

FOREST CITY ENTERPRISES INC

Form 10-Q/A

January 28, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

AMENDMENT NO. 1
TO
QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2003

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 50 Public Square
Suite 1100 Cleveland, Ohio

44113

(Address of Principal Executive Offices)

Zip Code

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

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report).

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class	Outstanding at December 1, 2003
Class A Common Stock, \$.33 1/3 par value	36,240,544 shares
Class B Common Stock, \$.33 1/3 par value	
13,715,992 shares	

Explanatory Note

Forest City Enterprises, Inc. (the Registrant) is filing this Amendment No. 1 (the Amendment) to its Quarterly Report on Form 10-Q for the quarter ended October 31, 2003 (the Quarterly Report) to amend and restate in its entirety Item 1 of Part I to add Note M to its Notes to Consolidated Financial Statements. In addition, pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, the Registrant is including with this Amendment the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. Section 1350. This Amendment continues to speak as of the date of the original filing of the Quarterly Report, and the Registrant has not updated the disclosures contained herein to reflect any events that occurred at a later date.

PART I FINANCIAL INFORMATION**Item 1. Financial Statements**

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	October 31, 2003	January 31, 2003
	(Unaudited)	
	<i>(in thousands)</i>	
Assets		
Real Estate		
Completed rental properties	\$4,446,313	\$3,866,625
Projects under development	529,384	572,476
Land held for development or sale	36,432	35,036
	<hr/>	
Total Real Estate	5,012,129	4,474,137
Less accumulated depreciation	(706,878)	(615,653)
	<hr/>	
Real Estate, net	4,305,251	3,858,484
Cash and equivalents	175,958	122,356
Restricted cash	133,455	127,046
Notes and accounts receivable, net	417,981	286,652
Inventories	35,743	38,638
Investments in and advances to real estate affiliates	460,345	489,205
Other assets	211,340	154,828
	<hr/>	
Total Assets	\$5,740,073	\$5,077,209
<hr/>		
Liabilities and Shareholders' Equity		
Liabilities		
Mortgage debt, nonrecourse	\$3,478,990	\$3,016,107
Notes payable	137,730	79,484
Long-term credit facility	62,500	135,250
Senior and subordinated debt	320,400	220,400
Accounts payable and accrued expenses	645,078	585,042
Deferred income taxes	288,253	255,888
	<hr/>	
Total Liabilities	4,932,951	4,292,171
Minority interest	60,951	79,066
	<hr/>	
Commitments and Contingencies		
Company-Obligated Trust Preferred Securities		
Shareholders' Equity		
Preferred stock without par value		
5,000,000 shares authorized; no shares issued		
Common stock \$.33 1/3 par value		

Edgar Filing: FOREST CITY ENTERPRISES INC - Form 10-Q/A

Class A, 96,000,000 shares authorized; 36,509,636 and 35,678,086 shares issued, 36,240,344 and 35,525,067 outstanding, respectively	12,170	11,892
Class B, convertible, 36,000,000 shares authorized; 13,716,192 and 14,547,742 shares issued, 13,716,192 and 14,130,592 outstanding, respectively	4,572	4,850
	16,742	16,742
Additional paid-in capital	234,668	232,029
Retained earnings	505,722	470,348
	757,132	719,119
Less treasury stock, at cost; 269,292 Class A and 0 Class B shares and 153,019 Class A and 417,150 Class B shares, respectively	(1,971)	(4,425)
Accumulated other comprehensive loss	(8,990)	(8,722)
	746,171	705,972
Total Shareholders' Equity	746,171	705,972
Total Liabilities and Shareholders' Equity	\$5,740,073	\$5,077,209

See notes to consolidated financial statements.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002
<i>(in thousands, except per share data)</i>				
Revenues				
Rental properties	\$ 242,532	\$ 194,697	\$ 666,441	\$ 569,143
Lumber trading	39,627	23,296	86,508	72,896
Equity in earnings of unconsolidated real estate entities	11,433	10,735	33,103	31,493
	293,592	228,728	786,052	673,532
Expenses				
Operating expenses	169,841	140,713	452,518	406,361
Interest expense	50,509	39,958	142,140	127,469
Loss on early extinguishment of debt		355	10,718	735
Provision for decline in real estate		957	2,728	957
Depreciation and amortization	31,062	30,356	91,300	84,285
	251,412	212,339	699,404	619,807
Loss on disposition of other investments			(431)	(116)
Earnings before income taxes	42,180	16,389	86,217	53,609
Income tax expense				
Current	(2,813)	(4,320)	1,080	4,053
Deferred	20,098	11,028	31,669	16,429
	17,285	6,708	32,749	20,482
Earnings before minority interest and discontinued operations	24,895	9,681	53,468	33,127
Minority interest	(1,466)	(183)	(8,565)	(2,037)
Earnings from continuing operations	23,429	9,498	44,903	31,090
Discontinued operations, net of tax and minority interest				
(Loss) earnings from operations	(1,301)	(557)	(1,433)	670
Gain on disposition of operating properties	3,844		3,897	
	2,543	(557)	2,464	670
Net earnings	\$ 25,972	\$ 8,941	\$ 47,367	\$ 31,760
Basic earnings per common share				
Earnings from continuing operations	\$ 0.47	\$ 0.19	\$ 0.90	\$ 0.63
Earnings from discontinued operations, net of tax and minority interest	0.05	(0.01)	0.05	0.01
Net earnings	\$ 0.52	\$ 0.18	\$ 0.95	\$ 0.64

Edgar Filing: FOREST CITY ENTERPRISES INC - Form 10-Q/A

Diluted earnings per common share								
Earnings from continuing operations	\$	0.46	\$	0.19	\$	0.89	\$	0.62
Earnings from discontinued operations, net of tax and minority interest		0.05		(0.01)		0.05		0.01
Net earnings	\$	0.51	\$	0.18	\$	0.94	\$	0.63

See notes to consolidated financial statements.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Unaudited)

	Nine Months Ended October 31,	
	2003	2002
	<i>(in thousands)</i>	
Net earnings	\$47,367	\$31,760
Other comprehensive (loss) income, net of tax:		
Unrealized gains (losses) on investments in securities:		
Unrealized gain (loss) on securities	305	(512)
Unrealized derivative (losses) gains:		
Change in unrealized losses and gains on interest rate contracts, net of minority interest	(573)	694
Other comprehensive (loss) income, net of tax	(268)	182
Comprehensive income	\$47,099	\$31,942

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders Equity
(Unaudited)

	Common Stock				Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Class A		Class B				Shares	Amount		
	Shares	Amount	Shares	Amount						
	<i>(in thousands)</i>									
<u>Nine Months Ended October 31, 2003</u>										
Balances at January 31, 2003	35,678	\$11,892	14,548	\$4,850	\$232,029	\$470,348	570	\$(4,425)	\$(8,722)	\$705,972
Net earnings						47,367				47,367
Other comprehensive loss, net of tax									(268)	(268)
Dividends \$.24 per share										(11,993)
Conversion of Class B to Class A shares	832	278	(832)	(278)						
Exercise of stock options					1,700		(188)	1,441		3,141
Income tax benefit from stock option exercises					1,065					1,065
Restricted stock issued					(1,013)		(113)	1,013		
Amortization of unearned compensation					887					887
Balances at October 31, 2003	36,510	\$12,170	13,716	\$4,572	\$234,668	\$505,722	269	\$(1,971)	\$(8,990)	\$746,171

Edgar Filing: FOREST CITY ENTERPRISES INC - Form 10-Q/A

Nine Months Ended October 31,

<u>2002</u>										
Balances at January 31, 2002	35,101	\$ 11,700	15,125	\$ 5,042	\$ 228,263	\$ 432,939	762	\$ (6,140)	\$ (9,291)	\$ 662,513
Net earnings						31,760				31,760
Other comprehensive income, net of tax									182	182
Dividends \$.17 per share						(8,441)				(8,441)
Conversion of Class B to Class A shares	543	181	(543)	(181)						
Exercise of stock options					1,418		(187)	1,671		3,089
Income tax benefit from stock option exercises					1,412					1,412
Amortization of unearned compensation						715				715
Balances at October 31, 2002	35,644	\$ 11,881	14,582	\$ 4,861	\$ 231,808	\$ 456,258	575	\$ (4,469)	\$ (9,109)	\$ 691,230

See notes to consolidated financial statements.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended October 31,	
	2003	2002
	<i>(in thousands)</i>	
Cash Flows from Operating Activities		
Rents and other revenues received	\$ 621,494	\$ 609,281
Cash distributions from unconsolidated entities	13,331	13,705
Proceeds from land sales	55,800	46,958
Land development expenditures	(56,962)	(28,232)
Operating expenditures	(404,622)	(390,606)
Interest paid	(134,577)	(128,873)
Net cash provided by operating activities	94,464	122,233
Cash Flows from Investing Activities		
Capital expenditures	(304,962)	(433,997)
Proceeds from disposition of operating properties and other investments	2,549	
Changes in investments in and advances to real estate affiliates	36,911	(69,822)
Net cash used in investing activities	(265,502)	(503,819)
Cash Flows from Financing Activities		
Proceeds from issuance of senior notes	300,000	
Retirement of senior notes	(208,500)	
Payment of senior notes issuance costs	(8,092)	
Increase in nonrecourse mortgage debt	785,387	334,829
Increase in long-term credit facility	19,000	231,000
Principal payments on nonrecourse mortgage debt	(549,839)	(58,284)
Payments on long-term credit facility	(91,750)	(90,500)
Increase in notes payable	77,441	15,355
Payments on notes payable	(18,638)	(20,785)
Repayment of Lumber Trading Group securitization agreement	(55,000)	
Change in restricted cash and book overdrafts	16,263	(31,490)
Payment of deferred financing costs	(27,168)	(7,897)
Exercise of stock options	3,141	3,089
Dividends paid to shareholders	(10,464)	(7,933)
(Decrease) increase in minority interest	(7,141)	5,799
Net cash provided by financing activities	224,640	373,183
Net increase (decrease) in cash and equivalents	53,602	(8,403)
Cash and equivalents at beginning of period	122,356	50,054
Cash and equivalents at end of period	\$ 175,958	\$ 41,651

See notes to consolidated financial statements.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)
(Unaudited)

	Nine Months Ended October 31,	
	2003	2002
	<i>(in thousands)</i>	
Reconciliation of Net Earnings to Cash Provided by Operating Activities		
Net Earnings	\$ 47,367	\$ 31,760
Discontinued operations:		
Minority interest	218	(278)
Depreciation	659	2,524
Amortization	121	98
Gain on disposition of operating properties	(6,769)	
Loss on early extinguishment of debt	190	
Minority interest	8,565	2,037
Depreciation	75,234	70,204
Amortization	16,066	14,081
Equity in earnings of unconsolidated entities	(33,103)	(31,493)
Cash distributions from unconsolidated entities	13,331	13,705
Deferred income taxes	32,541	13,578
Loss on disposition of other investments	431	116
Provision for decline in real estate	2,728	957
Loss on early extinguishment of debt	10,718	735
(Increase) decrease in land included in projects under development	(6,329)	3,638
Decrease in land included in completed rental properties		341
Increase in land held for development or sale	(1,396)	(11,164)
(Increase) decrease in notes and accounts receivable	(76,124)	2,658
Decrease in inventories	2,895	6,519
Increase in other assets	(29,941)	(11,566)
Increase in accounts payable and accrued expenses	37,062	13,783
	\$ 94,464	\$ 122,233

Supplemental Non-Cash Disclosures:

The schedule below represents the effect of the following non-cash transactions for the nine months ended October 31:

- 2003 * Increase in interest in Station Square Freight House, a specialty retail center
Disposition of interest in Trowbridge, a supported-living community
Acquisitions of additional interests in ten syndicated residential properties:
 Arboretum Place, Bowin, Bridgewater, Drake, Enclave, Grand,
 Lakeland, Lofts at 1835 Arch, Silver Hill and Trellis at Lee's Mill
Acquisition of Grove, an apartment community
Change to equity method of accounting from full consolidation due to the admission of a 50% partner in
Emporium, a retail project under development
- 2002 * None

Operating Activities

Notes and accounts receivable	\$ (204)	\$
Other assets	(13,151)	

Edgar Filing: FOREST CITY ENTERPRISES INC - Form 10-Q/A

Accounts payable and accrued expenses	21,370	
<hr/>		
Total effect on operating activities	\$ 8,015	\$
<hr/>		
Investing Activities		
Investments in and advances to affiliates	\$ 11,887	\$
Acquisition of completed rental properties	(227,499)	
<hr/>		
Total effect on investing activities	\$ (215,612)	\$
<hr/>		
Financing Activities		
Decrease in notes and loans payable	\$ (557)	\$
Increase in nonrecourse mortgage debt	227,911	
Decrease in minority interest	(19,757)	
<hr/>		
Total effect on financing activities	\$ 207,597	\$
<hr/>		

See notes to consolidated financial statements.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

A. Accounting Policies

Basis of Presentation

The interim financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the financial statements and related notes included in the Company's annual report on Form 10-K for the year ended January 31, 2003. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included.

The Company uses the pro-rata method of consolidation to analyze its properties as the pro-rata method of consolidation provides operating data at the Company's ownership share. The pro-rata method of consolidation is not a method of consolidation acceptable under GAAP. Thus, all information the Company has historically provided under pro-rata consolidation has been removed from the Company's financial statements and related footnotes. This information is now provided in the Company's Management Discussion and Analysis on pages 38-46 of this filing.

Accounting for Derivative Instruments and Hedging Activities

During the three and nine months ended October 31, 2003, the Company recorded approximately \$25,000 and \$565,000, respectively, as interest expense in the Consolidated Statements of Earnings, which represented the total ineffectiveness of all cash flow hedges. During the three and nine months ended October 31, 2002, the Company recorded approximately \$19,000 and \$204,000, respectively, as an increase of interest expense due to the ineffective portion of its cash flow hedges. The amount of net derivative losses reclassified into earnings from other comprehensive income 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 was \$-0- for the three and nine months ended October 31, 2003, and was \$58,000 and \$738,000, for the three and nine months ended October 31, 2002, respectively. As of October 31, 2003, the Company expects that within the next twelve months it will reclassify amounts recorded in accumulated other comprehensive loss into earnings as interest expense associated with the effectiveness of cash flow hedges of approximately \$2,298,000, net of tax. The amount of hedge ineffectiveness relating to hedges designated and qualifying as fair value hedges was not material.

At October 31 and January 31, 2003, interest rate caps were reported at their fair value of approximately \$3,917,000 and \$753,000 respectively, in the Consolidated Balance Sheets as Other Assets. The fair value of interest rate swap and floor agreements at October 31 and January 31, 2003 is an unrealized loss of approximately \$7,376,000 and \$4,340,000, respectively, and is included in Accounts Payable and Accrued Expenses in the Consolidated Balance Sheets.

Stock-Based Compensation

During the nine months ended October 31, 2003, the Company granted 661,900 Class A fixed stock options to key employees and nonemployee members of the Board of Directors. The options have a term of 10 years, vest 25% after two years, 50% after three years and 100% after four years and have a weighted average exercise price of \$31.03. The exercise price of the options granted was equal to the market price of the underlying stock on the date of grant resulting in no intrinsic value and no compensation expense under APBO No. 25.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
 Notes to Consolidated Financial Statements
 (Unaudited)

A. Accounting Policies continued

Stock-Based Compensation (continued)

The Company also granted 112,500 shares of restricted Class A common stock to key employees. The restricted shares were awarded out of treasury stock, having a cost basis of \$1,012,500, with rights to vote the shares and receive dividends while being subject to restrictions on disposition and transferability and risk of forfeiture. The shares become nonforfeitable over a period of four years. The market value on the date of grant of \$3,487,500 was recorded as unearned compensation to be charged to expense over the respective vesting periods. The unearned compensation of this award along with previously issued restricted stock is reported as an offset of Additional Paid-In Capital in the accompanying consolidated financial statements. At October 31, 2003, the unamortized unearned compensation relating to all restricted stock amounted to \$5,227,000.

Stock based compensation costs, net of tax, relating to restricted stock awards were charged to net earnings in the amount of \$186,000 and \$121,000, respectively, during the three months ended October 31, 2003 and 2002, and \$536,000 and \$432,000, respectively, during the nine months ended October 31, 2003 and 2002. While these amounts were computed under APBO No. 25, they are equal to the fair value based amounts as computed under SFAS No. 123 Accounting for Stock-Based Compensation.

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

	Three months ended October 31,		Nine months ended October 31,	
	2003	2002	2003	2002
Net earnings <i>(in thousands)</i>				
As reported				
\$25,972 \$8,941 \$47,367 \$31,760				
Deduct stock-based employee compensation expense for stock options determined under the fair value based method, net of related tax effect				
(896) (644) (2,443) (1,932)				
Pro forma				
\$25,076 \$8,297 \$44,924 \$29,828				

Basic earnings per share

As reported

\$.52 \$.18 **\$.95** \$.64

Pro forma

\$.50 \$.17 **\$.90** \$.60

Diluted earnings per share

As reported

\$.51 \$.18 **\$.94** \$.63

Pro forma

\$.49 \$.17 **\$.89** \$.59

New Accounting Standards

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148 Accounting for Stock-Based Compensation Transition and Disclosure (SFAS No. 148). This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

A. Accounting Policies continued

New Accounting Standards (continued)

In addition, this statement amends the disclosure requirements of SFAS No. 123 *Accounting for Stock-Based Compensation* to require prominent disclosures in both annual and quarterly financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation is effective for the Company for the fiscal year ended January 31, 2004. The new requirements for quarterly disclosure were effective for the quarter ended April 30, 2003. The Company will continue to apply APBO No. 25 *Accounting for Stock Issued to Employees* and related interpretations in accounting for its stock-based employee compensation and does not expect SFAS No. 148 to have a material impact on the Company's financial position, results of operations or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN No. 46), *Consolidation of Variable Interest Entities*. The objective of this interpretation is to provide guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, non-controlling interests, and results of operations of a VIE are to be included in the consolidated financial statements. A company that holds a variable interest in an entity will consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the entity's expected residual returns, if they occur. FIN No. 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The disclosure provisions of this Interpretation became effective upon issuance. The consolidation requirements of this Interpretation and the related FASB Staff Position (FSP) apply immediately to variable interest entities created after January 31, 2003 and to existing variable interest entities in the first year or interim period ending after December 15, 2003. The FASB issued an Exposure Draft and a number of FSPs that address certain implementation issues that have arisen since the FASB issued FIN No. 46. The Company is in the process of quantifying the full impact of FIN No. 46 on its financial statements based on its understanding of FIN No. 46, however, the related Exposure Draft and FSPs issued to date as they are currently written. However, as of the date of this filing the guidance on FIN No. 46 has not yet been finalized. The Company believes it is reasonably possible it is the primary beneficiary of many of its equity method investments. As a result, full consolidation of these investments may be required under FIN No. 46, however, a final assessment cannot be made at this time. The financial position and results of operations for the Company's equity method investments, which the Company is currently assessing under FIN No. 46 are presented in Note K *Investments In and Advances to Affiliates* on page 17 of this Form 10-Q.

In April 2003, the FASB issued SFAS No. 149 *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS No. 149). This statement amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities under FAS 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement is effective for certain contracts entered into or modified after June 30, 2003 and for certain hedging relationships designated after June 30, 2003. This statement did not have a material impact on the Company's financial position, results of operations or cash flows.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

A. Accounting Policies continued

New Accounting Standards (continued)

In March 2003, the Emerging Issues Task Force (EITF) issued EITF No. 00-21 Accounting for Revenue Arrangements with Multiple Deliverables (EITF No. 00-21). This issue addresses certain aspects of accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. This issue is effective for revenue arrangements entered into by the Company subsequent to January 31, 2004. The Company does not expect this statement to have a current material impact on the Company's financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The minority interests associated with certain of the Company's consolidated joint ventures that have finite lives under the terms of the agreements represent mandatorily redeemable interests as defined in SFAS 150. On November 7, 2003, the FASB indefinitely deferred the effective date of paragraphs nine and ten of SFAS No. 150 as they apply to mandatorily redeemable noncontrolling interests in order to address a number of interpretation and implementation issues. However, the disclosure provisions of SFAS 150 are still required. Although no such obligation exists, if the Company were to dissolve the entities or sell the underlying real estate assets and satisfy any outstanding obligations, in all of its consolidated finite life entities as of October 31, 2003, the estimated aggregate settlement value of these noncontrolling interests would approximate book value due to the Company's preferred returns upon settlement. The Company's assessment of the settlement value is based on the estimated liquidation values of the assets and liabilities and the resulting proceeds that the Company would distribute to its noncontrolling interests, as required under the terms of the respective agreements. While additional guidance from the FASB relating to noncontrolling interests in consolidated finite life partnerships is pending, the Company does not expect the remainder of this statement to have an immediate material impact on the Company's financial position, results of operations or cash flows.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

B. Discontinued Operations

The Company adopted the provisions of Statement of Financial Accounting Standard (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective February 1, 2002. This standard addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company also retains the basic provisions for presenting discontinued operations in the income statement but broadened the scope to include a component of an entity rather than a segment of business. Pursuant to the definition of a component of an entity in SFAS No. 144, assuming no significant continuing involvement, all earnings of properties which have been sold or held for sale are reported as discontinued operations. The Company considers assets held for sale when the transaction has been approved by the appropriate level of management and there are no contingencies related to the sale that may prevent the transaction from closing. In most transactions, these contingencies are not satisfied until the actual closing of the transaction, and, accordingly, the property is not identified as held for sale until the closing actually occurs. However, each potential transaction is evaluated based on its separate facts and circumstances.

For the three months ended October 31, 2003, two properties, *Vineyards* and *Laurels*, were included in discontinued operations. *Vineyards*, a 366-unit apartment complex in Broadview Heights, Ohio and *Laurels*, a 520-unit apartment complex in Justice, Illinois, were both sold during the third quarter. For the nine months ended October 31, 2003, three properties, *Vineyards*, *Laurels*, and *Trowbridge*, were included in discontinued operations. The Company turned over the deed to *Trowbridge*, a supported-living community located in Southfield, Michigan, in lieu of foreclosure in April 2003. *Vineyards*, *Laurels* and *Trowbridge* were previously included in the Residential Group.

For the three and nine months ended October 31, 2002, five properties were included in discontinued operations: *Bay Street*, *Courtland Center*, *Trowbridge*, *Vineyards* and *Laurels*. *Bay Street*, a 16,000-square-foot retail center located in Staten Island, New York, was sold in the fourth quarter of fiscal 2002. *Courtland Center*, a 458,000-square-foot retail center located in Flint, Michigan, was also sold during the fourth quarter of fiscal 2002. *Bay Street* and *Courtland Center* were both previously included in the Commercial Group.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
 Notes to Consolidated Financial Statements
 (Unaudited)

B. Discontinued Operations (continued)

The assets and liabilities relating to Trowbridge being held for sale and operating results relating to assets sold and assets held for sale from Bay Street, Courtland Center, Trowbridge, Vineyards and Laurels are as follows.

	October	January
	31,	31,
	2003	2003
<i>(in thousands)</i>		
Assets		
Real estate, net		
\$ 20,004		
Other assets		
1,021		
\$ 21,025		
Liabilities		
Mortgage debt, nonrecourse		
\$ 20,822		
Other liabilities		
574		
\$ 21,396		

Edgar Filing: FOREST CITY ENTERPRISES INC - Form 10-Q/A

Current
382 276 **2,083** 2,654
 Deferred
2,501 (116) **805** (2,724)

2,883 160 **2,888** (70)

Earnings before minority interest
2,543 (683) **2,682** 392
 Minority interest
 126 **(218)** 278

Net earnings (loss) from discontinued operations
\$2,543 \$(557) **\$2,464** \$670

The following table summarizes the gain (loss) on disposition of operating properties for the three and nine months ended October 31, 2003 and 2002.

Edgar Filing: FOREST CITY ENTERPRISES INC - Form 10-Q/A

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Discontinued operations				
Laurels	\$4,249	\$4,249		
Vineyards	2,109	2,109		
Trowbridge	538			
Other	(127)			
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Total	\$6,358	\$6,769		
<hr/>				
<hr/>				
<hr/>				
<hr/>				

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
 Notes to Consolidated Financial Statements
 (Unaudited)

C. Senior Notes

On May 19, 2003, the Company issued \$300,000,000 of its 7.625% senior notes due June 1, 2015 in a public offering under its shelf registration statement. Accrued interest is payable semi-annually beginning on December 1, 2003. \$208,500,000 of the proceeds from this offering were used to redeem all of the outstanding 8.5% senior notes originally due in 2008 at a redemption price equal to 104.25%. The remainder of the proceeds was used for offering costs of \$8,092,000, to repay \$73,000,000 outstanding under the revolving portion of the long-term credit facility and for general working capital purposes. The new 7.625% senior notes contain covenants comparable to the previously outstanding 8.5% senior notes. The Company currently has \$542,180,000 available under its shelf registration.

D. Provision for Decline in Real Estate

The following table summarizes the Company's Provision for Decline in Real Estate for the three and nine months ended October 31, 2003 and 2002. The provision represents the adjustment to fair market value of land held by the Residential Group and a retail center held by the Commercial Group.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Leggs Hill				
Hunting Park				
Retail Center Philadelphia, PA	1,104			
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Total	\$ 957	\$2,728	\$957	
<hr/>				
<hr/>				
<hr/>				
<hr/>				

E. Reclassification

Certain items in the consolidated financial statements for 2002 have been reclassified to conform to the 2003 presentation (see Notes B and F).

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

F. Loss on Early Extinguishment of Debt

On February 1, 2002, the Company adopted the provisions of SFAS No. 145, Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13 on Technical Corrections (SFAS No. 145), which requires gains or losses from early extinguishment of debt to be classified in operating income or loss. The Company previously recorded gains or losses from early extinguishment of debt as extraordinary items, net of tax, in its Statement of Earnings. For the three and nine months ended October 31, 2003, the Company has recorded \$190,000 relating to the dispositions of *Laurels* and *Vineyards* as Loss on Early Extinguishment of Debt in Discontinued Operations. *Laurels* is a residential property located in Justice, Illinois, and *Vineyards* is a residential property located in Broadview Heights, Ohio. For the nine months ended October 31, 2003, the Company recorded \$10,718,000 as Loss on Early Extinguishment of Debt. This amount is primarily the result of the payment in full of the Company's \$200,000,000 8.5% senior notes due in 2008 at a premium of 104.25% for a loss on extinguishment of \$8,500,000 for redemption premium and approximately \$3,000,000 related to the write-off of unamortized debt issue costs. These changes were offset, in part, by net gains on early extinguishment of debt of approximately \$800,000 on several residential properties.

For the three and nine months ended October 31, 2002, the Company reclassified \$355,000 (\$214,000, net of tax) and \$735,000 (\$444,000, net of tax) of early extinguishment of debt from Extraordinary Loss to Loss on Early Extinguishment of Debt to conform to the new guidance. These losses represented the impact of early extinguishment of nonrecourse debt in order to secure more favorable financing terms. The Company recorded extraordinary losses related to *Lofts at 1835 Arch*, a residential property located in Philadelphia, Pennsylvania, *Autumn Ridge* and *Cambridge Towers*, residential properties located in Michigan and *Regency Towers*, a residential property located in Jackson, New Jersey.

G. Dividends

The Board of Directors declared regular quarterly cash dividends on both Class A and Class B common shares as follows:

Date Declared	Date of Record	Payment Date	Amount Per Share
March 12, 2003	June 2, 2003	June 16, 2003	\$.06
June 11, 2003			
September 2, 2003	September 15,		
2003			\$.09
September 10, 2003			
December 1, 2003	December 15,		
2003			\$.09
December 4, 2003*			
March 1, 2004	March 15,		
2004			\$.09

* Since this dividend was declared after October 31, 2003, it is not reflected in the consolidated financial statements.

Diluted EPS
\$9,498 50,152,885 \$0.19

Nine Months Ended

October 31, 2003:

Basic EPS
\$44,903 49,842,969 \$0.90
Effect of dilutive securities stock
options
656,729 (0.01)

Diluted EPS
\$44,903 50,499,698 \$0.89

October 31, 2002:

Basic EPS
\$31,090 49,594,305 \$0.63
Effect of dilutive securities stock
options
598,641 (0.01)

Diluted EPS
\$31,090 50,192,946 \$0.62

I. Commitments and Contingencies

In October 2003, the Company admitted Westfield America, Inc. as a partner into its Emporium project, a retail development in San Francisco. Pursuant to that agreement, the Company agreed to purchase a 50% interest in a partnership owned by Westfield America at a cost of \$75,000,000. This acquisition will entitle the Company to a 50% economic interest in One San Francisco Centre, a retail property in operation located adjacent to Emporium. The purchase of this interest is planned for 2006 to coincide with the opening of Emporium.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

J. Reduction of Reserves On Notes Receivable and Recognition of Contingent Interest Income

The Company, through its Residential Group, is the 1% general partner in 23 Federally Subsidized housing projects owned by syndicated partnerships. Upon formation of these partnerships approximately 20 years ago, the Company received interest-bearing notes receivable as consideration for development and other fee services. At their inception, these notes were fully reserved as their collection was doubtful based on the limited cash flows generated by the properties pursuant to their government subsidy contracts. Likewise, a reserve for the related accrued interest was established each year.

During the years ended January 31, 2003 and 2002, 20 of these properties completed a series of events that led to the reduction of a portion of these reserves. The first event was the modification or expiration of the Government contracts that now allow for market rate apartment rentals, which provide a significant increase in expected future cash flows. This, in turn, increased the appraised values of these properties and in some instances, resulted in a settlement with the limited partners to obtain their ownership share of these properties in exchange for the balance of the notes and related accrued interest. As a result, the Company determined that the collection of a portion of these notes receivable and related accrued interest is now probable. For the three and nine months ended October 31, 2003, reductions of \$1,813,000 and \$2,043,000, and reductions for the three and nine months ended October 31, 2002 of \$319,000 and \$4,169,000, respectively, are included in revenue in the Consolidated Statements of Earnings. The Company will continue to review the level of reserves against these notes receivable in relation to events that could change expected future cash flows from these properties.

In addition, during the nine months ended October 31, 2003, the Company recognized \$5,300,000 in interest income on an unreserved note receivable from one of these 20 properties, representing participation proceeds from the sale of the property.

Millender Center The Company owns a 1% general partnership interest in Millender Center (the Project), a mixed-use apartment, retail and hotel project located in downtown Detroit, Michigan, and loaned \$14,775,000 to the 99% limited partners in 1985, as evidenced by a note. A full reserve against the note and accrued interest was recorded in 1995 when the Company determined that collection was doubtful due to the operating performance of the Project at that time.

In October 1998, the Project entered into a lease agreement with General Motors (GM) whereby the Project, except for the apartments, is leased to GM through 2010, when it is expected that GM will exercise a purchase option. This lease arrangement, coupled with the resurgence of downtown Detroit's economy as a result of GM's relocation of its corporate headquarters to a location adjacent to the Project and the entry of gaming, has significantly improved the operating performance of the Project. At the same time, the note was restructured with the limited partners to extend the term from December 31, 2000 to December 31, 2022. The Company believes that the current and anticipated improved performance of the Project supports its assessment that the original principal of the note is now fully collectible.

During the three and nine months ended October 31, 2003 the Company reduced \$-0- and \$5,633,000, respectively, of the reserve recorded against interest receivable from Millender Center. During the three and nine months ended October 31, 2002 the Company reduced \$-0- and \$690,000, respectively, of the reserve recorded against Millender Center. The reductions of this reserve was primarily the result of increased cash flow projections due to the extension of the Project's tax advantaged bonds. The recorded balance of the note was \$20,917,000 and \$16,332,000 at October 31, 2003 and 2002, respectively. As of October 31, 2003, a \$5,382,000 reserve against this note remains.

FOREST CITY ENTERPRISES, INC. AND SUBSIDIARIES
 Notes to Consolidated Financial Statements
 (Unaudited)

K. Investments in and Advances to Real Estate Affiliates

Included in Investments in and Advances to Real Estate Affiliates are unconsolidated investments in entities which the Company does not control and which are accounted for on the equity method as well as advances on behalf of other partners. Summarized financial information for the equity method investments is as follows.

	<u>October 31,</u> <u>2003</u>	<u>January 31,</u> <u>2003</u>
<i>(in thousands)</i>		
Balance Sheet:		
Completed rental properties	\$2,367,862	\$2,384,920
Projects under development	260,986	307,566
Land held for development or sale	95,016	85,663
Accumulated depreciation	(491,314)	(484,845)
Other assets	252,733	278,024
<hr/>		
<hr/>		
Total Assets	\$2,485,283	\$2,571,328
<hr/>		
<hr/>		
Mortgage debt, nonrecourse	\$2,111,819	\$2,226,384
Advances from general partner	1,385	18,355
Other liabilities	162,313	166,286
Partners' equity	209,766	160,303
<hr/>		
<hr/>		
Total Liabilities and Partners' Equity	\$2,485,283	\$2,571,328

Three Months Ended October 31, 2003	Three Months Ended October 31, 2002	Nine Months Ended October 31, 2003	Nine Months Ended October 31, 2002
--	--	---	---

(in thousands)

Operations:

Revenues
\$121,894 \$143,634 **\$415,624** \$391,583
 Operating expenses
(67,586) (76,213) **(226,294)** (205,485)
 Interest expense
(26,213) (38,898) **(95,987)** (98,251)
 Depreciation and amortization
(17,327) (16,507) **(55,370)** (48,553)

Net Earnings (pre-tax)
\$10,768 \$12,016 **\$37,973** \$39,294

Company's portion of Net Earnings (pre-tax)
\$11,433 \$10,735 **\$33,103** \$31,493

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

	<u>October 31, 2003</u>	<u>January 31, 2003</u>
	<i>(in thousands)</i>	
Partners' equity, as above	\$209,766	\$160,303
Equity of other partners		
65,306 30,178		
<hr/>		
Company's investment in partnerships		
144,460 130,125		
Advances to partnerships, as above		
1,385 18,355		
Advances to other real estate affiliates		
314,500 340,725		
<hr/>		
Investments in and Advances to Real Estate Affiliates		
\$460,345 \$489,205		
<hr/>		
<hr/>		

As is customary within the real estate industry, the Company invests in certain real estate projects through partnerships. The Company provides funding for certain of its partners' equity contributions for the development and construction of real estate projects. The most significant partnership for which the Company provides funding relates to Forest City Ratner Companies, representing the Commercial Group's New York City operations. The Company's partner is the President and Chief Executive Officer of Forest City Ratner Companies and is the first cousin to four executive officers of the Company. At October 31, 2003 and January 31, 2003, amounts advanced in the normal course of business for development and construction of real estate projects on behalf of this partner collateralized by this partnership interest were \$110,586,000 and \$98,264,000, respectively, of the \$314,500,000 and \$340,725,000 presented above for Advances to other real estate affiliates. These advances entitle the Company to a preferred return on and of the outstanding balances, which are payable from cash flows of each respective property.

	Three Months Ended October 31,		Nine Months Ended October 31,		Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002	2003	2002	2003	2002
	Depreciation and Amortization				Earnings Before Income Taxes ⁽²⁾			
Commercial Group	\$25,194	\$24,036	\$73,356	\$68,518	\$16,358	\$17,039	\$60,058	\$37,877
Residential Group	1,884	5,099	14,999	12,401	9,448	7,135	36,669	26,657
Land Development Group	5	46	185	147	25,920	7,955	38,854	26,934
Lumber Trading Group ⁽¹⁾	81	536	1,408	1,604	3,728	(488)	4,306	(406)
Corporate	38	639	1,352	1,615	(13,274)	(14,295)	(50,511)	(36,373)
Loss on disposition of other investments			(431)	(116)				
Provision for decline in real estate		(957)	(2,728)	(957)				
	\$31,062	\$30,356	\$91,300	\$84,285	\$42,180	\$16,389	\$86,217	\$53,609

	Earnings Before Depreciation, Amortization and Deferred Taxes (EBDT) ⁽³⁾			
Commercial Group	\$40,398	\$43,340	\$120,636	\$101,178
Residential Group				
18,625	17,643	55,942	45,453	
Land Development Group				
16,303	1,783	25,199	10,589	
Lumber Trading Group				
2,070	(372)	2,158	(431)	
Corporate				
(6,336)	(12,466)	(31,633)	(25,640)	
Discontinued Operations ⁽⁴⁾				
(1,164)	579	(721)	2,831	

Consolidated EBDT

69,896 50,507 **171,581** 133,980

Reconciliation of EBDT to net earnings: ⁽⁵⁾

Depreciation and amortization Real Estate Groups

(34,838) (30,973) **(98,500)** (86,131)

Deferred taxes Real Estate Groups

(15,447) (10,502) **(32,374)** (15,778)

Straight-line rent adjustment

2,654 1,839 **5,185** 2,943

Provision for decline in real estate

(579) **(1,449)** (579)

Early extinguishment of debt, net of tax

(214) (444)

Loss on disposition of other investments, net of tax

(261) (70)

Discontinued operations not included in EBDT, net
of tax and minority interest ⁽⁴⁾

Depreciation and amortization

(154) (1,283) **(731)** (2,376)

Deferred taxes

17 116 **19** 158

Straight-line rent adjustment

30 57

Gain on disposition of operating properties

3,844 3,897

Net earnings

\$25,972 \$8,941 **\$47,367** \$31,760

(1) The Company recognizes the gross margin on lumber brokerage sales as Revenues. Sales invoiced for the three months ended October 31, 2003 and 2002 were \$897,732 and \$614,410, respectively. Sales invoiced for the nine months ended October 31, 2003 and 2002 were \$2,083,523 and \$1,951,959, respectively.

(2) See Consolidated Statements of Earnings on page 3 for reconciliation of Earnings Before Income Tax EBIT to Net Earnings.(3) Early extinguishment of debt, which was formerly reported as an extraordinary item, is now recorded as an operating expense. However, early extinguishment of debt will be excluded from EBDT through the year ended January 31, 2003. Beginning February 1, 2003, early extinguishment

of debt will be included in EBDT.(4) See Note B Discontinued Operations on Pages 11 and 12 for more information.(5) See Page 47 through 57 of this filing for additional information regarding the reconciliation of EBDT to Net Earnings.

M. Subsequent Event

In November, 2003, the Company agreed to provide certain concessions to its partner relating to a property accounted for under the equity method of accounting. These concessions involved the Company agreeing to forgive their partner's deficit restoration obligations, as well as modifying the liquidating distribution provisions of the partnership agreement. As a result of these concessions, upon the sale of the property and the resulting dissolution of the partnership in November 2003, the Company recognized a loss of approximately \$3.5 million.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

Exhibit Number	Description of Document
31.1	Principal Executive Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as amended, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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 January 28, 2004

/S/ THOMAS G. SMITH

Thomas G. Smith
Executive Vice President,
Chief Financial Officer and Secretary
(Principal Financial Officer)

Date January 28, 2004

/S/ LINDA M. KANE

Linda M. Kane
Senior Vice President
and Corporate Controller
(Principal Accounting Officer)

Exhibit Index

Exhibit Number	Description of Document
31.1 -	Principal Executive Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 -	Principal Financial Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 -	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002