FOREST CITY ENTERPRISES INC
Form 10-Q
June 06, 2011

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

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 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 Suite 1100	50 Public Square Cleveland, Ohio	44113
(Address of principal executive offices)		(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes 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 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 checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

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

Class	Outstanding at June 1, 2011
Class A Common Stock, $.33 1/3 par value	150,133,547 shares
Class B Common Stock, $.33 1/3 par value	21,001,688 shares

Forest City Enterprises, Inc. and Subsidiaries
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	April 30, 2011 (Unaudited)	January 31, 2011
	(in thousands)	
Assets		
Real Estate		
Completed rental properties	**$ 7,564,517**	$ 8,215,425
Projects under construction and development	**2,687,012**	2,706,235
Land held for development or sale	**257,591**	244,879
Total Real Estate	**10,509,120**	11,166,539
Less accumulated depreciation	**(1,470,762)**	(1,614,399)
Real Estate, net - (variable interest entities $2,710.8 million and $2,627.8 million, respectively)	**9,038,358**	9,552,140
Cash and equivalents - (variable interest entities $26.8 million and $24.7 million, respectively)	**204,641**	193,372
Restricted cash and escrowed funds - (variable interest entities $401.3 million and $471.4 million, respectively)	**624,575**	720,180
Notes and accounts receivable, net	**405,833**	403,101
Investments in and advances to affiliates	**478,215**	431,509
Other assets - (variable interest entities $167.7 million and $166.8 million, respectively)	**703,128**	759,399
Total Assets	**$ 11,454,750**	$ 12,059,701
Liabilities and Equity		
Liabilities		
Mortgage debt and notes payable, nonrecourse - (variable interest entities $1,839.8 million and $1,879.0 million, respectively)	**$ 6,638,508**	$ 7,207,218
Bank revolving credit facility	**81,427**	137,152
Senior and subordinated debt - (variable interest entities $29.0 million as of each period)	**774,240**	773,683
Accounts payable and accrued expenses - (variable interest entities $160.2 million and $150.2 million, respectively)	**1,067,836**	1,074,042
	273,006	290,492

Cash distributions and losses in excess of investments in unconsolidated investments		
Deferred income taxes	**494,953**	489,974
Total Liabilities	**9,329,970**	9,972,561
Redeemable Noncontrolling Interest	**226,782**	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 shares authorized; 4,399,998 shares issued and outstanding	**220,000**	220,000
Preferred stock - without par value; 13,600,000 shares authorized; no shares issued	**-**	-
Common stock - $.33 1/3 par value		
Class A, 371,000,000 shares authorized, 144,745,330 and 144,251,634 shares issued and 144,653,100 and 144,230,310 shares outstanding, respectively	**48,248**	48,084
Class B, convertible, 56,000,000 shares authorized, 21,006,188 and 21,218,753 shares issued and outstanding, respectively; 26,257,961 issuable	**7,002**	7,073
Total common stock	**55,250**	55,157
Additional paid-in capital	**695,580**	689,004
Retained earnings	**703,643**	659,926
Less treasury stock, at cost; 92,230 and 21,324 Class A shares, respectively	**(1,598)**	(259)
Shareholders equity before accumulated other comprehensive loss	**1,672,875**	1,623,828
Accumulated other comprehensive loss	**(94,704)**	(94,429)
Total Shareholders Equity	**1,578,171**	1,529,399
Noncontrolling interest	**319,827**	330,912
Total Equity	**1,897,998**	1,860,311
Total Liabilities and Equity	**$ 11,454,750**	$ 12,059,701

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
(Unaudited)

	Three Months Ended April 30,	
	2011	2010
	(in thousands, except per share data)	
Revenues from real estate operations	**$ 316,881**	$ 271,460
Expenses		
Operating expenses	**165,688**	155,291
Depreciation and amortization	**58,391**	60,071
Impairment of real estate	**4,835**	-
	228,914	215,362
Interest expense	**(67,994)**	(81,118)
Amortization of mortgage procurement costs	**(3,449)**	(2,612)
Gain (loss) on early extinguishment of debt	**(296)**	6,297
Interest and other income	**15,507**	6,814
Net gain on disposition of partial interests in rental properties	**9,561**	866
Earnings (loss) before income taxes	**41,296**	(13,655)
Income tax expense (benefit)		
Current	**17,060**	6,619
Deferred	**1,252**	(15,542)
	18,312	(8,923)
Equity in earnings (loss) of unconsolidated entities	**19,994**	(4,225)
Impairment of unconsolidated entities	**-**	(12,899)
Earnings (loss) from continuing operations	**42,978**	(21,856)
Discontinued operations, net of tax:		
Operating earnings from rental properties	**-**	492
Gain on disposition of rental properties	**5,719**	-
	5,719	492

Net earnings (loss)		**48,697**		(21,364)
Noncontrolling interests				
(Earnings) loss from continuing operations attributable to noncontrolling interests		**(737)**		5,823
Earnings from discontinued operations attributable to noncontrolling interests		**(393)**		(21)
		(1,130)		5,802
Net earnings (loss) attributable to Forest City Enterprises, Inc.		**47,567**		(15,562)
Preferred dividends		**(3,850)**		-
Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders	**$**	**43,717**	$	(15,562)
Basic earnings (loss) per common share				
Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders	**$**	**0.22**	$	(0.10)
Earnings (loss) from discontinued operations attributable to Forest City Enterprises, Inc.		**0.04**		-
Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders	**$**	**0.26**	$	(0.10)
Diluted earnings (loss) per common share				
Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders	**$**	**0.21**	$	(0.10)
Earnings (loss) from discontinued operations attributable to Forest City Enterprises, Inc.		**0.03**		-
Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders	**$**	**0.24**	$	(0.10)

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)
(Unaudited)

	Three Months Ended April 30,	
	2011	2010
	(in thousands)	
Net earnings (loss)	**$ 48,697**	$ (21,364)
Other comprehensive income (loss), net of tax:		
Unrealized net gains on investment securities	**14**	88
Foreign currency translation adjustments	**202**	(193)
Unrealized net gains (losses) on interest rate derivative contracts	**(554)**	1,177
Total other comprehensive income (loss), net of tax	**(338)**	1,072
Comprehensive income (loss)	**48,359**	(20,292)
Comprehensive (income) loss attributable to noncontrolling interest	**(1,067)**	5,729
Total comprehensive income (loss) attributable to Forest City Enterprises, Inc.	**$ 47,292**	$ (14,563)

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
(Unaudited)

eferred Stock Series A		Common Stock Class A		Common Stock Class B		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Loss	Noncontr
res	Amount	Shares	Amount	Shares	Amount			Shares	Amount		Intere
					(in thousands)						
00	$ 220,000	144,252	$ 48,084	21,219	$ 7,073	$ 689,004	$ 659,926	21	$ (259)	$ (94,429)	$ 330,
							47,567				1,
										(275)	
								71	(1,339)		
		213	71	(213)	(71)						
		267	89			(89)					
		13	4			165					
							(3,850)				
						3,242					
						(365)					
						(619)					

						4,242					(4,
											(12,
											4,
00	$ 220,000	144,745	$ 48,248	21,006	$ 7,002	$ 695,580	$ 703,643	92	$ (1,598)	$ (94,704)	$ 319,
-	$ -	132,836	$ 44,279	22,516	$ 7,505	$ 571,189	$ 613,073	28	$ (154)	$ (87,266)	$ 356,
											(74,
							(15,562)				(5,
										999	
								25	(358)		

		1,025	341	(1,025)	(341)		
00	50,000					(5,544)	
00	170,000					(2,342)	
						(17,556)	
		111	37			(37)	
						5,267	
						(1,446)	
							3,
							(2,
							23,

00	$	220,000	133,972	$	44,657	21,491	$	7,164	$	549,531	$	597,511	53	$	(512)	$	(86,267)	$ 300,

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

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

	Three Months Ended April 30,	
	2011	2010
	(in thousands)	
Net earnings (loss)	**$ 48,697**	$ (21,364)
Depreciation and amortization	**58,391**	60,071
Amortization of mortgage procurement costs	**3,449**	2,612
Impairment of real estate	**4,835**	-
Impairment of unconsolidated entities	**-**	12,899
Write-offs of abandoned development projects, net of change in allowance for projects under development	**(1,843)**	-
(Gain) loss on early extinguishment of debt	**296**	(6,297)
Net gain on disposition of partial interests in rental properties	**(9,561)**	(866)
Deferred income tax expense (benefit)	**1,252**	(15,542)
Equity in (earnings) loss of unconsolidated entities	**(19,994)**	4,225
Stock-based compensation expense	**2,811**	2,774
Amortization and mark-to-market adjustments of derivative instruments	**(153)**	1,355
Non-cash interest expense related to Puttable Equity-Linked Senior Notes	**557**	576
Cash distributions from operations of unconsolidated entities	**9,459**	3,764
Discontinued operations:		
Depreciation and amortization	**-**	1,874
Amortization of mortgage procurement costs	**-**	55
Deferred income tax expense (benefit)	**3,561**	166
Gain on disposition of rental properties	**(10,431)**	-
Cost of sales of land included in projects under construction and development and completed rental properties	**1,535**	876
Increase in land held for development or sale	**(9,957)**	(2,025)
(Increase) decrease in notes and accounts receivable	**(10,326)**	18,956
(Increase) decrease in other assets	**(9,794)**	2,137
Increase in restricted cash and escrowed funds used for operating purposes	**(536)**	(8,893)
Decrease in accounts payable and accrued expenses	**(14,802)**	(34,850)
Net cash provided by operating activities	**47,446**	22,503
Cash Flows from Investing Activities		
Capital expenditures	**(167,698)**	(226,731)
Payment of lease procurement costs	**(2,932)**	(8,341)
Increase in other assets	**(13,082)**	(5,747)
Decrease in restricted cash and escrowed funds used for investing purposes	**87,233**	62,590
Proceeds from disposition of partial interests in rental properties and 2011 dispositions of a development project and a rental property	**193,338**	158,533
Decrease (increase) in investments in and advances to affiliates, net	**7,563**	(31,848)
Net cash provided by (used in) investing activities	**104,422**	(51,544)

Cash Flows from Financing Activities		
Proceeds from nonrecourse mortgage debt and notes payable	**101,444**	42,778
Principal payments on nonrecourse mortgage debt and notes payable	**(147,313)**	(23,017)
Borrowings on bank revolving credit facility	**250,075**	169,300
Payments on bank revolving credit facility	**(305,800)**	(252,816)
Payment of transaction costs related to January 2011 Senior Note exchange for Class A common stock	**(2,200)**	-
Payment of deferred financing costs	**(8,334)**	(3,702)
Change in restricted cash and escrowed funds and book overdrafts	**(10,590)**	12,968
Proceeds from issuance of Series A preferred stock, net of $5,544 of issuance costs	**-**	44,456
Payment for equity call hedge related to the issuance of Series A preferred stock	**-**	(17,556)
Dividends paid to preferred shareholders	**(3,850)**	-
Purchase of treasury stock	**(1,339)**	(358)
Exercise of stock options	**169**	-
Contributions from noncontrolling interests	**38**	1,996
Distributions to noncontrolling interests	**(12,899)**	(2,407)
Net cash used in financing activities	**(140,599)**	(28,358)
Net increase (decrease) in cash and equivalents	**11,269**	(57,399)
Cash and equivalents at beginning of period	**193,372**	251,405
Cash and equivalents at end of period	**$ 204,641**	$ 194,006

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

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

Supplemental Non-Cash Disclosures:

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

	Three Months Ended April 30,	
	2011	2010
	(in thousands)	
Operating Activities		
(Increase) decrease in land held for development or sale (1)(2)(3)	**$ (5,690)**	$ 750
Decrease in notes and accounts receivable (4)(5)(6)	**29,345**	17,490
Decrease in other assets (4)(5)(7)	**62,234**	69,534
Decrease (increase) in restricted cash and escrowed funds (4)(5)	**9,127**	(4,495)
Increase in accounts payable and accrued expenses (3)(4)(5)(7)	**20,645**	183,821
Total effect on operating activities	**$ 115,661**	$ 267,100
Investing Activities		
Increase in projects under construction and development (2)(3)(4)(8)	**$ (14,628)**	$ (87,506)
Decrease in completed rental properties (2)(4)(5)(7)	**469,948**	307,211
(Increase) decrease in investments in and advances to affiliates (4)(5)	**(42,659)**	47,660
Total effect on investing activities	**$ 412,661**	$ 267,365
Financing Activities		
Decrease in nonrecourse mortgage debt and notes payable(1)(4)(5)(7)	**$ (532,841)**	$ (485,898)
Decrease in senior and subordinated debt (9)	**-**	(167,658)
Increase in preferred stock (9)	**-**	170,000
Increase in additional paid-in capital (8)(9)(10)(11)	**4,054**	151
Increase in redeemable noncontrolling interest(11)	**619**	-
Decrease in noncontrolling interest (4)(5)(6)(10)	**(154)**	(51,060)
Total effect on financing activities	**$ (528,322)**	$ (534,465)

(1) Assumption of debt in exchange for a 75% equity interest in a land development project in Dallas, Texas during the three months ended April 30, 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 for various entities in the Residential Group and Commercial Group during the three months ended April 30, 2010, due to the adoption of accounting guidance for the

consolidation of variable interest entities

(5) Disposition of partial interests in 15 New York retail properties and change to equity method of accounting for remaining ownership interest during the three months ended April 30, 2011 and 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 and change to equity method of accounting from full consolidation for the remaining ownership interest during the three months ended April 30, 2010.

(6) Receipt of a note receivable as a contribution from a noncontrolling interest during the three months ended April 30, 2010.

(7) Disposition of *Charleston Marriott,* a hotel in the Commercial Group, including assumption of nonrecourse mortgage debt by the buyer, during the three months ended April 30, 2011.

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

(9) 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 three months ended April 30, 2010 (see Note R Capital Stock).

(10) Acquisition of a partner s noncontrolling interest in a development project in the Commercial Group during the three months ended April 30, 2011.

(11) Adjustment to redemption value of redeemable noncontrolling interest during the three months ended April 30, 2011.

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

A. Accounting Policies

Basis of Presentation

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

Use of Estimates

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

Reclassification

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

Restricted Cash and Escrowed Funds

Restricted cash and escrowed funds represents legally restricted amounts with financial institutions for debt service payments, taxes and insurance, collateral, security deposits, capital replacement, improvement and operating reserves, bond funds, development escrows and construction escrows.

Accumulated Other Comprehensive Loss

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

	April 30, 2011	January 31, 2011
	(in thousands)	
Unrealized losses on securities	**$ 463**	$ 485
Unrealized losses on foreign currency translation	**1,186**	1,516
Unrealized losses on interest rate contracts (1)	**154,320**	153,432
	155,969	155,433
Noncontrolling interest and income tax benefit	**(61,265)**	(61,004)
Accumulated Other Comprehensive Loss	**$ 94,704**	$ 94,429

(1) Included in the amounts as of April 30 and January 31, 2011 are $104,137 and $102,387, respectively, of unrealized losses on an interest rate swap associated with *New York Times*, an office building in Manhattan, New York, on its nonrecourse mortgage debt with a notional amount of $640,000. This swap effectively fixes the

mortgage at an all in lender interest rate of 6.40% (5.50% swap rate plus 0.90% lender spread) and expires in September 2017. Approximately $33,537 is expected to be reclassified from accumulated OCI to interest expense within the next twelve months.

Fair Value of Financial Instruments

The carrying amount of notes and accounts receivable and accounts payable 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.

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

A. Accounting Policies (continued)

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

	April 30, 2011		January 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	(in thousands)		*(in thousands)*	
Fixed	**$ 4,176,712**	**$ 4,338,367**	$ 4,649,129	$ 4,802,728
Variable	**3,317,463**	**3,358,614**	3,468,924	3,519,566
Total long-term debt	**$ 7,494,175**	**$ 7,696,981**	$ 8,118,053	$ 8,322,294

See Note H for fair values of other financial instruments.

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 hedge accounting requirements. 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.

Variable Interest Entities

The Company s VIEs consist of joint ventures that are engaged, directly or indirectly, in the ownership, development and management of office buildings, regional malls, specialty retail centers, apartment communities, military housing, supported-living communities, hotels, land development and The Nets, a member of the National Basketball Association (NBA) in which the Company accounts for its investment on the equity method of accounting. As of April 30, 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 April 30, 2011, the Company held variable interests in 59 VIEs for which it is not the primary beneficiary. The maximum exposure to loss as a result of its involvement with these unconsolidated VIEs is limited to the Company s investments in those VIEs totaling approximately $97,000,000 at April 30, 2011. In addition, the Company has also determined that it is the primary beneficiary of a VIE which holds collateralized borrowings of $29,000,000 as of April 30, 2011 (see Note E Senior and Subordinated Debt).

Noncontrolling Interest

Interests held by partners in consolidated real estate partnerships are reflected in noncontrolling interest, which represents the noncontrolling partners share of the underlying net assets of the Company s consolidated subsidiaries. Noncontrolling interest that is not redeemable is reported in the equity section of the Consolidated Balance Sheets. Noncontrolling interests where the Company may be required to repurchase the noncontrolling interest at fair value under a put option or other contractual redemption requirement are reported in the mezzanine section of the

Consolidated Balance Sheets between liabilities and equity, as redeemable noncontrolling interest. The Company adjusts the redeemable noncontrolling interest to redemption value (which approximates fair value) at each balance sheet date with changes recognized as an adjustment to additional paid-in capital (see Note H Fair Value Measurements).

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

A. Accounting Policies (continued)

New Accounting Guidance

The following accounting pronouncements were adopted during the three months ended April 30, 2011:

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

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

The following new accounting pronouncement will be adopted on its respective required effective date:

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

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B. Investments in Unconsolidated Entities

Investments in unconsolidated entities include investments in and advances to affiliates and cash distributions and losses in excess of unconsolidated investments 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.

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

	April 30, 2011	January 31, 2011
	(in thousands)	
Members and partners equity, as below	**$ 717,264**	$ 587,164
Equity of other members and partners	**737,604**	616,640
Company s investment in partnerships	**(20,340)**	(29,476)
Basis differences [1]	**134,085**	76,634
Advances to and on behalf of other affiliates	**91,464**	93,859
Total Investments in Unconsolidated Entities	**$ 205,209**	$ 141,017
Assets - Investments in unconsolidated investments	**$ 478,215**	$ 431,509
Liabilities - Cash distributions and losses in excess of investments in unconsolidated investments	**(273,006)**	(290,492)
Total Investments in Unconsolidated Entities	**$ 205,209**	$ 141,017

(1) This amount represents the aggregate difference between the Company s historical cost basis and the basis reflected on the equity method venture level, which is typically amortized over the life of the related assets and liabilities. Basis differences occur from certain acquisition, transaction and other costs, 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%)	
	April 30, 2011	January 31, 2011
	(in thousands)	
Balance Sheet:		
Real Estate		
Completed rental properties	**$ 6,264,715**	$ 5,514,041
Projects under construction and development	**130,436**	174,106
Land held for development or sale	**232,477**	272,930
Total Real Estate	**6,627,628**	5,961,077

Less accumulated depreciation	**(1,108,223)**	(944,968)
Real Estate, net	**5,519,405**	5,016,109
Cash and equivalants	**113,388**	109,246
Restricted cash - military housing bond funds	**373,471**	384,584
Other restricted cash and escrowed funds	**227,909**	206,778
Other assets	**728,130**	536,246
Operating property assets held for sale[1]	**-**	67,190
Total Assets	**$ 6,962,303**	$ 6,320,153
Mortgage debt and notes payable, nonrecourse	**$ 5,801,532**	$ 5,301,900
Other liabilities	**443,507**	369,871
Liabilities of operating property held for sale[1]	**-**	61,218
Members and partners equity	**717,264**	587,164
Total Liabilities and Members and Partners Equity	**$ 6,962,303**	$ 6,320,153

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

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B. Investments in Unconsolidated Entities (continued)

	(Combined 100%) Three Months Ended April 30,	
	2011	2010
	(in thousands)	
Operations:		
Revenues	**$ 256,189**	$ 233,025
Operating expenses	**(154,392)**	(162,383)
Interest expense	**(74,227)**	(62,439)
Impairment of real estate [1]	**-**	(1,457)
Depreciation and amortization	**(47,392)**	(37,092)
Interest and other income	**2,770**	2,456
Loss from continuing operations	**(17,052)**	(27,890)
Discontinued operations:		
Operating loss from rental properties	**(12)**	(268)
Net loss (pre-tax)	**$ (17,064)**	$ (28,158)
Company s portion of net earnings (loss) (pre-tax)	**7,427**	(5,016)
Impairment of investment in unconsolidated entities [1]	**-**	(12,156)
Gain on disposition of equity method investments [2]	**12,567**	48
Net earnings (loss) (pre-tax) from unconsolidated entities	**$ 19,994**	$ (17,124)

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

		Three Months Ended April 30,	
		2011	**2010**
Impairment of real estate:		*(in thousands)*	
Old Stone Crossing at Caldwell Creek (Mixed-Use Land Development)	Charlotte, North Carolina	**$ -**	$ 1,457
Company s portion of impairment of real estate		**$ -**	$ 743

Impairment of investment in unconsolidated entities:			
Office Buildings:			
818 Mission Street	San Francisco, California	**$ -**	$ 4,018
Bulletin Building	San Francisco, California	**-**	3,543
Metreon (Specialty Retail Center)	San Francisco, California	**-**	4,595
Total impairment of investment in unconsolidated entities		**$ -**	$ 12,156
Total impairment of unconsolidated entities		**$ -**	$ 12,899

(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 on the disposition of unconsolidated entities:

		Three Months Ended April 30,	
		2011	**2010**
Gain on disposition of equity method investments:		*(in thousands)*	
Apartment Communities:			
Metropolitan Lofts	Los Angeles, California	**$ 9,964**	$ -
Twin Lake Towers	Denver, Colorado	**2,603**	-
El Centro Mall (Specialty Retail Center)	El Centro, California	**-**	48
Gain on disposition of equity method investments		**$ 12,567**	$ 48

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Forest City Enterprises, Inc. and Subsidiaries
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C. Mortgage Debt and Notes Payable, Nonrecourse

As of April 30, 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	$ 859,591	$ 74,674	$ 784,917
2013	1,650,713	$ 95,986	$ 1,554,727
2014	936,151	$ 40,544	$ 895,607
2015	408,446	$ 31,132	$ 377,314
2016	356,545	$ 28,471	$ 328,074
Thereafter	2,427,062		
Total	**$ 6,638,508**		

Subsequent to April 30, 2011, the Company addressed $262,399,000 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 $230,444,000 of nonrecourse debt scheduled to mature during the year ending 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.

D. Bank Revolving Credit Facility

On March 30, 2011, the Company and its 13-member bank group entered into a Third Amended and Restated Credit Agreement (the Credit Agreement) and a Third Amended and Restated Guaranty of Payment of Debt (the Guaranty , and collectively, the Credit Facility). On April 21, 2011, one additional member was admitted to the bank group and the total available borrowings under the Credit Agreement was increased from $425,000,000 to $450,000,000. The Credit Agreement matures on March 30, 2014 and provides for one, 12-month extension option, subject to certain conditions. Borrowings bear interest at LIBOR, subject to a floor of 100 basis points, plus 3.75%. Up to $100,000,000 of the available borrowings may be used, in the aggregate, for letters of credit and/or surety bonds. The Credit Facility has a number of restrictive covenants, including a prohibition on certain consolidations and mergers, limitations on the amount of debt, guarantees and property liens that the Company may incur and restrictions on the pledging of ownership interests in subsidiaries. The Credit Agreement requires $46,891,000 of available borrowings be reserved for the retirement of specified senior indebtedness and removes the previous prohibition on paying common stock dividends, subject to a limitation of $20,000,000 in the aggregate in any four fiscal quarter period. Additionally, the Credit Facility contains certain development limitations and financial covenants, including the maintenance of minimum liquidity, certain debt service and cash flow coverage ratios, and specified levels of shareholders equity (all as specified in the Credit Facility). At April 30, 2011, the Company was in compliance with all of these financial covenants.

On March 30, 2011, the Company also entered into a First Amended Pledge Agreement (Pledge Agreement) with the banks party to the Credit Agreement. The Pledge Agreement secures the Company s obligations under the Credit Agreement by granting a security interest to the bank group in its right, title and interest as a member, partner,

shareholder or other equity holder of certain direct subsidiaries, including, but not limited to, its right to receive profits, proceeds, accounts, income, dividends, distributions or return of capital from such subsidiaries, to the extent the granting of such security interest would not result in a default under project level financing or the organizational documents of such subsidiary.

The Company s previous credit agreement, in place until March 30, 2011, provided for total available borrowings of approximately $470,000,000, subject to permanent reduction as the Company received net proceeds from specified external capital raising events in excess of $250,000,000. This facility was scheduled to mature on February 1, 2012 and incurred interest at LIBOR, subject to a floor of 200 basis points, plus 3.75%.

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D. Bank Revolving Credit Facility (continued)

The following table summarizes the available credit on the bank revolving credit facility:

	April 30, 2011	January 31, 2011
	(in thousands)	
Maximum borrowings	**$ 450,000**	$ 470,336
Less outstanding balances and reserves:		
Borrowings	**81,427**	137,152
Letters of credit	**65,039**	63,418
Surety bonds	**-**	-
Reserve for retirement of puttable equity-linked senior notes due 2011	**46,891**	46,891
Available credit	**$ 256,643**	$ 222,875

E. Senior and Subordinated Debt

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

	April 30, 2011	January 31, 2011
	(in thousands)	
Senior Notes:		
3.625% Puttable Equity-Linked Senior Notes due 2011, net of discount	**$ 45,955**	$ 45,480
3.625% Puttable Equity-Linked Senior Notes due 2014, net of discount	**198,888**	198,806
7.625% Senior Notes due 2015	**178,253**	178,253
5.000% Convertible Senior Notes due 2016	**90,000**	90,000
6.500% Senior Notes due 2017	**132,144**	132,144
7.375% Senior Notes due 2034	**100,000**	100,000
Total Senior Notes	**745,240**	744,683
Subordinated Debt:		
Subordinate Tax Revenue Bonds due 2013	**29,000**	29,000
Total Senior and Subordinated Debt	**$ 774,240**	$ 773,683

During May 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. Under the terms of the agreements,

holders agreed to exchange $40,000,000 in aggregate principal amount of notes for a total of 3,444,293 shares of Class A common stock (see Note S Subsequent Events).

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. 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. During the year ended January 31, 2011, the Company retired $51,176,000 of its 2011 Notes in exchange for Series A preferred stock and purchased on the open market $7,000,000 in principal amount of its 2011 Notes. There was $46,891,000 ($45,955,000, net of discount) and $46,891,000 ($45,480,000, net of discount) of principal outstanding at April 30 and January 31, 2011, respectively.

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E. Senior and Subordinated Debt (continued)

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 April 30, 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.

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

	April 30, 2011	January 31, 2011
	(in thousands)	
Carrying amount of equity component	**$ 7,484**	$ 7,484
Outstanding principal amount of the puttable equity-linked senior notes	**46,891**	46,891
Unamortized discount	**(936)**	(1,411)

Net carrying amount of the puttable equity-linked senior notes	**$**	**45,955**	$	45,480

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 $475,000 and $495,000 for the three months ended April 30, 2011 and 2010, respectively. The Company recorded contractual interest expense of $425,000 and $689,000 for the three months ended April 30, 2011 and 2010, respectively.

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E. Senior and Subordinated Debt (continued)

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.

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 April 30, 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 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 and before the Put Termination Date 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%. During the year ended January 31, 2011, 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 5.00% convertible senior notes due October 15, 2016 (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. During the year ended January 31, 2011, the Company retired $110,000,000 of 2016 Notes in exchange for Class A common stock. During May 2011, the Company retired $40,000,000 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 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 were not affected by the convertible note hedge transaction. The convertible note hedge transaction was recorded as a reduction of shareholders equity through additional paid-in capital.

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E. Senior and Subordinated Debt (continued)

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 of February 1, 2011, the redemption price was reduced to 102.167%. During the year ended January 31, 2011, the Company retired $5,826,000 of 2017 Notes in exchange for Series A preferred stock and also purchased on the open market $12,030,000 in principal of 2017 Notes.

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 unlikely event that there is insufficient tax revenue to support the bonds when the custodial receipts are subject to mandatory tender on December 1, 2013. As such, the 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.

F. 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 Security Industry and Financial Markets Association (SIFMA) rate plus a spread on the TRS related to the Converted Bonds. The Company determined that the sale of the Converted Bonds to the investment banks and simultaneous execution of the TRS did not surrender control; therefore, the Converted Bonds have been recorded as a secured borrowing.

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F. Financing Arrangements (continued)

Prior to April 30, 2011, consolidated subsidiaries of the Company purchased $23,000,000 of the Converted Bonds from the investment banks. Simultaneous to each purchase, a corresponding amount of a related TRS was terminated and the corresponding secured borrowing was removed from the Consolidated Balance Sheets. The fair value of the Converted Bonds recorded in other assets was $58,000,000 at both April 30 and January 31, 2011. The outstanding TRS contracts on the $35,000,000 of secured borrowings related to the Converted Bonds at both April 30 and January 31, 2011 were supported by collateral consisting primarily of certain notes receivable owned by the Company aggregating $29,140,000. The Company recorded net interest income of $423,000 and $522,000 related to the TRS for the three months ended April 30, 2011 and 2010, respectively.

On May 12, 2011, the District refinanced $42,000,000 of the outstanding $58,000,000 Junior Subordinated Bonds. Of the $42,000,000 refinanced, the Company received $23,000,000 as repayment of the Converted Bonds that were held by its consolidated subsidiaries. The investment banks received $19,000,000 which simultaneously terminated a corresponding amount of a related TRS and the corresponding secured borrowing.

Other Financing Arrangements

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 $22,121,000 of this commitment as of April 30, 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 $5,159,000 of this commitment as of April 30, 2011.

G. Derivative Instruments and Hedging Activities

Risk Management Objective of Using Derivatives

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned decreases in earnings and cash flows that may be caused by interest rate volatility. Derivative instruments that are used as part of the Company s strategy include interest rate swaps and option contracts that have indices related to the pricing of specific balance sheet liabilities. The Company enters into interest rate swaps to convert certain floating-rate debt to fixed-rate long-term debt, and vice-versa, depending on market conditions, or forward starting swaps to hedge the changes in benchmark interest rates on forecasted financings. The Company enters into interest rate swap agreements for hedging purposes for periods that are generally one to ten years. Option products utilized include interest rate caps, floors, 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 does not have any Treasury options outstanding at April 30, 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.

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G. Derivative Instruments and Hedging Activities (continued)

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 $-0- and $2,000 as an increase to interest expense for the three months ended April 30, 2011 and 2010, 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). There were no missed forecasted transactions for both the three months ended April 30, 2011 and 2010. As of April 30, 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 $29,686,000, net of tax. However, the actual amount reclassified could vary due to future changes in fair value of these derivatives.

Fair Value Hedges of Interest Rate Risk

From time to time, the Company and/or certain of its joint ventures (the Joint Ventures) enter into TRS on various tax-exempt fixed-rate borrowings generally held by the Company and/or within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require the Company and/or the Joint Ventures pay a variable rate, generally equivalent to the SIFMA rate plus a spread. At April 30, 2011, the SIFMA rate was 0.26%. 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 April 30, 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 H Fair Value Measurements).

Nondesignated Hedges of Interest Rate Risk

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

The Company enters into forward swaps to protect itself against fluctuations in the swap rate at terms ranging between five to ten years associated with forecasted fixed rate borrowings. At the time the Company secures and locks an interest rate on an anticipated financing, it intends to simultaneously terminate the forward swap associated with that financing. At April 30, 2011, the Company had no forward swaps outstanding. The Company terminated forward swaps with notional amounts of $62,800,000 and $107,000,000 on February 1, 2011 and May 3, 2010, respectively. These forward swaps were not designated as cash flow hedges under the accounting guidance on derivatives and hedging activities. As such, the change in fair value of these swaps was marked to market through earnings on a quarterly basis. Related to these forward swaps, the Company recorded $(229,000) and $308,000 for the three months ended April 30, 2011 and 2010, respectively, as an increase (reduction) of interest expense.

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G. Derivative Instruments and Hedging Activities (continued)

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

	Fair Value of Derivative Instruments April 30, 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	$ 581,982	$ 88	$ -	$ -
Interest rate swap agreements	200,000	294	1,194,968	111,527
TRS	-	-	280,885	20,456
Total derivatives designated as hedging instruments	$ 781,982	$ 382	$ 1,475,853	$ 131,983
Derivatives Not Designated as Hedging Instruments				
Interest rate caps	$ 1,361,868	$ 42	$ -	$ -
Interest rate swap agreements	20,117	1,605	-	-
TRS	140,800	2,352	30,600	9,408
Total derivatives not designated as hedging instruments	$ 1,522,785	$ 3,999	$ 30,600	$ 9,408

	January 31, 2011 (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

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G. Derivative Instruments and Hedging Activities (continued)

The following tables presents 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:

		Gain (Loss) Reclassified from Accumulated OCI (Effective Portion)		
Derivatives Designated as Cash Flow Hedging Instruments	**Gain (Loss) Recognized in OCI (Effective Portion)**	**Location on Consolidated Statements of Operations**	**Amount**	**Ineffectiveness Recognized in Interest Expense on Derivatives**
		(in thousands)		
Three Months Ended April 30, 2011				
Interest rate caps, interest rate swaps and Treasury options	$ (2,039)	Interest expense	$ (691)	$ -
Treasury options	-	Equity in loss of unconsolidated entities	(88)	-
Total	$ (2,039)		$ (779)	$ -
Three Months Ended April 30, 2010				
Interest rate caps, interest rate swaps and Treasury options	$ 852	Interest expense	$ (751)	$ (2)
Treasury options	-	Equity in loss of unconsolidated entities	(18)	(2)
Total	$ 852		$ (769)	$ (4)

The following table presents the impact of gains and losses related to derivative instruments:

	Net Gain (Loss) Recognized Three Months Ended April 30,	
	2011	2010

Derivatives Designated as Fair Value Hedging Instruments	*(in thousands)*	
TRS [1]	**$ 1,482**	$ 2,299
Derivatives Not Designated as Hedging Instruments		
Interest rate caps, interest rate swaps and floors	**$ (196)**	$ (776)
TRS	**1,040**	161
Total	**$ 844**	$ (615)

(1) The net loss recognized in interest expense from the change in fair value of the underlying TRS borrowings was $1,482 and $2,299 for the three months ended April 30, 2011 and 2010, respectively, offsetting the gain recognized on the TRS (see Note H Fair Value Measurements).

Forest City Enterprises, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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G. 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 April 30, 2011, the aggregate fair value of all derivative instruments in a liability position, prior to the adjustment for nonperformance risk of $(12,390,000), is $153,781,000. The Company had posted collateral consisting primarily of cash and notes receivable of $94,867,000 related to all derivative instruments. If all credit risk contingent features underlying these agreements had been triggered on April 30, 2011, the Company would have been required to post collateral of the full amount of the liability position.

H. Fair Value Measurements

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

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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H. 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 April 30, 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 are 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 April 30, 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 consists 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. The following table presents information about the Company s financial assets and liabilities and redeemable noncontrolling interests that were measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Fair Value Measurements at April 30, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Interest rate caps	$ -	$ 130	$ -	$ 130

Interest rate swap agreements (positive fair value)	-	1,899	-	1,899
Interest rate swap agreements (negative fair value)	-	(7,390)	(104,137)	(111,527)
TRS (positive fair value)	-	-	2,352	2,352
TRS (negative fair value)	-	-	(29,864)	(29,864)
Fair value adjustment to the borrowings subject to TRS	-	-	20,456	20,456
Redeemable noncontrolling interest	-		(226,782)	(226,782)
Total	$ -	$ (5,361)	$ (337,975)	$ (343,336)

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H. 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 Three Months Ended April 30, 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, 2011	$ (226,829)	$ (102,387)	$ (30,034)	$ 21,938	$ (8,096)	$ (337,312)
Total realized and unrealized gains (losses):						
Included in earnings	666	-	2,522	(1,482)	1,040	1,706
Included in other comprehensive income	-	(1,750)	-	-	-	(1,750)
Included in additional paid-in capital	(619)	-	-	-	-	(619)
Balance, April 30, 2011	$ (226,782)	$ (104,137)	$ (27,512)	$ 20,456	$ (7,056)	$ (337,975)

I. Stock-Based Compensation

During the three months ended April 30, 2011, the Company granted 473,519 stock options and 730,554 shares of restricted stock under the Company s 1994 Stock Plan. The stock options had a grant-date fair value of $11.20, which was computed using the Black-Scholes option-pricing model with the following assumptions: expected term of 5.5 years, expected volatility of 72.4%, risk-free interest rate of 2.6%, and expected dividend yield of 0%. The exercise price of the options is $17.72, which was the closing price of the underlying Class A common stock on the date of grant. The restricted stock had a grant-date fair value of $17.72 per share, which was the closing price of the Class A common stock on the date of grant.

At April 30, 2011, there was $7,517,000 of unrecognized compensation cost related to stock options that is expected to be recognized over a weighted-average period of 3.22 years, and there was $23,683,000 of unrecognized compensation cost related to restricted stock that is expected to be recognized over a weighted-average period of 3.18 years.

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

	Three Months Ended April 30,	
	2011	2010
	(in thousands)	
Stock option costs	**$ 189**	$ 2,852
Restricted stock costs	**3,053**	2,415

Total stock-based compensation costs		**3,242**		5,267
Less amount capitalized into qualifying real estate projects		**(431)**		(2,493)
Amount charged to operating expenses		**2,811**		2,774
Depreciation expense on capitalized stock-based compensation		**185**		151
Total stock-based compensation expense	**$**	**2,996**	$	2,925
Deferred income tax benefit	**$**	**1,118**	$	1,008

The amount of grant-date fair value expensed immediately for awards granted to retirement-eligible grantees during the three months ended April 30, 2011 and 2010 was $1,022,000 and $1,136,000, respectively. During the three months ended April 30, 2011, previously recorded stock option costs in the amount of $1,622,000, most of which was previously capitalized into real estate projects, were reversed to reflect actual forfeitures in excess of estimated forfeitures.

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I. Stock-Based Compensation (continued)

In connection with the vesting of restricted stock during the three months ended April 30, 2011 and 2010, the Company repurchased into treasury 70,906 shares and 24,612 shares, respectively, of Class A common stock to satisfy the employees related minimum statutory tax withholding requirements. These shares were placed in treasury with an aggregate cost basis of $1,339,000 and $358,000, respectively.

J. Commercial Group Land Sales

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

At January 31, 2011, the Company received cash deposits of $8,550,000 and $2,500,000 on Parcel #1 and Parcel #2, respectively. During the three months ended April 30, 2011, $33,950,000 of the purchase price of Parcel #1 was received. With the receipt of this payment the buyer s initial and continuing investment was deemed adequate for full gain recognition on the sale of Parcel #1. As such, the entire sales price is included in revenues from real estate operations and the related cost of land is included in operating expenses, resulting in a gain on sale of approximately $42,622,000. The minimum initial investment related to Parcel #2 has not been met at April 30, 2011 and accordingly, the deposit received is recorded as a deposit liability and included in accounts payable and accrued expenses at April 30, 2011. The remaining purchase price of Parcel #1 is payable in 2011 and Parcel #2 is payable in installments during 2011 and 2012.

K. Net Gain on Disposition of Partial Interests in Rental Properties

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

	Three Months Ended April 30,	
	2011	2010
	(in thousands)	
New York Retail Joint Venture	**$ 9,561**	$ -
Bernstein Joint Venture	**-**	29,342
University Park Joint Venture	**-**	(28,476)
	$ 9,561	$ 866

New York Retail Joint Venture

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

For its 49% equity interests, the outside partner invested cash and assumed debt of $244,952,000, representing 49% of the nonrecourse mortgage debt on the 15 properties. As of April 30, 2011, the Company received proceeds of $178,286,000, primarily in the form of a loan. Based on the net amount of cash received, the outside partner s minimum initial investment requirement of 20% was not met. As such, the transaction did not qualify for full gain recognition under accounting guidance related to real estate sales. Therefore, the installment method of gain recognition was applied, resulting in a net gain on disposition of partial interest in rental properties of $9,561,000 during the three months ended April 30, 2011 with the remaining gain of $115,388,000 deferred and included in accounts payable and accrued expenses at April 30, 2011. Transaction costs totaled $11,776,000, of which $5,779,000

relating to participation payments made to the ground lessors of two of the properties in accordance with the respective ground lease agreements did not qualify for deferral and were included in the calculation of the net gain on disposition of partial interests in rental properties of $9,561,000 for the three months ended April 30, 2011. As a result of this transaction, the Company is accounting for the 15 properties as equity method investments since both partners have joint control of the properties.

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K. Net Gain on Disposition of Partial Interests in Rental Properties (continued)

Bernstein Joint Venture

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

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 a gain on disposition of partial interests in rental properties of $29,342,000 for the three months ended April 30, 2010. As a result of this transaction, the Company is accounting for the new joint venture and the three properties as equity method investments since both partners have joint control of the new venture and the properties.

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. As of April 30, 2010, the contribution of six of the seven properties had closed and the seventh closed during the second quarter of 2010 upon obtaining lender consents.

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. As of April 30, 2010, the Company received net proceeds of $129,611,000 primarily in the form of a loan from the joint venture and the joint venture assumed approximately $290,000,000 of the nonrecourse mortgage debt. As such, the contribution of the first six properties did not qualify for full gain recognition under accounting guidance related to real estate sales, resulting in a deferred gain of $188,410,000, which is included in accounts payable and accrued expenses at April 30, 2010. Transaction costs of $28,476,000 related to the transaction did not qualify for deferral and were included as a loss on disposition of partial interests in rental properties for the three months ended April 30, 2010. Included in transaction costs are $21,483,000 of participation payments made to the ground lessor of the six 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.

L. Income Taxes

Income tax expense (benefit) for the three months ended April 30, 2011 and 2010 was $18,312,000 and $(8,923,000), respectively. The difference in the recorded income tax expense (benefit) versus the income tax expense (benefit) computed at the statutory federal income tax rate is primarily attributable to state income taxes, utilization of state net operating losses, additional general business credits, changes to the valuation allowances associated with certain deferred tax assets, and various permanent differences between pre-tax GAAP income and taxable income.

The Company applies an estimated annual effective tax rate to its year-to-date earnings from operations to derive its tax provision for the quarter, pursuant to accounting guidance for accounting for income taxes, interim reporting. Certain circumstances may arise which make it difficult for the company to determine a reasonable estimate of its annual effective tax rate for the year. The Company s projected marginal operating results, which includes the gain related to the Commercial Group s land sales as described in Note J, results in an effective tax rate that changes significantly with small variations in projected income or loss from operations or permanent differences and thus does not provide for a reliable estimate of the estimated annual effective tax rate. Therefore, in computing its income tax provision for the quarter ending April 30, 2011, the Company has excluded the gain on the Commercial Group s land sales from its estimated annual effective tax rate calculation and has recognized the actual income tax expense related to the gain during the three months ended April 30, 2011.

At January 31, 2011, the Company had a federal net operating loss carryforward for tax purposes of $206,051,000 (generated primarily from the impact on its net earnings of tax depreciation expense from real estate properties and excess deductions from stock-based compensation) that will expire in the years ending January 31, 2024 through

January 31, 2031, a charitable contribution deduction carryforward of $37,273,000 that will expire in the years ending January 31, 2012 through January 31, 2016 ($6,068,000 expiring in the year ended January 31, 2012), General Business Credit carryovers of $19,070,000 that will expire in the years ending January 31, 2012 through January 31, 2031 ($41,000 expiring in the year ended January 31, 2012), and an alternative minimum tax (AMT) credit carryforward of $29,315,000 that is available until used to reduce federal tax to the AMT amount.

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L. Income Taxes (continued)

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 the accounting guidance on accounting for uncertainty in income taxes. As of January 31, 2011, the Company has not recorded a net deferred tax asset of approximately $17,264,000 from excess stock-based compensation deductions taken on the tax return for which a benefit has not yet been recognized in the Company s tax provision.

M. Impairment of Real Estate, Impairment of Unconsolidated Entities, Write-Off of Abandoned Development Projects and Gain (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 may not be recoverable. In cases where the Company does not expect to recover its carrying costs, an impairment charge is recorded. During the three months ended April 30, 2011, the Company recorded an impairment of certain real estate assets of $4,835,000. This amount includes an impairment of real estate of $3,435,000 related to an investment in a retail property located in Portage, Michigan and $1,400,000 related to *Mill Creek,* a land development project located in York County, South Carolina. The Company recorded no impairments of consolidated real estate during the three months ended April 30, 2010. These impairments represent write-downs to estimated fair value due to changes in certain assumptions, including estimated holding periods and current market conditions and the impact of these assumptions to the properties estimated future cash flows.

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, 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 following table summarizes the Company s impairment of unconsolidated entities:

		Three Months Ended April 30,	
		2011	2010
		(in thousands)	
Office Buildings:			
818 Mission Street	San Francisco, California	**$ -**	$ 4,018
Bulletin Building	San Francisco, California	-	3,543
Metreon (Specialty Retail Center)	San Francisco, California	-	4,595

Old Stone Crossing at Caldwell Creek (Mixed-Use Land Development)	Charlotte, North Carolina		-		743
		$	**-**	$	12,899

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Forest City Enterprises, Inc. and Subsidiaries
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M. Impairment of Real Estate, Impairment of Unconsolidated Entities, Write-Off of Abandoned Development Projects and Gain (Loss) on Early Extinguishment of Debt (continued)

Write-Off of Abandoned Development Projects

On a quarterly basis, the Company reviews each project under development to determine whether it is probable the project will be developed. If management determines that the project will not be developed, project costs are written off as an abandoned development project cost. The Company abandons certain projects under development for a number of reasons, including, but not limited to, changes in local market conditions, increases in construction or financing costs or due to third party challenges related to entitlements or public financing. Write-off of abandoned development projects during the three months ended April 30, 2011 was $157,000. In addition, the Company recorded a reduction in its allowance for projects under development of $2,000,000, resulting in a net decrease in operating expenses of $1,843,000 for the three months ended April 30, 2011. There was no write-off of abandoned development projects or other change in the allowance for projects under development during the three months ended April 30, 2010.

Gain (Loss) on Early Extinguishment of Debt

For the three months ended April 30, 2011 and 2010, the Company recorded $(296,000) and $6,297,000, respectively, as gain (loss) on early extinguishment of debt. The loss for 2011 relates to a nonrecourse mortgage debt financing transaction at *Johns Hopkins 855 North Wolfe Street*, an office building located in East Baltimore, Maryland. The gain in 2010 relates to the exchange of a portion of the Company s 2011, 2015 and 2017 Notes for a new issue of Series A preferred stock.

N. Discontinued Operations

The following table lists rental properties included in discontinued operations:

Property	Location	Square Feet/ Number of Units/Rooms	Period Disposed	Three Months Ended 4/30/2011	Three Months Ended 4/30/2010
Commercial Group:					
Charleston Marriott hotel	Charleston, West Virginia	352 rooms	Q1-2011	Yes	Yes
Simi Valley Town Center	Simi Valley, California	612,000 square feet	Q4-2010	-	Yes
Investment in triple net lease property	Pueblo, Colorado	203,000 square feet	Q4-2010	-	Yes
Saddle Rock Village	Aurora, Colorado	294,000 square feet	Q3-2010	-	Yes
Residential Group:					
101 San Fernando	San Jose, California	323 units	Q2-2010	-	Yes

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N. Discontinued Operations (continued)

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

	Three Months Ended April 30, 2011	2010
	(in thousands)	
Revenues from real estate operations	**$ 1,293**	$ 10,259
Expenses		
Operating expenses	**1,247**	5,689
Depreciation and amortization	**-**	1,874
	1,247	7,563
Interest expense	**(46)**	(1,856)
Amortization of mortgage procurement costs	**-**	(55)
Interest income	**-**	3
Gain on disposition of a rental property - *Charleston Marriott*	**10,431**	-
Earnings before income taxes	**10,431**	788
Income tax expense		
Current	**1,151**	130
Deferred	**3,561**	166
	4,712	296
Earnings from discontinued operations	**5,719**	492
Noncontrolling interest, net of tax		
Gain on disposition of rental properties	**393**	-
Operating earnings from rental properties	**-**	21
Earnings from discontinued operations attributable to Forest City Enterprises, Inc.	**$ 5,326**	$ 471

O. Earnings per Share

The Company s restricted stock is considered a participating security pursuant to the two-class method for computing basic earnings per share (EPS). The Class A Common Units, which are reflected as noncontrolling interests in the 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 and net loss attributable to Forest City Enterprises, Inc. for the three months ended April 30, 2010 was allocated solely to holders of common stock as the participating security holders do not share in the losses.

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O. Earnings per Share (continued)

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

	Three Months Ended April 30,	
	2011	2010
Numerators *(in thousands)*		
Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc.	**$ 42,241**	$ (16,033)
Dividends on preferred stock	**(3,850)**	-
Undistributed earnings allocated to participating securities	**(1,193)**	-
Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Basic	**37,198**	(16,033)
Undistributed earnings allocated to participating securities	**1,193**	-
Interest on convertible debt	**1,798**	-
Preferred distribution on Class A Common Units	**358**	-
Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Diluted	**$ 40,547**	$ (16,033)
Net earnings (loss) attributable to Forest City Enterprises, Inc.	**$ 47,567**	$ (15,562)
Dividends on preferred stock	**(3,850)**	-
Undistributed earnings allocated to participating securities	**(1,358)**	-
Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Basic	**42,359**	(15,562)
Undistributed earnings allocated to participating securities	**1,358**	-
Interest on convertible debt	**1,798**	-
Preferred distribution on Class A Common Units	**358**	-
Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Diluted	**$ 45,873**	$ (15,562)
Denominators		
Weighted average shares outstanding - Basic	**165,498,904**	155,352,050
Effect of stock options and restricted stock	**1,054,102**	-
Effect of convertible debt	**20,225,204**	-
Effect of convertible Class A Common Units	**3,646,755**	-
Weighted average shares outstanding - Diluted [(1)]	**190,424,965**	155,352,050

Earnings Per Share

Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Basic	**$**	**0.22**	$	(0.10)
Earnings (loss) from continuing operations attributable to Forest City Enterprises, Inc. common shareholders - Diluted	**$**	**0.21**	$	(0.10)
Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Basic	**$**	**0.26**	$	(0.10)
Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders - Diluted	**$**	**0.24**	$	(0.10)

(1) a) Incremental shares from dilutive options, restricted stock and convertible securities aggregating 40,938,583 for the three months ended April 30, 2010 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 3,443,125 and 4,253,390 for the three months ended April 30, 2011 and 2010, 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 of 14,550,257 for the year ended April 30, 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 the three months ended April 30, 2011 and 2010 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 E 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 three months ended April 30, 2011 and 2010 because the Company s average stock price did not exceed the put value price of $66.39 for the 2011 Notes. Additionally, the Company sold a warrant with an exercise price of $74.35, which has also been excluded from diluted EPS for the three months ended April 30, 2011 and 2010 because the Company s stock price did not exceed the exercise price.

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P. Segment Information

The Company operates through three strategic business units and five reportable segments. The three strategic business units/reportable segments are the Commercial Group, Residential Group and Land Development Group (Real Estate Groups). The Commercial Group, the Company s largest 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.

	April 30, 2011	January 31, 2011	**Three Months Ended April 30, 2011**	Three Months Ended April 30, 2010
	Identifiable Assets		Capital Expenditures	
Commercial Group	**$ 7,992,602**	$ 8,617,287	**$ 114,625**	$ 161,306
Residential Group	**2,816,353**	2,825,527	**53,040**	65,425
Land Development Group	**520,298**	498,190	**13**	-
The Nets	**-**	-	**-**	-
Corporate Activities	**125,497**	118,697	**20**	-
	$ 11,454,750	$ 12,059,701	**$ 167,698**	$ 226,731

	Three Months Ended April 30, 2011	Three Months Ended April 30, 2010	**Three Months Ended April 30, 2011**	Three Months Ended April 30, 2010
	Revenues from Real Estate Operations		Operating Expenses	
Commercial Group	**$ 209,035**	$ 212,011	**$ 103,138**	$ 101,129
Commercial Group Land Sales	**46,252**	1,199	**2,521**	877
Residential Group	**53,504**	51,392	**36,177**	31,831
Land Development Group	**8,090**	6,858	**9,225**	10,448
The Nets	**-**	-	**-**	-
Corporate Activities	**-**	-	**14,627**	11,006
	$ 316,881	$ 271,460	**$ 165,688**	$ 155,291

Depreciation and Amortization

	Expense		Interest Expense	
Commercial Group	**$ 44,533**	$ 47,148	**$ 47,037**	$ 58,090
Residential Group	**13,445**	12,378	**6,214**	4,856
Land Development Group	**60**	99	**824**	1,308
The Nets	**-**	-	**-**	-
Corporate Activities	**353**	446	**13,919**	16,864
	$ 58,391	$ 60,071	**$ 67,994**	$ 81,118

	Interest and Other Income	
Commercial Group	**$ 6,741**	$ 1,945
Residential Group	**5,876**	2,569
Land Development Group	**2,841**	2,194
The Nets	**-**	-
Corporate Activities	**49**	106
	$ 15,507	$ 6,814

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P. 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 proportionate share: i) gain (loss) on disposition of rental properties, divisions and other investments (net of tax); ii) the adjustment to recognize rental revenues and rental expense using the straight-line method; iii) non-cash charges for real estate depreciation, amortization and amortization of mortgage procurement costs; iv) deferred income taxes; v) preferred payment which is classified as noncontrolling interest expense in the Company s Consolidated Statements of Operations; vi) impairment of real estate (net of tax); vii) extraordinary items (net of tax); and viii) cumulative or retrospective effect of change in accounting principle (net of tax).

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.

Effective during the three months ended April 30, 2011, under the direction of the Company s chief operating decision maker, EBDT provided in order to assess performance for the Real Estate Groups and The Nets was pre-tax. The Corporate Activities segment controls tax strategies and evaluates results on a consolidated basis. As a result, beginning February 1, 2011, the Company will no longer allocate income tax expense (benefit) to the Real Estate Groups or The Nets. In addition, based on the consolidated evaluation of income taxes, it was determined that EBDT would exclude all deferred income taxes instead of just those attributable to the Real Estate Groups. All amounts in the following table are represented in thousands:

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

Three Months Ended April 30, 2011	Commercial Group	Residential Group	Land Development Group	The Nets	Corporate Activities	Total
EBDT	**$ 115,279**	**$ 26,851**	**$ 1,106**	**$ (304)**	**$ (15,556)**	**$ 127,376**
Depreciation and amortization Real Estate Groups	**(50,430)**	**(18,313)**	**(86)**	**-**	**-**	**(68,829)**
Amortization of mortgage procurement costs Real Estate Groups	**(2,731)**	**(840)**	**(61)**	**-**	**-**	**(3,632)**
Deferred income taxes	**-**	**-**	**-**	**-**	**(4,813)**	**(4,813)**
Straight-line rent adjustment	**2,387**	**(163)**	**-**	**-**	**-**	**2,224**
Preference payment	**(585)**	**-**	**-**	**-**	**-**	**(585)**
Impairment of consolidated and unconsolidated real estate	**(3,435)**	**-**	**(1,400)**	**-**	**-**	**(4,835)**
Gain on disposition of partial interests in rental properties	**9,561**	**-**	**-**	**-**	**-**	**9,561**
Gain on disposition of unconsolidated entities	**-**	**12,567**	**-**	**-**	**-**	**12,567**
Discontinued operations:						
Gain on disposition of rental properties	**10,038**	**-**	**-**	**-**	**-**	**10,038**
	-	**-**	**-**	**-**	**(31,505)**	**(31,505)**

Current income taxes attributed to above dispositions						
Net earnings (loss) attributable to Forest City Enterprises, Inc.	**$ 80,084**	**$ 20,102**	**$ (441)**	**$ (304)**	**$ (51,874)**	**$ 47,567**
Preferred dividends	**-**	**-**	**-**	**-**	**(3,850)**	**(3,850)**
Net earnings (loss) attributable to Forest City Enterprises, Inc. common shareholders	**$ 80,084**	**$ 20,102**	**$ (441)**	**$ (304)**	**$ (55,724)**	**$ 43,717**

Three Months Ended April 30, 2010	**Commercial Group**	**Residential Group**	**Land Development Group**	**The Nets**	**Corporate Activities**	**Total**
EBDT	$ 61,081	$ 27,613	$ (2,292)	$ (3,373)	$ (12,562)	$ 70,467
Depreciation and amortization Real Estate Groups	(50,684)	(17,323)	(79)	-	-	(68,086)
Amortization of mortgage procurement costs Real Estate Groups	(2,385)	(542)	(80)	-	-	(3,007)
Deferred taxes Real Estate Groups	(2,691)	(6,639)	881	-	838	(7,611)
Straight-line rent adjustment	2,419	453	3	-	-	2,875
Preference payment	(585)	-	-	-	-	(585)
Gain (loss) on disposition of partial interests in rental properties, net of tax	(17,432)	17,610	-	-	-	178
Gain on disposition of unconsolidated entities, net of tax	29	-	-	-	-	29
Impairment of unconsolidated entities, net of tax	(7,441)	-	(455)	-	-	(7,896)
Discontinued operations, net of tax:						
Depreciation and amortization Real Estate Groups	(1,486)	(382)	-	-	-	(1,868)
Amortization of mortgage procurement costs Real Estate Groups	(47)	(8)	-	-	-	(55)
Deferred taxes Real Estate Groups	(57)	(109)	-	-	-	(166)
Straight-line rent adjustment	163	-	-	-	-	163
Net earnings (loss) attributable to Forest City Enterprises, Inc.	$ (19,116)	$ 20,673	$ (2,022)	$ (3,373)	$ (11,724)	$ (15,562)

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Q. Class A Common Units

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 April 30 and January 31, 2011, 3,646,755 Units were outstanding. The carrying value of the Units of $186,021,000 is included in noncontrolling interests at April 30 and January 31, 2011.

R. 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.

During January 2011, the Company completed an exchange of $110,000,000 in aggregate principal amount of the Company s 2016 Notes for 9,774,039 shares of Class A common stock, pursuant to separate, privately negotiated exchange agreements.

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

Preferred Stock

The Company s Amended Articles of Incorporation authorize 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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R. 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 three months ended April 30, 2011, the Company declared and paid Series A preferred stock dividends of $3,850,000 to preferred stock shareholders. Undeclared Series A preferred stock dividends were $1,925,000 at April 30, 2011. Effective May 2, 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 March 15, 2011 to June 14, 2011 to shareholders of record at the close of business on June 1, 2011, which will be paid on June 15, 2011.

S. Subsequent Events

Property Disposition

In May 2011, the Company completed the sale of *Waterfront Station East 4th & West 4th Buildings,* consolidated office buildings in Washington, D.C. The sales price was $356,000,000 and generated net cash proceeds of $61,490,000.

Exchange of 5.00% Convertible Senior Notes due 2016 for Shares of Class A Common Stock

During May 2011, the Company completed an exchange of $40,000,000 in aggregate principal amount of the Company s 2016 Notes for 3,444,293 shares of Class A common stock, pursuant to separate, privately negotiated exchange agreements. In order to induce the holders to make the exchange, the Company agreed to increase the conversion rate from 71.8894 shares of Class A common stock per $1,000 principal amount of notes to 86.1073 shares, which factors in foregone interest to the holders among other inducements. Any accrued but unpaid interest was paid in cash. Under the accounting guidance for induced conversion of convertible debt, the additional amounts paid to induce the holders to exchange their notes was expensed resulting in a non tax deductible loss of $10,800,000, which will be recorded as early extinguishment of debt during the three months ended July 31, 2011.

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

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

RESULTS OF OPERATIONS

Corporate Description

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

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

We have approximately $11.5 billion of consolidated assets in 27 states and the District of Columbia at April 30, 2011. Our core markets include Boston, the state of California, Chicago, Denver, the New York City/Philadelphia metropolitan area and the Greater Washington D.C./Baltimore metropolitan area. We have offices in Albuquerque, Boston, Chicago, Dallas, Denver, London (England), Los Angeles, New York City, San Francisco, Washington, D.C., and our corporate headquarters in Cleveland, Ohio.

Significant milestones occurring during the first quarter of 2011 include:

- 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 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;

- Entering into joint venture agreements with an outside partner, an affiliated entity of Madison International Realty LLC. The outside partner invested in a total of 15 retail properties located in the New York City metropolitan area generating gross proceeds of $178,286,000. The outside partner received a 49% equity interest in 15 mature retail properties, 14 of which were formerly wholly-owned by us and one retail property that was owned 75% by us;

- The sale of two parcels of land, with air rights, to Rock Ohio Caesars Cleveland, LLC (Rock Ohio) for development of a casino in downtown Cleveland. The sales price of one parcel and air rights was $45,000,000 and the sales price of the second parcel and air rights was $40,000,000. The land is adjacent to our *Tower City Center* mixed-use complex;

- The signing of a lease agreement with Rock Ohio for space in the Higbee Building in downtown Cleveland. Rock Ohio plans to use the space for Phase I of its new casino. 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 *Metropolitan Lofts*, a 264 unit apartment community in Los Angeles, California, to the other 50% partner. The price reflects a total property value of $73,600,000. The sale

generated proceeds of approximately $13,200,000;

The sale of the *Charleston Marriott* hotel in Charleston, West Virginia, for a sales price of $25,500,000. The sale generated proceeds of approximately $7,500,000;

Closing on a new $450,000,000 revolving credit facility with a 14-member bank group. The three-year facility, with an additional one-year extension option, originally closed on March 30, 2011 with a $425,000,000 borrowing capacity. Subsequently, in April 2011, an accordion feature was exercised increasing the total borrowing capacity to $450,000,000 at April 30, 2011;

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Closing a 10-year, $70,000,000 non-recourse mortgage loan for *855 North Wolfe Street*, a research office property at The Science + Technology Park at Johns Hopkins in Baltimore, which carries a fixed interest rate of less than 6.0%, and replaces the prior $61,000,000 construction loan;

Being selected as developer by the Port of San Francisco for Pier 70 s 25-acre waterfront site. Pier 70 is a 69-acre historic marine industrial area on San Francisco s central waterfront, located immediately south of Mission Bay. Plans call for the site to be redeveloped over a multiyear period to meet the Port s master plan goals for new development, historic preservation, and the creation of waterfront open space; and

Closing $240,000,000 in nonrecourse mortgage financing transactions.

In addition, subsequent to April 30, 2011, we achieved the following significant milestones:

The sale of *Waterfront Station East 4th & West 4th Buildings,* office buildings in Washington, D.C. The sales price was $356,000,000 and generated net cash proceeds of $61,490,000;

The privately negotiated exchange of $40,000,000 aggregate principal amount of our 5.00% Convertible Senior Notes due 2016 for a total of 3,444,293 shares of our Class A common stock; and

Addressing $262,399,000 of nonrecourse mortgage debt financings that would have matured during the year ended January 31, 2012, through closed transactions, commitments and/or automatic extensions.

Net Earnings (Loss) Attributable to Forest City Enterprises, Inc. Net earnings attributable to Forest City Enterprises, Inc. for the three months ended April 30, 2011 was $47,567,000 versus a net loss of $15,562,000 for the three months ended April 30, 2010. Although we have substantial recurring revenue sources from our properties, we also periodically enter into significant transactions, which can 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 noncontrolling interest:

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

$28,476,000 due to the 2010 transaction costs that were expensed, related to the contribution of our ownership interest in six mixed-use *University Park* life science properties in Cambridge, Massachusetts to a joint venture with an outside partner that did not qualify for full gain recognition under accounting guidance for real estate sales;

$12,567,000 related to the 2011 gains on disposition of our unconsolidated investments in *Metropolitan Lofts* and *Twin Lake Towers*, apartment communities in Los Angeles, California and Denver, Colorado, respectively;

$10,038,000 related to the 2011 gain on disposition of the *Charleston Marriott*, a hotel in Charleston, West Virginia;

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

$8,064,000 related to the 2011 decrease in impairment charges of consolidated and unconsolidated entities;

$6,535,000 (which includes $91,000 for unconsolidated entities) related to an increase in income recognized on the sale of state and federal Historic Preservation Tax Credits and New Market Tax Credits in 2011 compared to 2010; and

$3,903,000 related to a 2011 decrease in allocated losses from our equity investment in The Nets (see The Nets section of the MD&A).

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

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

$6,589,000 primarily related to 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

$31,651,000 due to increased income tax expense primarily related to the various transactions noted above.

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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.

	Three Months Ended April 30,		
	2011	2010	Variance
		(in thousands)	
Revenues from Real Estate Operations			
Commercial Group	**$ 209,035**	$ 212,011	$ (2,976)
Commercial Group Land Sales	**46,252**	1,199	45,053
Residential Group	**53,504**	51,392	2,112
Land Development Group	**8,090**	6,858	1,232
The Nets	**-**	-	-
Corporate Activities	**-**	-	-
Total Revenues from Real Estate Operations	**$ 316,881**	$ 271,460	$ 45,421
Operating Expenses			
Commercial Group	**$ 103,138**	$ 101,129	$ 2,009
Cost of Commercial Group Land Sales	**2,521**	877	1,644
Residential Group	**36,177**	31,831	4,346
Land Development Group	**9,225**	10,448	(1,223)
The Nets	**-**	-	-
Corporate Activities	**14,627**	11,006	3,621
Total Operating Expenses	**$ 165,688**	$ 155,291	$ 10,397
Interest Expense			
Commercial Group	**$ 47,037**	$ 58,090	$ (11,053)
Residential Group	**6,214**	4,856	1,358
Land Development Group	**824**	1,308	(484)
The Nets	**-**	-	-
Corporate Activities	**13,919**	16,864	(2,945)
Total Interest Expense	**$ 67,994**	$ 81,118	$ (13,124)
Equity in Earnings (Loss) of Unconsolidated Entities			
Commercial Group	**$ 2,922**	$ 3,407	$ (485)
Gain on disposition of *El Centro Mall*	**-**	48	(48)
Residential Group	**4,465**	2,038	2,427
Gain on disposition of *Metropolitan Lofts*	**9,964**	-	9,964
Gain on disposition of *Twin Lake Towers*	**2,603**	-	2,603
Land Development Group	**344**	712	(368)
The Nets	**(304)**	(10,430)	10,126
Corporate Activities	**-**	-	-

Total Equity in Earnings (Loss) of Unconsolidated Entities	**$**	**19,994**	$	(4,225)	$	24,219
Impairment of Unconsolidated Entities						
Commercial Group	**$**	**-**	$	12,156	$	(12,156)
Residential Group		**-**		-		-
Land Development Group		**-**		743		(743)
The Nets		**-**		-		-
Corporate Activities		**-**		-		-
Total Impairment of Unconsolidated Entities	**$**	**-**	$	12,899	$	(12,899)

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Commercial Group

Revenues from real estate operations Revenues from real estate operations for the Commercial Group, including the group s land sales, increased by $42,077,000, or 19.7%, for the three months ended April 30, 2011 compared to the same period in the prior year. The variance to the prior year is primarily attributable to the following increases:

- $45,000,000 related to the 2011 sale of land and air rights to Rock Ohio for development of a casino in downtown Cleveland, Ohio;
- $5,779,000 related to the opening of *Waterfront Station East 4th & West 4th Buildings,* office buildings in Washington D.C., as noted in the table below (in May 2011, we completed the sale of these office buildings, see the Subsequent Events section of the MD&A);
- $5,709,000 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*, a mixed-use residential project under construction in Manhattan, New York. This represents a reimbursement of costs that is included in operating expenses; and
- $2,091,000 related to increased occupancy at *Illinois Science and Technology Park* in Skokie, Illinois and *Higbee Building* in Cleveland, Ohio.

These increases were partially offset by the following decreases:

- $6,770,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2011 with an outside partner in 15 retail properties in the New York City metropolitan area;
- $6,313,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2010 with an outside partner in seven mixed-use *University Park* life science properties in Cambridge, Massachusetts; and
- $2,405,000 related to decreased occupancy at *Two MetroTech Center,* an office building in Brooklyn, New York.

The balance of the remaining decreases of $1,014,000 was generally due to other miscellaneous fluctuations.

Operating and Interest Expenses Operating expenses increased by $3,653,000, or 3.6%, for three months ended April 30, 2011 compared to the same period in the prior year. The variance to the prior year is primarily attributable to the following increases:

- $5,709,000 related to construction of a school at *8 Spruce Street*. These costs are reimbursed by the New York City School Construction Authority which are included in revenues from real estate operations discussed above;
- $2,617,000 related to the opening of *Waterfront Station East 4th & West 4th Buildings* as noted in the table below;
- $2,378,000 related to the 2011 sale of land and air rights to Rock Ohio for development of a casino in downtown Cleveland, Ohio; and
- $633,000 related to increased occupancy at *Illinois Science and Technology Park*.

These increases were partially offset by the following decreases:

- $2,651,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2011 with an outside partner in 15 retail properties in the New York City metropolitan area;
- $2,390,000 related to the change from full consolidation method of accounting to equity method upon the formation of a new joint venture in 2010 with an outside partner in *University Park;*
- $1,400,000 related to a reduction in our allowance for projects under development; and
- $490,000 related to decreased occupancy at *Two MetroTech Center*.

The balance of the remaining decrease of $753,000 was generally due to other miscellaneous fluctuations.

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Interest expense for the Commercial Group decreased by $11,053,000, or 19.0%, for the three months ended April 30, 2011 compared to the same period in the prior year. The decrease is primarily attributable to increased capitalized interest due to additional qualified expenditures and the change from full consolidation method of accounting to equity method upon the formation of new joint ventures with outside partners in *University Park* in 2010 and 15 properties in the New York City metropolitan area in 2011. These decreases were primarily offset by an increase related to the opening of *Waterfront Station - East 4th & West 4th Buildings* as noted in the table below.

The following table presents the increases in revenues, operating expenses and interest expense for the newly-opened property for the three months ended April 30, 2011 compared to the same period in the prior year:

				Three Months Ended April 30, 2011 vs. 2010		
Newly - Opened Properties	**Location**	**Quarter Year Opened**	**Square Feet**	**Revenues from Real Estate Operations**	**Operating Expenses**	**Interest Expense**
				(in thousands)		
Office:						
Waterfront Station East 4th & West 4th Buildings (1)	Washington, D.C.	Q1-2010	631,000	$ 5,779	$ 2,617	$ 1,143

(1) In May 2011, we completed the sale of these office buildings (see the Subsequent Events section of the MD&A).

Comparable occupancy for the Commercial Group is 91.2% and 90.7% for retail and office, respectively, as of April 30, 2011 compared to 89.7% and 90.6%, respectively, as of April 30, 2010. Retail and office occupancy as of April 30, 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 three months ended April 30, 2011 and 2010. Average occupancy for hotels for the three months ended April 30, 2011 is 56.9% compared to 61.0% for the three months ended April 30, 2010.

As of April 30, 2011, the average base rent per square feet expiring for retail and office leases is $27.74 and $31.27, respectively, compared to $26.78 and $30.94, respectively, as of April 30, 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 $145.29 and $135.43 for the three months ended April 30, 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 three months ended April 30, 2011 and 2010.

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

Residential Group

Revenues from real estate operations Included in revenues from real estate operations is fee income related to the development and construction management related to our military housing projects. Military housing fee income and related operating expenses may vary significantly from period to period based on the timing of development and construction activity at each applicable project. Revenues from real estate operations for the Residential Group increased by $2,112,000, or 4.1%, during the three months ended April 30, 2011 compared to the same period in the prior year. The variance is primarily attributable to the following increase:

$2,451,000 related to new property openings as noted in the table below.

This increase was partially offset by the following decrease:

$876,000 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.

The balance of the remaining increase of $537,000 was generally due to other miscellaneous fluctuations.

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Operating and Interest Expenses Operating expenses for the Residential Group increased by $4,346,000, or 13.7%, during the three months ended April 30, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following increases:

$2,325,000 related to new property openings as noted in the table below; and

$763,000 related to expenditures associated with third-party management fee arrangements, including pursing new arrangements.

The balance of the remaining increase of $1,258,000 was generally due to general operating activities and other miscellaneous fluctuations.

Interest expense for the Residential Group increased by $1,358,000 or 28.0% during the three months ended April 30, 2011 compared to the same period in the prior year. This increase is primarily attributable to the opening of new properties as noted in the table below, partially offset by mark-to-market adjustments on non-designated interest rate swaps.

The following table presents the increases (decreases) in revenues and operating expenses for newly-opened properties for the three months ended April 30, 2011 compared to the same period in the prior year:

				Three Months Ended April 30, 2011 vs. 2010		
Newly - Opened Properties	**Location**	**Quarter - Year Opened**	**Units**	**Revenues from Real Estate Operations**	**Operating Expenses**	**Interest Expense**
					(in thousands)	
8 Spruce Street	Manhattan, New York	Q1-2011 (1)	903	$ 111	$ 1,588	$ 949
Presidio Landmark	San Francisco, California	Q3-2010	161	316	696	1,469
DKLB BKLN	Brooklyn, New York	Q4-2009 (1)	365	1,571	(60)	63
Hamel Mill Lofts	Haverhill, Massachusetts	Q4-2008/Q3-2010 (1)	305	453	101	60
Total				**$ 2,451**	**$ 2,325**	**$ 2,541**

(1) Property to open in phases.

Comparable average occupancy for the Residential Group is 95.4% and 93.4% for the three months ended April 30, 2011 and 2010, respectively. Average residential occupancy for the three months ended April 30, 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 three months ended April 30, 2011 and 2010.

Comparable net rental income (NRI) for our Residential Group was 93.0% and 89.8% for the three months ended April 30, 2011 and 2010, respectively. NRI is an operating statistic that represents the percentage of potential rent received after deducting vacancy and rent concessions from gross potential rent.

Land Development Group

Revenues from real estate operations Land sales and the related gross margins vary from period to period depending on the timing of sales and general market conditions 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 $1,232,000 for the three months ended April 30, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following increase:

$3,024,000 related to higher land sales at *Stapleton* in Denver, Colorado.

This increase was partially offset by the following decrease:

$1,746,000 related to lower land sales at *Mill Creek* in York County, South Carolina, *Waterbury* in North Ridgeville, Ohio, *Gladden Farms* in Marana, Arizona, *Tangerine Crossing* in Tucson, Arizona, and *Summers Walk* in Davidson, North Carolina.

The balance of the remaining decrease of $46,000 was due to land sales at other land development projects.

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Operating and Interest Expenses Operating expenses decreased by $1,223,000 for the three months ended April 30, 2011 compared to the same period in the prior year. This variance is primarily attributable to the following decrease:

$1,987,000 primarily related to lower land sales at *Mill Creek*, *Waterbury*, *Gladden Farms*, *Tangerine Crossing* and *Summers Walk*.

This decrease was partially offset by the following increase:

$825,000 primarily related to higher land sales at *Stapleton*.

The balance of the remaining decrease of $61,000 was due to land sales at other land development projects.

Interest expense decreased by $484,000 for the three months ended April 30, 2011 compared to the same period in the prior year. Interest expense varies from year to year depending on the level of interest-bearing debt within the Land Development Group and interest rates.

The Nets

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

The amount of equity in loss, net of noncontrolling interests, was $304,000 and $4,207,000 for the three months ended April 30, 2011 and 2010, respectively, representing a decrease in our allocated losses of $3,903,000. The decrease is primarily due to the allocation of losses to the MP Entities. 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.

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.

Once the $60,000,000 is expended, which is anticipated to occur within the three months ended July 31, 2011, NS&E is required to fund 100% of The Nets operating needs, as defined, until the *Barclays Center* arena is complete and open which is expected to be during the three months ended October 31, 2012. We anticipate the funding of The Nets operating needs will result in certain losses of The Nets being allocated to us. Thereafter, members capital contributions will be made in accordance with the operating agreements.

Corporate Activities

Operating and Interest Expenses Operating expenses for Corporate Activities increased $3,621,000 for the three months ended April 30, 2011 compared to the same period in the prior year. The increase was primarily related to increased payroll and related benefits, including stock-based compensation of $2,044,000 and an increase in professional fees of $1,903,000 associated with strategic planning and process improvement initiatives.

Interest expense decreased by $2,945,000 for the three months ended April 30, 2011 compared to the same period in the prior year. The decrease was primarily related to the exchange of $110,000,000 of Convertible Senior Notes for Class A common stock on January 31, 2011, and the exchange of $178,749,000 of Senior Notes for a new issuance of Series A preferred stock on March 9, 2010 (see the Senior and Subordinated Debt section of the MD&A).

Other Activity

The following items are discussed on a consolidated basis.

Depreciation and Amortization

We recorded depreciation and amortization expense of $58,391,000 and $60,071,000 for the three months ended April 30, 2011 and 2010, respectively, which is a decrease of $1,680,000, or 2.8%, compared to the same period in the prior year.

Impairment of Real Estate

We review our real estate portfolio, including land held for development or sale, for impairment whenever events or changes indicate that our carrying value may not be recoverable. In cases where we do not expect to recover our carrying costs, an impairment charge is recorded. During the three months ended April 30, 2011, we recorded an impairment of certain real estate assets of $4,835,000. This amount includes an impairment of real estate of $3,435,000 related to an investment in a retail property located in Portage, Michigan and $1,400,000 related to *Mill Creek,* a land development project located in York County, South Carolina. We recorded no impairments of consolidated real estate during the three months ended April 30, 2010. These impairments represent write-downs to estimated fair value due to changes in certain assumptions, including estimated holding periods and current market conditions and the impact of these assumptions to the properties estimated future cash flows.

Impairment of Unconsolidated Entities

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

		Three Months Ended April 30,	
		2011	2010
		(in thousands)	
Office Buildings:			
818 Mission Street	San Francisco, California	**$ -**	$ 4,018
Bulletin Building	San Francisco, California	**-**	3,543
Metreon (Specialty Retail Center)	San Francisco, California	**-**	4,595
Old Stone Crossing at Caldwell Creek (Mixed-Use Land Development)	Charlotte, North Carolina	**-**	743
		$ -	$ 12,899

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 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. Write-off of abandoned development projects during the three

months ended April 30, 2011 was $157,000. In addition, we recorded a reduction in our allowance for projects under development of $2,000,000, resulting in a net decrease in operating expenses of $1,843,000 for the three months ended April 30, 2011. There was no write-off of abandoned development projects or other change in the allowance for projects under development during the three months ended April 30, 2010.

Amortization of Mortgage Procurement Costs

We amortize mortgage procurement costs over the life of the related nonrecourse mortgage debt and notes payable. For the three months ended April 30, 2011 and 2010, we recorded amortization of mortgage procurement costs of $3,449,000 and $2,612,000, respectively. Amortization of mortgage procurement costs increased $837,000 for the three months ended April 30, 2011 compared to the same period in the prior year.

Gain (Loss) on Early Extinguishment of Debt

For the three months ended April 30, 2011 and 2010, we recorded $(296,000) and $6,297,000, respectively, as gain (loss) on early extinguishment of debt. The loss for 2011 relates to a nonrecourse mortgage debt financing transaction at *Johns Hopkins 855 North Wolfe Street*, an office building located in East Baltimore, Maryland. The gain in 2010 relates to the exchange of a portion of our 2011, 2015 and 2017 Notes for a new issue of Series A preferred stock.

Interest and Other Income

Interest and other income was $15,507,000 for the three months ended April 30, 2011 compared to $6,814,000 for the three months ended April 30, 2010. The increase of $8,693,000 is primarily related to an increase of $6,626,000 related to the income recognition on the sale of state and federal historic preservation and new market tax credits and an increase of $1,885,000 related to interest income earned on a total rate of return swap (TRS).

Net Gain on Disposition of Partial Interests in Rental Properties

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

	Three Months Ended April 30,	
	2011	2010
	(in thousands)	
New York Retail Joint Venture	**$ 9,561**	$ -
Bernstein Joint Venture	**-**	29,342
University Park Joint Venture	**-**	(28,476)
	$ 9,561	$ 866

New York Retail Joint Venture

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

For its 49% equity interests, the outside partner invested cash and assumed debt of $244,952,000, representing 49% of the nonrecourse mortgage debt on the 15 properties. As of April 30, 2011, the Company received proceeds of $178,286,000, primarily in the form of a loan. Based on the net amount of cash received, the outside partner s minimum initial investment requirement of 20% was not met. As such, the transaction did not qualify for full gain recognition under accounting guidance related to real estate sales. Therefore, the installment method of gain recognition was applied, resulting in a net gain on disposition of partial interest in rental properties of $9,561,000 during the three months ended April 30, 2011 with the remaining gain of $115,388,000 deferred and included in accounts payable and accrued expenses at April 30, 2011. Transaction costs totaled $11,776,000, of which $5,779,000 relating to participation payments made to the ground lessors of two of the properties in accordance with the respective ground lease agreements did not qualify for deferral and were included in the calculation of the net gain on disposition of partial interests in rental properties of $9,561,000 for the three months ended April 30, 2011. As a result of this transaction, we are accounting for the 15 properties as equity method investments since both partners have joint control of the properties.

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 totaling 1,340 rental units located within the Washington, D.C. metropolitan area. Both partners in the new joint venture have a 50% interest and joint control over the properties.

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 a gain on disposition of partial interests in rental properties of $29,342,000 for the three months ended April 30, 2010. 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.

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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. As of April 30, 2010, the contribution of six of the seven properties had closed and the seventh closed during the second quarter of 2010 upon obtaining lender consents.

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. As of April 30, 2010, we received net proceeds of $129,611,000 primarily in the form of a loan from the joint venture and the joint venture assumed approximately $290,000,000 of the nonrecourse mortgage debt. As such, the contribution of the first six properties did not qualify for full gain recognition under accounting guidance related to real estate sales, resulting in a deferred gain of $188,410,000, which is included in accounts payable and accrued expenses at April 30, 2010. Transaction costs of $28,476,000 related to the transaction did not qualify for deferral and were included as a loss on disposition of partial interests in rental properties for the three months ended April 30, 2010. Included in transaction costs are $21,483,000 of participation payments made to the ground lessor of the six 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.

Income Taxes

Income tax expense (benefit) for the three months ended April 30, 2011 and 2010 was $18,312,000 and $(8,923,000), respectively. The difference in the recorded income tax expense (benefit) versus the income tax expense (benefit) computed at the statutory federal income tax rate is primarily attributable to state income taxes, utilization of state net operating losses, additional general business credits, changes to the valuation allowances associated with certain deferred tax assets, and various permanent differences between pre-tax GAAP income and taxable income.

We apply an estimated annual effective tax rate to our year-to-date earnings from operations to derive our tax provision for the quarter, pursuant to accounting guidance for accounting for income taxes, interim reporting. Certain circumstances may arise which make it difficult for us to determine a reasonable estimate of our annual effective tax rate for the year. Our projected marginal operating results, which includes the gain related to the Commercial Group s land sales, results in an effective tax rate that changes significantly with small variations in projected income or loss from operations or permanent differences and thus does not provide for a reliable estimate of our estimated annual effective tax rate. Therefore, in computing our income tax provision for the quarter ending April 30, 2011, we have excluded the gain on the Commercial Group s land sales from our estimated annual effective tax rate calculation and have recognized the actual income tax expense related to the gain during the three months ended April 30, 2011.

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 ($6,068,000 expiring in the year ended January 31, 2012), General Business Credit carryovers of $19,070,000 that will expire in the years ending January 31, 2012 through January 31, 2031 ($41,000 expiring in the year ended January 31, 2012), and an alternative minimum tax (AMT) credit carryforward of $29,315,000 that is available until used to reduce federal tax to the AMT amount.

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 the accounting guidance on accounting

for uncertainty in income taxes. As of January 31, 2011, we have not recorded a net deferred tax asset of approximately $17,264,000 from excess stock-based compensation deductions taken on the tax return for which a benefit has not yet been recognized in our tax provision.

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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 $19,994,000 for the three months ended April 30, 2011 and equity in loss of unconsolidated entities was $4,225,000 for the three months ended April 30, 2010, representing an increase of $24,219,000. This variance is primarily attributed to the following increases that occurred within our equity method investments:

- Commercial Group
  - $1,414,000 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 converted to the equity method of accounting during 2010 upon partial disposition.
- Residential Group
  - $9,964,000 relates to the 2011 gain on disposition of *Metropolitan Lofts*;
  - $2,603,000 relates to the 2011 gain on disposition of *Twin Lake Towers*; and
  - $1,186,000 primarily related to a 2010 legal settlement at *3800 Wilshire*, a condominium project in Los Angeles, California.
- The Nets
  - $10,126,000 related to a reduction in our share of the losses of The Nets.

These increases were partially offset by the following decrease:

- Commercial Group
  - $1,506,000 primarily related to 2010 lease termination fee income at *San Francisco Centre,* a regional mall located in San Francisco, California, that did not recur.

The balance of the remaining increase of $432,000 was due to fluctuations in the operations of equity method investments.

Discontinued Operations

The following table lists rental properties included in discontinued operations:

Property	**Location**	**Square Feet/ Number of Units/Rooms**	**Period Disposed**	**Three Months Ended 4/30/2011**	**Three Months Ended 4/30/2010**
Commercial Group:					
Charleston Marriott hotel	Charleston, West Virginia	352 rooms	Q1-2011	Yes	Yes
Simi Valley Town Center	Simi Valley, California	612,000 square feet	Q4-2010	-	Yes
Investment in triple net lease property	Pueblo, Colorado	203,000 square feet	Q4-2010	-	Yes
Saddle Rock Village	Aurora, Colorado	294,000 square feet	Q3-2010	-	Yes
Residential Group:					
101 San Fernando	San Jose, California	323 units	Q2-2010	-	Yes

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

	Three Months Ended April 30,	
	2011	2010
	(in thousands)	
Revenues from real estate operations	**$ 1,293**	$ 10,259
Expenses		
Operating expenses	**1,247**	5,689
Depreciation and amortization	**-**	1,874
	1,247	7,563
Interest expense	**(46)**	(1,856)
Amortization of mortgage procurement costs	**-**	(55)
Interest income	**-**	3
Gain on disposition of a rental property - *Charleston Marriott*	**10,431**	-
Earnings before income taxes	**10,431**	788
Income tax expense		
Current	**1,151**	130
Deferred	**3,561**	166
	4,712	296
Earnings from discontinued operations	**5,719**	492
Noncontrolling interest, net of tax		
Gain on disposition of rental properties	**393**	-
Operating earnings from rental properties	**-**	21
Earnings from discontinued operations attributable to Forest City Enterprises, Inc.	**$ 5,326**	$ 471

FINANCIAL CONDITION AND LIQUIDITY

Ongoing economic conditions appear to be improving, but that has resulted in only limited improvement in property occupancies and rent levels. Access to bank credit and capital have improved modestly over the past quarter, with the larger banks and permanent lenders indicating an increased interest in originating new loans for real estate projects, particularly as existing loans in their portfolios get paid off. Underwriting standards remain conservative, with lenders favoring high quality existing operating assets in strong markets. Originations of new loans for commercial mortgage

backed securities are showing signs of improvement but remain well below the levels in 2006 and 2007. While a limited number of banks have begun to originate construction loans for new apartment projects, lending for land acquisition and construction loans for office or retail projects remain extremely difficult to obtain. We believe loans for real estate projects will continue to be constrained for the foreseeable future.

Our principal sources of funds are cash provided by operations including land sales, 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 our real estate operating and development projects and acquisitions of real estate, capital expenditures for our existing portfolio and principal and interest payments on our nonrecourse mortgage debt, notes payable and bank revolving credit facility, interest payments on our outstanding senior notes and dividends payments on our 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 entering into new development and acquisition activities.

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

During the three months ended April 30, 2011, we were successful in closing certain transactions that improved our liquidity and addressed certain near term maturities of our recourse debt. We successfully entered a Third Amended and Restated Credit Agreement (the Credit Agreement) and a Third Amended and Restated Guaranty of Payment of Debt (the Guaranty , and collectively, the Credit Facility) which fixed our total available borrowings under the Credit Agreement at $450,000,000 while removing the provision to reduce this maximum for specified external capital raising events. The Credit Agreement matures on March 30, 2014 and provides for one 12-month extension option, subject to certain conditions and replaces a previous agreement that was set to expire February 1, 2012. Although both the new and previous agreements bear interest at LIBOR plus 3.75%, the LIBOR floor under the new Credit Agreement was reduced from 200 basis points to 100 basis points. The Credit Agreement continues to require $46,891,000 of available borrowings to be reserved for the retirement of the puttable equity-linked senior notes due 2011 but removes the previous prohibition on paying common stock dividends, subject to a limitation of $20,000,000 in the aggregate in any four fiscal quarter period.

During the three months ended April 30, 2011, we generated significant proceeds from property sales and equity joint ventures of $193,338,000, a majority of which related to new joint ventures formed with an outside partner for equity interests in 15 retail properties located in the New York City metropolitan area (see the Net Gain on Disposition of Partial Interest in Rental Properties section of the MD&A). This liquidity will be used to fund our equity requirements in our development projects and extend or paydown near term debt maturities. In addition, during May 2011, we continued to address future liquidity needs related to our near to mid-term senior unsecured notes and deleverage our Balance Sheet, by entering into separate, privately negotiated exchange agreements whereby we exchanged $40,000,000 in aggregate principal of our Convertible Senior Notes due 2016 for 3,444,293 shares of Class A common stock. We continue to explore various other options to strengthen our balance sheet and enhance our liquidity, but can give no assurance that we can accomplish any of these other options on favorable terms or at all. If we cannot enhance our liquidity, it could adversely impact our growth and result in further curtailment of development activities.

As of April 30, 2011, we had $859,591,000 of nonrecourse mortgage financings with scheduled maturities during the fiscal year ending January 31, 2012, of which $74,674,000 represents regularly scheduled amortization payments. Subsequent to April 30, 2011, we have addressed $262,399,000 of these remaining 2011 maturities, through closed transactions, commitments and/or automatic extensions. We also have extension options available on $230,444,000 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 $292,074,000 of nonrecourse debt scheduled to mature during the year ended January 31, 2012. We cannot give assurance as to the ultimate result of these negotiations. As with all nonrecourse mortgages, if we are unable to negotiate an extension or otherwise refinance the mortgage, we could go into default and the lender could commence foreclosure proceedings.

As of April 30, 2011, we had three nonrecourse mortgages greater than five percent of our total nonrecourse mortgage debt and notes payable. The mortgages, encumbering *New York Times*, an office building in Manhattan, New York, *8 Spruce Street*, a mixed-use residential project currently being opened in phases 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 $390,474,000, respectively, at April 30, 2011.

As of April 30, 2011, our share of nonrecourse mortgage debt and notes payable recorded on our unconsolidated subsidiaries amounted to $1,926,443,000, of which $173,328,000 ($17,830,000 represents scheduled principal payments) was scheduled to mature during the year ending January 31, 2012. Subsequent to April 30, 2011, we have

addressed $31,929,000 of these 2011 maturities through closed nonrecourse mortgage transactions, commitments and/or automatic 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 in default as of April 30, 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 commence foreclosure proceedings and we could lose the real estate asset s carrying value of approximately $58,870,000. The loss of the property would not have a significant impact to our financial condition, cash flows or liquidity.

We have a development project consisting of approximately 13 acres of land held in Las Vegas, Nevada with a carrying value of approximately $128,000,000 secured by an approximate $42,000,000 nonrecourse mortgage that is scheduled to mature in July 2011. Based on our current estimated and probability weighted cash flow analysis, the carrying value of the development project is projected to be recovered from estimated future undiscounted cash flows. While we are actively negotiating with the lender to refinance or extend the mortgage, due to recent economic declines in the Las Vegas, Nevada market and other factors, the lender may not be willing to extend the mortgage, or may offer refinancing terms that are less favorable than the existing loan. Depending on the outcome of these negotiations, our cash flow analysis assumptions may change, resulting in a potentially significant impairment charge being recorded. If we are unable to reach an extension or refinancing agreement on terms acceptable to us, we may default on the mortgage. In the event of a default on the mortgage, the lender could commence foreclosure proceedings and we could lose the carrying value of the development project.

We have a regional mall in Bolingbrook, Illinois which opened in 2007, and has yet to achieve its expected stabilization levels. The property is secured by an approximate $96,000,000 nonrecourse mortgage that is scheduled to mature in 2013 as well as a special real estate tax assessment that supports certain municipal bond financing that was used to provide infrastructure improvements benefiting the property. The property s current operating results are insufficient to cover all operating expenses, special assessments and debt service payments. Although the Company currently intends to support this project until it achieves stabilization, there can be no assurance that the project will achieve the targeted operating results. As a result, it may not be feasible to continue to fund shortfalls and/or we may not be able to reach an extension or refinancing agreement at maturity and may default on the mortgage, resulting in the lender commencing foreclosure proceedings. In the event the lender forecloses on the property, we could lose the carrying value of our investment in the project amounting to $136,795,000 at April 30, 2011.

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 April 30, 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 $4,193,000 at April 30, 2011.

Bank Revolving Credit Facility

On March 30, 2011, we and our 13-member bank group entered into a Third Amended and Restated Credit Agreement (the Credit Agreement) and a Third Amended and Restated Guaranty of Payment of Debt (the Guaranty , and collectively, the Credit Facility). On April 21, 2011, one additional member was admitted to the bank group and the total available borrowings were increased from $425,000,000 to $450,000,000. The Credit Agreement matures on March 30, 2014 and provides for one, 12-month extension option, subject to certain conditions. Borrowings bear interest at LIBOR, subject to a floor of 100 basis points, plus 3.75%. Up to $100,000,000 of the available borrowings may be used, in the aggregate, for letters of credit and/or surety bonds. The Credit Facility has a number of restrictive covenants, including a prohibition on certain consolidations and mergers, limitations on the amount of debt, guarantees and property liens that we may incur and restrictions on the pledging of ownership interests in subsidiaries. The Credit Agreement requires $46,891,000 of available borrowings be reserved for the retirement of specified senior indebtedness and removes the previous prohibition on paying common stock dividends, subject to a limitation of $20,000,000 in the aggregate in any four fiscal quarter period. Additionally, the Credit Facility contains certain development limitations and financial covenants, including the maintenance of minimum liquidity, certain debt service and cash flow coverage ratios, and specified levels of shareholders equity (all as specified in the Credit Facility). At April 30, 2011, we were in compliance with all of these financial covenants.

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

Our previous credit agreement, in place until March 30, 2011, provided for total available borrowings of approximately $470,000,000, subject to permanent reduction as we received net proceeds from specified external

capital raising events in excess of $250,000,000. This facility was scheduled to mature on February 1, 2012 and incurred interest at LIBOR, subject to a floor of 200 basis points, plus 3.75%.

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The following table summarizes the available credit on the bank revolving credit facility:

	April 30, 2011	January 31, 2011
	(in thousands)	
Maximum borrowings	**$ 450,000**	$ 470,336
Less outstanding balances and reserves:		
Borrowings	**81,427**	137,152
Letters of credit	**65,039**	63,418
Surety bonds	**-**	-
Reserve for retirement of puttable equity-linked senior notes due 2011	**46,891**	46,891
Available credit	**$ 256,643**	$ 222,875

Senior and Subordinated Debt

The following table summarizes our senior and subordinated debt:

	April 30, 2011	January 31, 2011
	(in thousands)	
Senior Notes:		
3.625% Puttable Equity-Linked Senior Notes due 2011, net of discount	**$ 45,955**	$ 45,480
3.625% Puttable Equity-Linked Senior Notes due 2014, net of discount	**198,888**	198,806
7.625% Senior Notes due 2015	**178,253**	178,253
5.000% Convertible Senior Notes due 2016	**90,000**	90,000
6.500% Senior Notes due 2017	**132,144**	132,144
7.375% Senior Notes due 2034	**100,000**	100,000
Total Senior Notes	**745,240**	744,683
Subordinated Debt:		
Subordinate Tax Revenue Bonds due 2013	**29,000**	29,000
Total Senior and Subordinated Debt	**$ 774,240**	$ 773,683

During May 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. Under the terms of the agreements, holders agreed to exchange $40,000,000 in aggregate principal amount of notes for a total of 3,444,293 shares of Class A common stock (see the Subsequent Events section of the MD&A).

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. 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. During the year ended January 31, 2011, we retired $51,176,000 of our 2011 Notes in exchange for Series A preferred stock and purchased on the open market $7,000,000 in principal amount of our 2011 Notes. There was $46,891,000 ($45,955,000, net of discount) and $46,891,000 ($45,480,000, net of discount) of principal outstanding at April 30 and January 31, 2011, 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 April 30, 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 following table summarizes the carrying amounts of our debt and equity balances related to the 2011 Notes:

	April 30, 2011	January 31, 2011
	(in thousands)	
Carrying amount of equity component	**$ 7,484**	$ 7,484
Outstanding principal amount of the puttable equity-linked senior notes	**46,891**	46,891
Unamortized discount	**(936)**	(1,411)
Net carrying amount of the puttable equity-linked senior notes	**$ 45,955**	$ 45,480

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 $475,000 and $495,000 for the three months ended April 30, 2011 and 2010, respectively. We recorded contractual interest expense of $425,000 and $689,000 for the three months ended April 30, 2011 and 2010, 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.

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 April 30, 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 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 and before the Put Termination Date 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%. During the year ended January 31, 2011, 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 5.00% convertible senior notes due October 15, 2016 (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. During the year ended January 31, 2011, we retired $110,000,000 of 2016 Notes in exchange for Class A common stock. During May 2011, we retired $40,000,000 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 Notes are not affected by the convertible note hedge transaction. The convertible note hedge transaction was recorded as a reduction of shareholders equity through additional paid-in capital.

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 of February 1, 2011, the redemption price was reduced to 102.167%. During the year ended January 31, 2011, we retired $5,826,000 of 2017 Notes in exchange for Series A preferred stock and also purchased on the open market $12,030,000 in principal of 2017 Notes.

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 our bank revolving credit facility. The indentures governing our 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 unlikely event that there is insufficient tax revenue to support the bonds when the custodial receipts are subject to mandatory tender on December 1, 2013. As such, 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 Security 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.

Prior to April 30, 2011, consolidated subsidiaries of ours purchased $23,000,000 of the Converted Bonds from the investment banks. Simultaneous to each purchase, a corresponding amount of a related TRS was terminated and the corresponding secured borrowing was removed from the Consolidated Balance Sheets. The fair value of the Converted Bonds recorded in other assets was $58,000,000 at both April 30 and January 31, 2011. The outstanding TRS contracts on the $35,000,000 of secured borrowings related to the Converted Bonds at both April 30 and January 31, 2011, were supported by collateral consisting primarily of certain notes receivable owned by us aggregating $29,140,000. We recorded net interest income of $423,000 and $522,000 related to the TRS for the three months ended April 30, 2011 and 2010, respectively.

On May 12, 2011, the District refinanced $42,000,000 of the outstanding $58,000,000 Junior Subordinated Bonds. Of the $42,000,000 refinanced, we received $23,000,000 as repayment of the Converted Bonds that were held by our consolidated subsidiaries. The investment banks received $19,000,000 which simultaneously terminated a corresponding amount of a related TRS and the corresponding secured borrowing.

Other Financing Arrangements

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 $22,121,000 of this commitment as of April 30, 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 $5,159,000 of this commitment as of April 30, 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 three months ended April 30, 2011, we completed the following financings:

Purpose of Financing	Amount
	(in thousands)
Refinancings	$ 84,000
Development projects	6,850
Loan extensions/additional fundings	219,230
	$ 310,080

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Interest Rate Exposure

At April 30, 2011, the composition of nonrecourse debt was as follows:

	Operating Properties	Development Projects	Land Projects	Total	Total Weighted Average Rate
	(dollars in thousands)				
Fixed	$ 3,228,130	$ 166,386	$ 7,956	$ 3,402,472	6.01%
Variable					
Taxable	1,573,121	878,040	13,766	2,464,927	4.38%
Tax-Exempt	585,223	150,886	35,000	771,109	2.08%
	$ 5,386,474	$ 1,195,312 (1)	$ 56,722	$ 6,638,508	4.95%
Total commitment from lenders		$ 1,838,433	$ 56,722		

(1) Proceeds from outstanding debt of $113,359 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)			
05/01/11 - 02/01/12	$ 1,058,023	5.31%	$ 1,194,968	3.66%
02/01/12 - 02/01/13	691,182	4.80%	897,193	4.33%
02/01/13 - 02/01/14	489,926	5.53%	698,139	5.37%
02/01/14 - 02/01/15	-	-	652,496	5.44%
02/01/15 - 02/01/16	-	-	651,810	5.45%
02/01/16 - 09/01/17	-	-	640,000	5.50%

Tax-Exempt (Priced off of SIFMA Index)

	Caps	
Period Covered	Notional Amount	Average Base Rate
	(dollars in thousands)	
05/01/11 - 02/01/12	$ 174,639	5.83%

02/01/12 - 02/01/13	146,239	5.80%
02/01/13 - 02/01/14	101,214	5.87%

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 2.76% and has never exceeded 8.00%.

Forward Swaps

We enter into forward swaps to protect ourselves against fluctuations in the swap rate at terms ranging between five to ten years associated with forecasted fixed rate borrowings. At the time we secure and lock an interest rate on an anticipated financing, we intend to simultaneously terminate the forward swap associated with that financing. At April 30, 2011, we had no forward swaps outstanding.

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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 April 30, 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 $10,105,000 at April 30, 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 $8,440,000 at April 30, 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 April 30, 2011, the SIFMA rate was 0.26%. 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 April 30, 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. 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 $47,446,000 and $22,503,000 for the three months ended April 30, 2011 and 2010, respectively. The net increase in cash provided by operating activities for the three months ended April 30, 2011 compared to the three months ended April 30, 2010 of $24,943,000 is the result of the following (in thousands):

Decrease in rents and other revenues received	$	(7,377)
Decrease in interest and other income received		(7,758)
Increase in cash distributions from unconsolidated entities		5,695
Increase in proceeds from land sales Land Development Group		3,257
Increase in proceeds from land sales Commercial Group		35,032
Increase in land development expenditures		(604)
Increase in operating expenditures		(30,703)
Decrease in restricted cash and escrowed funds used for operating purposes		8,357
Decrease in interest paid		19,044
Net increase in cash provided by operating activities	**$**	**24,943**

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Investing Activities

Net cash provided by (used in) investing activities was $104,422,000 and $(51,544,000) for the three months ended April 30, 2011 and 2010, respectively. Net cash provided by (used in) investing activities consisted of the following:

	Three Months Ended April 30,	
	2011	2010
	(in thousands)	
Capital expenditures	**$ (167,698)**	$ (226,731)
Payment of lease procurement costs	**(2,932)**	(8,341)
Increase in other assets	**(13,082)**	(5,747)
Decrease (increase) in restricted cash and escrowed funds used for investing purposes:		
Barclays Center, a sports arena complex under construction in Brooklyn, New York	**35,289**	(1,040)
8 Spruce Street, a mixed-use residential project under construction in Manhattan, New York	**29,805**	32,469
Johns Hopkins - 855 North Wolfe Street, an office building in East Baltimore, Maryland	**12,324**	-
Foundry Lofts, an apartment community under construction in Washington, D.C.	**5,582**	-
Atlantic Yards, a mixed-use development project in Brooklyn, New York	**3,771**	25,533
Westchester s Ridge Hill, a retail center under construction in Yonkers, New York	**3,410**	-
DKLB BKLN, an apartment community in Brooklyn, New York	**547**	10,204
Avenue at Tower City Center, a specialty retail center in Cleveland, Ohio	**(3,668)**	(91)
Collateral posted for a forward swap on *East River Plaza,* an unconsolidated retail project in Manhattan, New York	**-**	(3,230)
Other	**173**	(1,255)
Total decrease in restricted cash and escrowed funds used for investing purposes	**87,233**	62,590
Proceeds from disposition of partial interests in rental properties and 2011 dispositions of a development project and a rental property:		
Disposition of partial interests in 15 retail properties in the New York metropolitan area	**166,510**	-
Development project in Washington, D.C.	**19,348**	-
Charleston Marriott, a hotel in Charleston, West Virginia	**7,480**	-
Disposition of partial interests in seven buildings in our *University Park* project in Cambridge, Massachusetts	**-**	129,611
Disposition of partial interests in three apartment communities in the Washington D.C. metropolitan area	**-**	28,922
	193,338	158,533

Total proceeds from disposition of partial interests in rental properties and dispositions of a development project and a rental property				
Change in investments in and advances to affiliates - (investment in) or return of investment:				
Dispositions:				
Metropolitan Lofts, an unconsolidated apartment community in Los Angeles, California		**12,590**		-
Twin Lake Towers, an unconsolidated apartment community in Denver, Colorado		**400**		-
Commercial Projects:				
Village at Gulfstream Park, an unconsolidated specialty retail center in Hallandale Beach, Florida		**(3,724)**		3,761
Metreon, an unconsolidated specialty retail center in San Francisco, California		**-**		(2,024)
Return of temporary advances from various Commercial Group properties to implement uniform portfolio cash management process		**570**		(16,024)
New York City Projects:				
East River Plaza, an unconsolidated retail project in Manhattan, New York		**-**		(1,266)
The Nets, a National Basketball Association member		**-**		(9,000)
Land Development:				
Woodforest, an unconsolidated project in Houston, Texas		**-**		(3,850)
Other net (advances) of investment of equity method investments and other advances to affiliates		**(2,273)**		(3,445)
Total change in investments in and advances to affiliates - (investment in) or return of investment		**7,563**		(31,848)
Net cash provided by (used in) investing activities	**$**	**104,422**	$	(51,544)

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Financing Activities

Net cash used in financing activities was $(140,599,000) and $(28,358,000) for the three months ended April 30, 2011 and 2010, respectively. Net cash used in financing activities consisted of the following:

	Three Months Ended April 30,	
	2011	2010
	(in thousands)	
Proceeds from nonrecourse mortgage debt and notes payable	**$ 101,444**	$ 42,778
Principal payments on nonrecourse mortgage debt and notes payable	**(147,313)**	(23,017)
Borrowings on bank revolving credit facility	**250,075**	169,300
Payments on bank revolving credit facility	**(305,800)**	(252,816)
Payment of transaction costs related to January 2011 Senior Note exchange for Class A common stock	**(2,200)**	-
Payment of deferred financing costs	**(8,334)**	(3,702)
Change in restricted cash and escrowed funds and book overdrafts	**(10,590)**	12,968
Proceeds from issuance of Series A preferred stock, net of $5,544 of issuance costs	**-**	44,456
Payment for equity call hedge related to the issuance of Series A preferred stock	**-**	(17,556)
Dividends paid to preferred shareholders	**(3,850)**	-
Purchase of treasury stock	**(1,339)**	(358)
Exercise of stock options	**169**	-
Contributions from noncontrolling interests	**38**	1,996
Distributions to noncontrolling interests	**(12,899)**	(2,407)
Net cash used in financing activities	**$ (140,599)**	$ (28,358)

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.

VARIABLE INTEREST ENTITIES

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, hotels, land development and The Nets, a member of the NBA in which we account for our investment on the equity method of accounting. As of April 30, 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 April 30, 2011, we held variable interests in 59 VIEs for which we are not the primary beneficiary. The maximum exposure to loss as a result of our involvement with these unconsolidated VIEs is limited to our recorded investments in those VIEs totaling approximately $97,000,000 at April 30, 2011. 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 April 30, 2011 (see the Senior and Subordinated Debt section of MD&A).

NEW ACCOUNTING GUIDANCE

The following accounting pronouncements were adopted during the three months ended April 30, 2011:

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

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

The following new accounting pronouncement will be adopted on its respective required effective date:

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

SUBSEQUENT EVENTS

Property Disposition

In May 2011, we completed the sale of *Waterfront Station East 4th & West 4th Buildings,* consolidated office buildings in Washington, D.C. The sales price was $356,000,000 and generated net cash proceeds of $61,490,000.

Exchange of 5.00% Convertible Senior Notes due 2016 for Shares of Class A Common Stock

During May 2011, we completed an exchange of $40,000,000 in aggregate principal amount of our 2016 Notes for 3,444,293 shares of Class A common stock, pursuant to separate, privately negotiated exchange agreements. In order to induce the holders to make the exchange, we agreed to increase the conversion rate from 71.8894 shares of Class A common stock per $1,000 principal amount of notes to 86.1073 shares, which factors in foregone interest to the holders among other inducements. Any accrued but unpaid interest was paid in cash. Under the accounting guidance for induced conversion of convertible debt, the additional amounts paid to induce the holders to exchange their notes was expensed resulting in a non tax deductible loss of $10,800,000, which will be recorded as early extinguishment of debt during the three months ended July 31, 2011.

INFORMATION RELATED TO FORWARD-LOOKING STATEMENTS

This Form 10-Q, together with other statements and information publicly disseminated by us, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements reflect management s current views with respect to financial results related to future events and are based on assumptions and expectations that may not be realized and are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial or otherwise, may differ from the results discussed in the forward-looking statements. Risk factors discussed in Item 1A of our Form 10-K for the year ended January 31, 2011 and other factors that might cause differences, some of which could be material, include, but are not limited to, the impact of current lending and capital market conditions on our liquidity, ability to finance or refinance projects and repay our debt, the impact of the current economic environment on the ownership, development and management of our real estate portfolio, general real estate investment and development risks, vacancies in our properties, further downturns in the housing market, competition, illiquidity of real estate investments, bankruptcy or defaults of tenants, anchor store consolidations or closings, international activities, the impact of terrorist acts, risks associated with an investment in a professional sports team, our substantial debt leverage and the ability to obtain and service debt, the impact of restrictions imposed by our credit facility and senior debt, exposure to hedging agreements, the level and volatility of interest rates, the continued availability of tax-exempt government financing, the impact of credit rating downgrades, effects of uninsured or underinsured losses, effects of a downgrade or failure of our insurance carriers, environmental liabilities, conflicts of interest, risks associated with the sale of tax credits, risks associated with developing and managing properties in partnership with others, the ability to maintain effective

internal controls, compliance with governmental regulations, increased legislative and regulatory scrutiny of the financial services industry, volatility in the market price of our publicly traded securities, inflation risks, litigation risks, as well as other risks listed from time to time in our reports filed with the Securities and Exchange Commission. We have no obligation to revise or update any forward-looking statements, other than imposed by law, as a result of future events or new information. Readers are cautioned not to place undue reliance on such forward-looking statements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risk includes the increased difficulty or inability to obtain construction loans, refinance existing construction loans into long-term fixed-rate nonrecourse financing, refinance existing nonrecourse financing at maturity, obtain renewals or replacement of credit enhancement devices, such as letters of credit, or otherwise obtain funds by selling real estate assets or by raising equity. We also have interest-rate exposure on our current variable-rate debt portfolio. During the construction period, we have historically used variable-rate debt to finance developmental projects. At April 30, 2011, our outstanding variable-rate debt portfolio consisted of $2,546,354,000 of taxable debt and $771,109,000 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.

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)			
05/01/11 - 02/01/12	$ 1,058,023	5.31%	$ 1,194,968	3.66%
02/01/12 - 02/01/13	691,182	4.80%	897,193	4.33%
02/01/13 - 02/01/14	489,926	5.53%	698,139	5.37%
02/01/14 - 02/01/15	-	-	652,496	5.44%
02/01/15 - 02/01/16	-	-	651,810	5.45%
02/01/16 - 09/01/17	-	-	640,000	5.50%

Tax-Exempt (Priced off of SIFMA Index)

	Caps	
Period Covered	Notional Amount	Average Base Rate
	(dollars in thousands)	
05/01/11 - 02/01/12	$ 174,639	5.83%
02/01/12 - 02/01/13	146,239	5.80%
02/01/13 - 02/01/14	101,214	5.87%

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 2.76% and has never exceeded 8.00%.

Forward Swaps

We enter into forward swaps to protect ourselves against fluctuations in the swap rate at terms ranging between five to ten years associated with forecasted fixed rate borrowings. At the time we secure and lock an interest rate on an anticipated financing, we intend to simultaneously terminate the forward swap associated with that financing. At April 30, 2011, we have no forward swaps outstanding.

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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 April 30, 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 $10,105,000 at April 30, 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 $8,440,000 at April 30, 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 April 30 and January 31, 2011, we reported interest rate caps and floors at fair value of approximately $130,000 and $195,000, respectively, in other assets. We also included interest rate swap agreements and TRS with positive fair values of approximately $4,251,000 and $4,661,000 at April 30 and January 31, 2011, respectively, in other assets. At April 30 and January 31, 2011, we included interest rate swap agreements and TRS that had a negative fair value of approximately $141,391,000 and $156,587,000, 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 April 30, 2011.

	Carrying Value	Fair Value	Fair Value with 100 bp Decrease in Market Rates
		(in thousands)	
Fixed	$ 4,176,712	$ 4,338,367	$ 4,705,123
Variable			
Taxable	2,546,354	2,592,445	2,683,520
Tax-Exempt	771,109	766,169	830,510
Total Variable	$ 3,317,463	$ 3,358,614	$ 3,514,030
Total Long-Term Debt	$ 7,494,175	$ 7,696,981	$ 8,219,153

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)
As of April 30, 2011

	Expected Maturity Date Year Ending January 31,							
n Debt	2012	2013	2014	2015	2016	Period Thereafter	Total Outstanding	Fa
				(dollars in thousands)				
ebt	$ 167,800	$ 315,015	$ 732,744	$ 385,249	$ 355,676	$ 1,445,988	$ 3,402,472	$
verage	6.46 %	6.04 %	6.55 %	5.97 %	5.61 %	5.79 %	6.01 %	
d debt	45,955 (3)	-	29,000 (5)	198,888 (4)	178,253	322,144	774,240	
verage	3.63 %	- %	7.88 %	3.63 %	7.63 %	6.35 %	5.84 %	
-Rate	213,755	315,015	761,744	584,137	533,929	1,768,132	4,176,712	
e debt	559,361	1,131,082	111,842	22,382	-	640,260	2,464,927	
verage (2)	2.90 %	3.28 %	6.96 %	3.58 %	- %	7.19 %	4.38 %	
	132,430	204,616	91,565	815	869	340,814	771,109	
verage (2)	2.63 %	2.55 %	2.77 %	3.76 %	3.76 %	1.38 %	2.08 %	
ing y (1)	-	-	-	81,427	-	-	81,427	
verage	- %	- %	- %	4.75 %	- %	- %	4.75 %	
ate	691,791	1,335,698	203,407	104,624	869	981,074	3,317,463	
-Term	$ 905,546	$ 1,650,713	$ 965,151	$ 688,761	$ 534,798	$ 2,749,206	$ 7,494,175	$

verage							
	3.56 %	3.72 %	6.28 %	5.07 %	6.28 %	5.64 %	5.04 %

(1) Represents recourse debt.

(2) Weighted average interest rate is based on current market rates as of April 30, 2011.

(3) Represents the principal amount of the puttable equity-linked senior notes of $46,891 less the unamortized discount of $936 as of April 30, 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 amortized discount of $1,112 as of April 30, 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)
As of January 31, 2011

ng-Term Debt	2012	2013	2014	2015	2016	Period Thereafter	Total Outstanding	Fair Marke Valu
	Expected Maturity Date Year Ending January 31, (dollars in thousands)							
ed:								
ed-rate debt	$ 280,274	$ 345,211	$ 855,352	$ 462,257	$ 361,758	$ 1,570,594	$ 3,875,446	$ 4,087,1
ghted average rest rate	6.77 %	6.10 %	6.56 %	5.96 %	5.59 %	5.75 %	6.04 %	
ior & ordinated debt	45,480 [(3)]	-	29,000 [(5)]	198,806 [(4)]	178,253	322,144	773,683	715,6
ghted average rest rate	3.63 %	- %	7.88 %	3.63 %	7.63 %	6.35 %	5.84 %	
al Fixed-Rate t	325,754	345,211	884,352	661,063	540,011	1,892,738	4,649,129	4,802,7
iable:								
iable-rate debt	798,146	1,064,953	46,411	12,414	-	640,220	2,562,144	2,617,4
ghted average rest rate[(2)]	3.80 %	3.38 %	6.05 %	1.46 %	- %	7.18 %	4.50 %	
-exempt	132,430	204,616	91,565	815	869	339,333	769,628	764,9
ghted average rest rate[(2)]	2.63 %	2.52 %	2.78 %	3.79 %	3.79 %	1.42 %	2.09 %	
k revolving lit facility [(1)]	-	137,152	-	-	-	-	137,152	137,1
ghted average rest rate[(2)]	- %	5.75 %	- %	- %	- %	- %	5.75 %	
al iable-Rate t	930,576	1,406,721	137,976	13,229	869	979,553	3,468,924	3,519,5
al Long-Term t	$ 1,256,330	$ 1,751,932	$ 1,022,328	$ 674,292	$ 540,880	$ 2,872,291	$ 8,118,053	$ 8,322,2

ghted average rest 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 4. Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or furnishes under the Securities Exchange Act of 1934 (Securities Exchange Act) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to the Company s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this quarterly report, an evaluation of the effectiveness of the Company s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, was carried out under the supervision and with the participation of the Company s management, which includes the CEO and CFO. Based on that evaluation, the CEO and CFO have concluded that the Company s disclosure controls and procedures were effective as of April 30, 2011.

There have been no changes in the Company s internal control over financial reporting that occurred during the fiscal quarter ended April 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

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

(a) and (b) Not applicable.

(c) Repurchase of equity securities during the quarter.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	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
Class A Common Stock				
February 1 through February 28, 2011	-	$ -	-	-
March 1 through March 31, 2011	15,914	$ 19.00	-	-
April 1 through April 30, 2011	54,992	$ 18.86	-	-
Total	70,906	$ 18.89	-	-

(1)

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

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Item 6. Exhibits

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).

Exhibit Number		Description of Document
+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).
+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).

Exhibit Number		Description of Document
+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).
+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	-	Third Amended and Restated Credit Agreement, dated as of March 30, 2011, 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 April 5, 2011 (File No. 1-4372).

*10.28.1 - Increase Notice, dated as of April 21, 2011, pursuant to the Third Amended and Restated Credit Agreement, dated as of March 30, 2011, 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.

10.29 - Third Amended and Restated Guaranty of Payment of Debt, dated as of March 30, 2011, 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 10.2 to the Company s Form 8-K filed on April 5, 2011 (File No. 1-4372).

10.30 - 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).

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Exhibit Number		Description of Document
10.30.1	-	First Amendment to Pledge Agreement, dated as of March 30, 2011, by Forest City Rental Properties Corporation to KeyBank National Association, as Agent for itself and the other banks, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on April 5, 2011 (File No. 1-4372).
10.31	-	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).
10.32	-	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 May 5, 2011 (File No. 1-4372).
*31.1	-	Principal Executive Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	-	Principal Financial Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	-	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**101	-	The following financial information from Forest City Enterprises, Inc. s Quarterly Report on Form 10-Q for the quarter ended April 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited); (ii) Consolidated Statements of Operations (unaudited); (iii) Consolidated Statements of Comprehensive Income (Loss) (unaudited); (iv) Consolidated Statements of Equity (unaudited); (v) Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Consolidated Financial Statements (unaudited), tagged as blocks of text.

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

* Filed herewith.

** Submitted electronically herewith. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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SIGNATURES

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

	FOREST CITY ENTERPRISES, INC. (Registrant)
Date: June 6, 2011	/s/ ROBERT G. O BRIEN Name: Robert G. O Brien Title: Executive Vice President and Chief Financial Officer
Date: June 6, 2011	/s/ LINDA M. KANE Name: Linda M. Kane Title: Senior Vice President, Chief Accounting and Administrative Officer

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Exhibit Index

Exhibit Number		Description of Document
10.28.1	-	Increase Notice, dated as of April 21, 2011, pursuant to the Third Amended and Restated Credit Agreement, dated as of March 30, 2011, 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.
31.1	-	Principal Executive Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	-	Principal Financial Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	-	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	-	The following financial information from Forest City Enterprises, Inc. s Quarterly Report on Form 10-Q for the quarter ended April 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited); (ii) Consolidated Statements of Operations (unaudited); (iii) Consolidated Statements of Comprehensive Income (Loss) (unaudited); (iv) Consolidated Statements of Equity (unaudited); (v) Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Consolidated Financial Statements (unaudited), tagged as blocks of text.