 | - | Forest City Enterprises, Inc. 1994 Stock Plan (As Amended and Restated as of June 16, 2010), incorporated by reference to Exhibit 10.28 to the Company s Form 10-Q for the quarter ended July 31, 2010 (File No. 1-4372). |
| +10.19 | - | Employment Agreement entered into on May 31, 1999, effective January 1, 1999, between Forest City Enterprises, Inc. 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). |
| +10.19.1 | - | |

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).

+10.20 - Employment Agreement entered into on May 31, 1999, effective January 1, 1999, between Forest City Enterprises, Inc. 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).

+10.21 - Agreement regarding death benefits entered into on May 31, 1999, between Forest City Enterprises, Inc. and Robert G. O Brien, incorporated by reference to Exhibit 10.29 to the Company s Form 10-Q for the quarter ended April 30, 2009 (File No. 1-4372).

+10.22 - Employment Agreement entered into on July 20, 2005, effective February 1, 2005, between Forest City Enterprises, Inc. 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).

+10.22.1 - First Amendment to Employment Agreement, dated as of November 9, 2006, by and among Charles A. Ratner and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372).

| Exhibit Number | | Description of Document |
|---|---|---|
| +10.23 | - | Employment Agreement entered into on July 20, 2005, effective February 1, 2005, between Forest City Enterprises, Inc. 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). |
| +10.23.1 | - | First Amendment to Employment Agreement, dated as of November 9, 2006, by and among James A. Ratner and Forest City Enterprises, Inc, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372). |
| +10.24 | - | Employment Agreement entered into on July 20, 2005, effective February 1, 2005, between Forest City Enterprises, Inc. and Ronald A. Ratner, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372). |
| +10.24.1 | - | First Amendment to Employment Agreement, dated as of November 9, 2006, by and among Ronald A. Ratner and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.4 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372). |
| +10.25 | - | Employment Agreement, effective November 9, 2006, by and among Bruce C. Ratner and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372). |
| 10.26 | - | Master Contribution and Sale Agreement, dated as of August 10, 2006, by and among Forest City Enterprises, Inc., certain entities affiliated with Forest City Enterprises, Inc., Forest City Master Associates III, LLC, certain entities affiliated with Forest City Master Associates III, LLC, certain entities affiliated with Bruce C. Ratner and certain individuals affiliated with Bruce C. Ratner, incorporated by reference to Exhibit 10.37 to the Company s Form 10-Q for the quarter ended July 31, 2009 (File No. 1-4372). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. |
| 10.27 | - | Registration Rights Agreement by and among Forest City Enterprises, Inc. and the holders of BCR Units listed on Schedule A thereto dated November 8, 2006, incorporated by reference to Exhibit 10.1 to the Company s Registration Statement on Form S-3 filed on November 7, 2007 (Registration No. 333-147201). |
| 10.28 | - | Second Amended and Restated Credit Agreement, dated as of January 29, 2010, by and among Forest City Rental Properties Corporation, as Borrower, KeyBank National Association, as Administrative Agent, PNC Bank, National Association, as Syndication Agent, Bank of America, N.A., as Documentation Agent and the banks named therein, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on February 4, 2010 (File No. 1-4372). |
| 10.29 | - | Pledge Agreement, dated as of January 29, 2010, by Forest City Rental Properties Corporation to KeyBank National Association, as Agent for itself and the other Banks, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on February 4, 2010 (File No. 1-4372). |
| 10.30 | - | |

Second Amended and Restated Guaranty of Payment of Debt, dated as of January 29, 2010, by and among Forest City Enterprises, Inc., as Guarantor, KeyBank National Association, as Administrative Agent, PNC Bank, National Association, as Syndication Agent, Bank of America, N.A., as Documentation Agent and the banks named therein, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on February 4, 2010 (File No. 1-4372).

| | | |
|---|---|---|
| 10.31 | - | First Amendment to Second Amended and Restated Credit Agreement and Second Amended and Restated Guaranty of Payment of Debt, dated as of March 4, 2010, by and among Forest City Rental Properties Corporation, Forest City Enterprises, Inc., KeyBank National Association, as Administrative Agent, PNC Bank National Association, as Syndication Agent, Bank of America, N.A., as Documentation Agent, and the banks named therein, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on March 9, 2010 (File No. 1-4372). |
| 10.32 | - | Second Amendment to Second Amended and Restated Credit Agreement and Second Amended and Restated Guaranty of Payment of Debt, dated as of August 24, 2010, by and among Forest City Rental Properties Corporation, Forest City Enterprises, Inc., KeyBank National Association, as Administrative Agent, PNC Bank National Association, as Syndication Agent, Bank of America, N.A., as Documentation Agent, and the banks named therein, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on August 27, 2010 (File No. 1-4372). |

| Exhibit Number | | Description of Document |
|---|---|---|
| *10.33 | - | Third Amendment to Second Amended and Restated Credit Agreement and Second Amended and Restated Guaranty of Payment of Debt, dated as of January 18, 2011, by and among Forest City Rental Properties Corporation, Forest City Enterprises, Inc., KeyBank National Association, as Administrative Agent, PNC Bank National Association, as Syndication Agent, Bank of America, N.A., as Documentation Agent, and the banks named therein. |
| 10.34 | - | Form of Exchange Agreement, pertaining to 5.00% Convertible Senior Note due 2016, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on January 27, 2011 (File No. 1-4372). |
| *21 | - | Subsidiaries of the Registrant. |
| *23 | - | Consent of PricewaterhouseCoopers LLP. |
| *24 | - | Powers of attorney. |
| *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. |
| *99.1 | - | Nets Sports and Entertainment, LLC and Subsidiaries Consolidated Balance Sheets at June 30, 2010 and 2009, and Consolidated Statements of Operations, Consolidated Statements of Members Equity (Deficit), and Consolidated Statements of Cash Flows for the fiscal years then ended, including the Notes thereto. |
| **101 | - | The following financial information from Forest City Enterprises, Inc. s Annual Report on Form 10-K for the year ended January 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Equity; (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text. |

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

* Filed herewith.

** Submitted electronically herewith. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any

registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**Table of Contents**

**Item 15. Financial Statements Schedules**
Schedule
VALUATION AND QUALIFYING ACCOUNTS
(c) Financial Statements Schedules
**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

| Description | Balance at Beginning of Period | Additions Charged to Costs and Expenses | Deductions | Balance at End of Period |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| Allowance for doubtful accounts and notes receivable | | | | |
| **January 31, 2011** | **$ 33,825** | **$ 7,242** | **$ 9,875** | **$ 31,192** |
| January 31, 2010 | $ 27,213 | $ 12,977 | $ 6,365 | $ 33,825 |
| January 31, 2009 | $ 13,084 | $ 15,943 | $ 1,814 | $ 27,213 |
| Allowance for projects under development | | | | |
| **January 31, 2011** | **$ 23,786** | **$ 8,195** | **$ 9,195** | **$ 22,786** |
| January 31, 2010 | $ 17,786 | $ 27,415 | $ 21,415 | $ 23,786 |
| January 31, 2009 | $ 11,786 | $ 52,211 | $ 46,211 | $ 17,786 |
| Valuation reserve on other investments | | | | |
| **January 31, 2011** | **$ 4,820** | **$ 61** | **$ -** | **$ 4,881** |
| January 31, 2010 | $ 5,952 | $ 182 | $ 1,314 | $ 4,820 |
| January 31, 2009 | $ 6,934 | $ 456 | $ 1,438 | $ 5,952 |
| Valuation allowances for deferred tax assets | | | | |
| **January 31, 2011** | **$ 58,396** | **$ 8,932** | **$ 5,584** | **$ 61,744** |
| January 31, 2010 | $ 48,155 | $ 13,959 | $ 3,718 | $ 58,396 |
| January 31, 2009 | $ 27,414 | $ 24,463 | $ 3,722 | $ 48,155 |

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(c) Financial Statements Schedules (continued)
REAL ESTATE AND ACCUMULATED DEPRECIATION
**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION**
*Forest City Enterprises, Inc. and Subsidiaries*

| | | Initial Cost to Company | | Cost Capitalized Subsequent to Acquisition | Gross Amount at Which Carried at Close of January 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Property | Amount of Encumbrance at January 31, 2011 | Land | Buildings and Improvements | Improvements and Carrying Costs | Land | Buildings and Improvements | Total (A)(B) | Accumulate Depreciatio at January 31, 2011 (C)Co |
| | | | | *(in thousands)* | | | | |
| | $ 1,110,095 | $ 92,450 | $ 1,271,869 | $ 300,171 | $ 99,457 | $ 1,565,033 | $ 1,664,490 | $ 296,74 |
| rs: | | | | | | | | |
| | 2,322,539 | 312,282 | 2,227,347 | 687,088 | 387,016 | 2,839,701 | 3,226,717 | 581,59 |
| : | | | | | | | | |
| York | 640,000 | 91,737 | 375,931 | 145,880 | 150,079 | 463,468 | 613,547 | 30,12 |
| | 1,706,189 | 64,698 | 1,963,072 | 673,053 | 132,055 | 2,568,769 | 2,700,824 | 699,00 |
| ovements ment: | | | | | | | | |
| | - | - | 9,847 | - | - | 9,847 | 9,847 | 6,89 |
| ion and | | | | | | | | |
| York | 670,000 | 126,207 | 615,848 | - | 126,207 | 615,848 | 742,055 | |
| ork | 379,363 | 41,276 | 657,914 | - | 41,276 | 657,914 | 699,190 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| York | 147,892 | 171,164 | 406,869 | - | 171,164 | 406,869 | 578,033 | |
| | 180,055 | 161,170 | 525,787 | - | 161,170 | 525,787 | 686,957 | |
| : | | | | | | | | |
| | 51,085 | 244,879 | - | - | 244,879 | - | 244,879 | |
| | $ 7,207,218 | $ 1,305,863 | $ 8,054,484 | $ 1,806,192 | $ 1,513,303 | $ 9,653,236 | $ 11,166,539 | $ 1,614,39 |

(A) The aggregate cost at January 31, 2011 for federal income tax purposes was $9,981,294. For (B) and (C) refer to the following page.

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(c) Financial Statements Schedules (continued)

**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued)**

| | Years Ended January 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | *(in thousands)* | | |
| (B) Reconciliations of total real estate carrying value are as follows: | | | |
| Balance at beginning of period | **$ 11,340,779** | $ 10,648,573 | $ 9,225,753 |
| Additions during period - | | | |
| Improvements | **744,415** | 889,440 | 1,074,632 |
| Other additions, primarily as a result of change in accounting method of property | **166,038** | - | 422,248 |
| Other acquisitions | **-** | 4,713 | 80,972 |
| | **910,453** | 894,153 | 1,577,852 |
| Deductions during period - | | | |
| Cost of real estate sold or retired | **(187,069)** | (151,637) | (153,770) |
| Cost of real estate in connection with disposal of partial interests | **(514,533)** | - | - |
| Other deductions, primarily as a result of change in accounting method of property | **(383,091)** | (50,310) | (1,262) |
| | **(1,084,693)** | (201,947) | (155,032) |
| Balance at end of period | **$ 11,166,539** | $ 11,340,779 | $ 10,648,573 |
| (C) Reconciliations of accumulated depreciation are as follows: | | | |
| Balance at beginning of period | **$ 1,593,658** | $ 1,419,271 | $ 1,244,431 |
| Additions during period - | | | |
| Charged to profit or loss | **197,120** | 204,935 | 199,213 |
| Net other additions (deductions) during period - | | | |
| Acquisitions, retirements, sales or disposals | **(176,379)** | (30,548) | (24,373) |
| Balance at end of period | **$ 1,614,399** | $ 1,593,658 | $ 1,419,271 |

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: March 30, 2011 BY: /s/ Charles A. Ratner
(Charles A. Ratner, President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| * (Albert B. Ratner) | Co-Chairman of the Board and Director | March 30, 2011 |
| * (Samuel H. Miller) | Co-Chairman of the Board, Treasurer and Director | March 30, 2011 |
| /s/ Charles A. Ratner (Charles A. Ratner) | President, Chief Executive Officer and Director (Principal Executive Officer) | March 30, 2011 |
| /s/ Robert G. O Brien (Robert G. O Brien) | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | March 30, 2011 |
| /s/ Linda M. Kane (Linda M. Kane) | Senior Vice President, Chief Accounting and Administrative Officer (Principal Accounting Officer) | March 30, 2011 |
| * (James A. Ratner) | Executive Vice President and Director | March 30, 2011 |
| * (Ronald A. Ratner) | Executive Vice President and Director | March 30, 2011 |
| * (Brian J. Ratner) | Executive Vice President and Director | March 30, 2011 |
| * (Bruce C. Ratner) | Executive Vice President and Director | March 30, 2011 |

| | | |
|---|---|---|
| * | Director | March 30, 2011 |
| (Deborah Ratner Salzberg) | | |
| * | Director | March 30, 2011 |
| (Michael P. Esposito, Jr.) | | |
| * | Director | March 30, 2011 |
| (Scott S. Cowen) | | |
| * | Director | March 30, 2011 |
| (Arthur F. Anton) | | |
| * | Director | March 30, 2011 |
| (Joan K. Shafran) | | |
| * | Director | March 30, 2011 |
| (Louis Stokes) | | |
| * | Director | March 30, 2011 |
| (Stan Ross) | | |
| * | Director | March 30, 2011 |
| (Deborah L. Harmon) | | |

The Registrant plans to distribute to security holders a copy of the Annual Report and Proxy material on or about April 28, 2011.

* The undersigned, pursuant to a Power of Attorney executed by each of the Directors and Officers identified above and filed with the Securities and Exchange Commission, by signing his name hereto, does hereby sign and execute this Form 10-K on behalf of each of the persons noted above, in the capacities indicated.

/s/ Charles A. Ratner March 30, 2011

(Charles A. Ratner, Attorney-in-Fact)

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## EXHIBITS FILED HEREWITH

| Exhibit Number | | Description of Document |
|---|---|---|
| 10.33 | - | Third Amendment to Second Amended and Restated Credit Agreement and Second Amended and Restated Guaranty of Payment of Debt, dated as of January 18, 2011, by and among Forest City Rental Properties Corporation, Forest City Enterprises, Inc., KeyBank National Association, as Administrative Agent, PNC Bank National Association, as Syndication Agent, Bank of America, N.A., as Documentation Agent, and the banks named therein. |
| 21 | - | Subsidiaries of the Registrant. |
| 23 | - | Consent of PricewaterhouseCoopers LLP. |
| 24 | - | Powers of attorney. |
| 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. |
| 99.1 | - | Nets Sports and Entertainment, LLC and Subsidiaries Consolidated Balance Sheets at June 30, 2010 and 2009, and Consolidated Statements of Operations, Consolidated Statements of Members Equity (Deficit), and Consolidated Statements of Cash Flows for the fiscal years then ended, including the Notes thereto. |