FOREST CITY ENTERPRISES INC
Form 10-Q
June 08, 2006

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

(Mark One)

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

For the quarterly period ended April 30, 2006

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

For the transition period from __________ to __________

Commission file number 1-4372

FOREST CITY ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

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

Terminal Tower Suite 1100	50 Public Square Cleveland, Ohio	44113
(Address of principal executive offices)		(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act: (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

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

Class	Outstanding at June 6, 2006
Class A Common Stock, $.33 1/3 par value	76,178,135 shares
Class B Common Stock, $.33 1/3 par value	25,890,660 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, 2006	January 31, 2006
	(in thousands)	
Assets		
Real Estate		
Completed rental properties	**$ 6,145,259**	$ 6,162,995
Projects under development	**924,985**	886,256
Land held for development or sale	**122,918**	105,875
Total Real Estate	**7,193,162**	7,155,126
Less accumulated depreciation	**(1,005,531)**	(986,594)
Real Estate, net	**6,187,631**	6,168,532
Cash and equivalents	**141,510**	254,734
Restricted cash	**348,225**	430,264
Notes and accounts receivable, net	**242,005**	265,264
Investments in and advances to affiliates	**403,799**	361,942
Other assets	**515,280**	509,605
Total Assets	**$ 7,838,450**	$ 7,990,341
Liabilities and Shareholders Equity		
Liabilities		
Mortgage debt, nonrecourse	**$ 5,036,592**	$ 5,159,432
Notes payable	**70,653**	89,174
Bank revolving credit facility		82,500
Senior and subordinated debt	**599,400**	599,400
Accounts payable and accrued expenses	**624,917**	674,949
Deferred income taxes	**424,696**	387,788
Total Liabilities	**6,756,258**	6,993,243
Minority Interest	**136,252**	102,716
Commitments and Contingencies		
Company-Obligated Trust Preferred Securities		

Shareholders Equity		
Preferred stock without par value; 5,000,000 shares authorized; no shares issued		
Common stock $.33 1/3 par value		
Class A, 96,000,000 shares authorized; 75,688,335 and 75,695,084 shares issued and outstanding, respectively	**25,230**	25,232
Class B, convertible, 36,000,000 shares authorized; 25,986,960 and 26,149,070 shares issued and outstanding, respectively; 6,257,961 shares issuable	**8,662**	8,716
	33,892	33,948
Additional paid-in capital	**252,095**	251,991
Unearned compensation		(4,151)
Retained earnings	**659,496**	612,371
	945,483	894,159
Accumulated other comprehensive income	**457**	223
Total Shareholders Equity	**945,940**	894,382
Total Liabilities and Shareholders Equity	**$ 7,838,450**	$ 7,990,341

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

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

	Three Months Ended April 30,	
	2006	2005
	(in thousands, except per share data)	
Revenues from real estate operations	**$ 289,354**	$ 294,580
Expenses		
Operating expenses	**167,516**	165,461
Depreciation and amortization	**43,617**	41,975
Provision for decline in real estate		1,500
	211,133	208,936
Interest expense	**(70,417)**	(66,187)
Amortization of mortgage procurement costs	**(3,019)**	(3,058)
Loss on early extinguishment of debt	**(803)**	(1,610)
Interest and other income	**14,962**	6,902
Equity in earnings of unconsolidated entities	**379**	20,036
Gain on disposition of other investments		606
Earnings before income taxes	**19,323**	42,333
Income tax expense (benefit)		
Current	**(423)**	7,560
Deferred	**7,573**	8,591
	7,150	16,151
Earnings before minority interest and discontinued operations	**12,173**	26,182
Minority interest	**(4,257)**	(2,832)
Earnings from continuing operations	**7,916**	23,350
Discontinued operations, net of tax and minority interest		
Operating loss from rental properties	**(861)**	(1,134)
Gain on disposition of rental properties	**46,203**	
	45,342	(1,134)

Net earnings	**$ 53,258**	$ 22,216
Basic earnings per common share [1]		
Earnings from continuing operations	**$ 0.08**	$ 0.23
Earnings from discontinued operations, net of tax and minority interest	**0.44**	(0.01)
Net earnings	**$ 0.52**	$ 0.22
Diluted earnings per common share [1]		
Earnings from continuing operations	**$ 0.08**	$ 0.23
Earnings from discontinued operations, net of tax and minority interest	**0.44**	(0.01)
Net earnings	**$ 0.52**	$ 0.22

(1) Earnings per share and weighted average shares outstanding for the three months ended April 30, 2005 have been restated to reflect a two-for-one stock split that occurred in July 2005.

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

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

	Three Months Ended April 30,	
	2006	2005
	(in thousands)	
Net earnings	**$53,258**	$22,216
Other comprehensive income, net of tax and minority interest:		
Unrealized net losses on investment securities	**(33)**	(166)
Change in unrealized net gains on interest rate derivative contracts	**267**	1,326
Other comprehensive income, net of tax and minority interest	**234**	1,160
Comprehensive income	**$53,492**	$23,376

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

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

	Common Stock				Additional					Accumulated Other	
	Class A		Class B		Paid-In	Unearned	Retained	Treasury Stock		Comprehensive (Loss)	
	Shares	Amount	Shares	Amount	Capital	Compensation	Earnings	Shares	Amount	Income	Total
						(in thousands)					
Three Months Ended April 30, 2006											
Balances at January 31, 2006	**75,695**	**$25,232**	**26,149**	**$8,716**	**$251,991**	**$(4,151)**	**$612,371**		**$**	**$ 223**	**$894,382**
Reclassifications related to the adoption of SFAS No. 123(R)	**(259)**	**(86)**			**(4,065)**	**4,151**					
Net earnings							**53,258**				**53,258**
Other comprehensive income, net of tax and minority interest										**234**	**234**
Dividends $.06 per share							**(6,133)**				**(6,133)**
Purchase of treasury stock								**18**	**(826)**		**(826)**
Conversion of Class B to Class A shares	**162**	**54**	**(162)**	**(54)**							
Exercise of stock options	**34**	**11**			**(55)**			**(18)**	**826**		**782**
Restricted stock vested	**56**	**19**			**(19)**						
Stock-based compensation					**3,044**						**3,044**
Excess income tax benefit from stock option exercises					**536**						**536**
Excess income tax benefit from restricted stock vesting					**663**						**663**

Balances at April 30, 2006	**75,688**	**$25,230**	**25,987**	**$8,662**	**$252,095**	**$**	**$659,496**		**$**	**$ 457**	**$945,940**
Three Months Ended April 30, 2005											
Balances at January 31, 2005	74,206	$24,736	26,497	$8,832	$230,188	$(3,087)	$552,106		$	$(8,250)	$804,525
Net earnings							22,216				22,216
Other comprehensive income, net of tax and minority interest										1,160	1,160
Dividends $.05 per share							(5,033)				(5,033)
Purchase of treasury stock								62	(1,945)		(1,945)
Exercise of stock options	134	44			1,668						1,712
Restricted stock granted	90	30			2,827	(2,857)					
Amortization of unearned compensation						573					573
Excess income tax benefit from stock option exercises					814						814
Excess income tax benefit from restricted stock vesting					723						723
Balances at April 30, 2005	74,430	$24,810	26,497	$8,832	$236,220	$(5,371)	$569,289	62	$(1,945)	$(7,090)	$824,745

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,	
	2006	2005
	(in thousands)	
Net Earnings	**$ 53,258**	$ 22,216
Depreciation and amortization	**43,617**	41,975
Provision for decline in real estate		1,500
Amortization of mortgage procurement costs	**3,019**	3,058
Loss on early extinguishment of debt	**803**	1,610
Equity in earnings of unconsolidated entities	**(379)**	(20,036)
Gain on disposition of other investments		(606)
Deferred income taxes	**7,573**	6,803
Minority interest	**4,257**	2,832
Excess tax benefit from stock-based compensation	**(1,199)**	
Stock-based compensation	**2,526**	573
Cash distributions from operations of unconsolidated entities	**11,983**	11,412
Non-cash operating expenses:		
Write-off of abandoned development projects	**669**	1,209
Discontinued operations:		
Depreciation and amortization	**115**	1,999
Amortization of mortgage procurement costs	**40**	208
Minority interest	**60,880**	38
Gain on disposition of operating properties	**(136,384)**	
Deferred income taxes	**29,190**	568
Cost of sales of land included in projects under development and completed rental properties	**11,355**	13,090
(Increase) decrease in land held for development or sale	**(12,342)**	7,173
Decrease in notes and accounts receivable	**22,955**	11,114
Decrease (increase) in other assets	**3,489**	(10,390)
Increase in restricted cash used for operating purposes	**(6,309)**	(11,657)
(Decrease) increase in accounts payable and accrued expenses	**(42,484)**	10,178
Net cash provided by operating activities	**$ 56,632**	$ 94,867

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,	
	2006	2005
	(in thousands)	
Cash Flows from Investing Activities		
Capital expenditures	**$(208,601)**	$(222,522)
Proceeds from disposition of rental properties and other investments	**121,205**	187
Change in restricted cash to be used for capital expenditures	**(95,945)**	(9,220)
Change in investments in and advances to affiliates	**(44,432)**	7,387
Net cash used in investing activities	**(227,773)**	(224,168)
Cash Flows from Financing Activities		
Payments on bank revolving credit facility	**(82,500)**	
Proceeds from nonrecourse mortgage debt	**247,080**	143,011
Principal payments on nonrecourse mortgage debt	**(122,368)**	(83,825)
Proceeds from notes payable	**266**	273
Payments on notes payable	**(19,261)**	(10,695)
Change in restricted cash and book overdrafts	**56,766**	49,475
Payment of deferred financing costs	**(9,518)**	(11,170)
Excess tax benefit from stock-based compensation	**1,199**	
Purchase of treasury stock	**(826)**	(1,945)
Exercise of stock options	**782**	1,712
Dividends paid to shareholders	**(6,111)**	(5,036)
Decrease in minority interest	**(7,592)**	(17,933)
Net cash provided by financing activities	**57,917**	63,867
Net decrease in cash and equivalents	**(113,224)**	(65,434)
Cash and equivalents at beginning of period	**254,734**	276,492
Cash and equivalents at end of period	$ **141,510**	$ 211,058

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

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

Supplemental Non-Cash Disclosures:

The table below represents the effect of the following non-cash transactions for the three months ended April 30, 2006 and 2005:

	Three Months Ended April 30,	
	2006	2005
	(in thousands)	
Operating Activities		
Decrease in notes and accounts receivable	**$ 531**	$
Increase in land held for development or sale	**(4,701)**	
Decrease in other assets	**365**	
Decrease in accounts payable and accrued expenses	**(9,934)**	
Total effect on operating activities	**$ (13,739)**	$
Investing Activities		
Decrease in projects under development	**$ 18,642**	
Increase in completed rental properties	**(518)**	
Non-cash proceeds from disposition of properties	**109,302**	
Total effect on investing activities	**$ 127,426**	$
Financing Activities		
Increase in notes payable	**$ 4,701**	$
Decrease in nonrecourse mortgage debt	**(242,200)**	
Decrease in restricted cash	**150,418**	
Decrease in minority interest	**(27,102)**	
Increase in additional paid-in capital	**518**	
Dividends declared but not yet paid	**(22)**	
Total effect on financing activities	**$ (113,687)**	$

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Assumption of nonrecourse mortgage debt and direct payment to partner by the buyer upon sale of *Hilton Times Square Hotel* and *G Street* properties in the Commercial Group.

Change to equity method of accounting from full consolidation due to admission of a 50% partner in *Uptown Apartments*, a residential development project in Oakland, California.

Change to full consolidation method of accounting from equity method due to acquisition of partners interest in *Rockport Square* in the Land Development Group.

Capitalization of stock-based compensation.

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

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, 2006, including the Report of Independent Registered Public Accounting Firm. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of financial position, results of operations and cash flows at the dates and for the periods presented have been included.

New Accounting Standards

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 156, Accounting for Servicing of Financial Assets an Amendment of FASB Statement No. 140 (SFAS No. 156). SFAS No. 156 requires separate recognition of a servicing asset and a servicing liability each time an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement also requires that all separately recognized servicing assets and liabilities be initially measured at fair value and subsequently measured at fair value at the end of each reporting period. This statement is effective in fiscal years beginning after September 15, 2006. The adoption of SFAS No. 156 is not expected to have a material impact on the Company s consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140 (SFAS No. 155). SFAS No. 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and (v) amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140), to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material impact on the Company s consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (Revised), Share-Based Payment (SFAS No. 123(R)). SFAS No. 123(R) requires the recognition of compensation costs related to the estimated fair value of employee stock options and similar stock awards. The Company adopted SFAS No. 123(R) on February 1, 2006. See Note B Stock-Based Compensation for details regarding the implementation of SFAS No. 123(R).

Variable Interest Entities

As of April 30, 2006, the Company determined that it is the primary beneficiary of 30 Variable Interest Entities ("VIE") representing 18 properties (19 VIEs representing 8 properties in Residential Group, 10 VIEs representing 9 properties in Commercial Group, and 1 VIE/property in Land Development Group). As of April 30, 2006, the Company held variable interests in 43 VIEs for which it is not the primary beneficiary. The maximum exposure to loss as a result of the Company s involvement with these unconsolidated VIEs is limited to its recorded investments in those VIEs totaling approximately $101,000,000 at April 30, 2006, which is recorded as investments in and advances to affiliates. In addition, the Company has various VIEs that were previously consolidated that remain consolidated under FASB Interpretation (FIN) No. 46 (Revised December 2003), Consolidation of Variable Interest Entities (FIN No. 46 (R)). These VIEs consist of joint ventures that are engaged, directly or indirectly, in the ownership, development and management of office buildings, regional malls, specialty retail centers, apartment communities,

military housing, supported-living communities and land development.

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

A. Accounting Policies (continued)

The total assets, nonrecourse mortgage debt, total liabilities and minority interest of VIEs consolidated due to the implementation of FIN No. 46 (R) for which the Company is the primary beneficiary are as follows as of April 30 and January 31, 2006:

	April 30, 2006	January 31, 2006
	(in thousands)	
Total assets	**$926,000**	$ 940,000
Nonrecourse mortgage debt	**837,000**	839,000
Total liabilities (including nonrecourse mortgage debt)	**890,000**	900,000
Minority interest	**36,000**	40,000

In addition to the VIEs described above, the Company has also determined that it is the primary beneficiary of a VIE which holds collateralized borrowings of $29,000,000 (Note E Senior and Subordinated Debt) as of April 30, 2006.

Restricted Cash

Restricted cash represents legally restricted deposits with financial institutions for taxes and insurance, security deposits, capital replacement, improvement and operating reserves, bond funds, development escrows, construction escrows and collateral on total rate of return swaps, as well as certain internally restricted deposits with qualified intermediaries related to like-kind exchanges.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. Some of the critical estimates made by the Company include, but are not limited to, estimates of useful lives for long-lived assets, reserves for collection on accounts and notes receivable and other investments, provisions for decline in real estate and the computation of expected losses on VIEs. As a result of the nature of estimates made by the Company, actual results could differ.

Interest and Other Income

In connection with a redevelopment project in Cumberland, Rhode Island, the Company applied and qualified for a Rhode Island Historic Tax Preservation Credit (Credit). The Credit, which is equal to 30% of Qualified Rehabilitation Expenditures as defined by the Rhode Island state tax code, is fully assignable irrespective of whether the assignee has an ownership interest in the underlying real estate. The purpose of the Credit is to create economic incentives for the purpose of stimulating the redevelopment and reuse of Rhode Island s historic structures. Included in interest and other income for the three months ended April 30, 2006 is approximately $8.8 million related to proceeds received from third parties resulting from the sale of the Credits that were realized by the Company in connection with the completion of the redevelopment project. The Company has no significant rights or obligations following the sale of these Credits.

Accounting for Derivative Instruments and Hedging Activities

For the three months ended April 30, 2006 and 2005, the amount of hedge ineffectiveness relating to hedges designated and qualifying as cash flow and fair value hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, was not material. The amount of derivative losses reclassified into earnings from other comprehensive income (OCI) as a result of forecasted transactions that did not occur by the end of the originally specified time period or within an additional two-month period of time thereafter for the three months ended April 30, 2006 and 2005 was $32,000 and $-0-, respectively. As of April 30, 2006, the Company expects that within the next twelve months it will reclassify amounts recorded in accumulated OCI into earnings as a reduction of interest expense of approximately $1,669,000, net of tax.

From time to time, certain of the Company s joint ventures (the Joint Ventures) enter into total rate of return swaps (TRS) on various tax-exempt fixed-rate borrowings generally held within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require that the Joint Ventures pay a variable rate, generally equivalent to the Bond Market Association (BMA) rate. Additionally, the Joint Ventures have guaranteed the principal balance of the underlying borrowing. Any fluctuation in the value of the guarantee would be offset by the fluctuation in the value of the underlying borrowing, resulting in no financial impact to the Joint Ventures or

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

A. Accounting Policies (continued)

the Company. At April 30, 2006, the aggregate notional amount of TRS in which the Joint Ventures have an interest is approximately $319,790,000. The fair value of such contracts is immaterial at April 30, 2006. The Company believes the economic return and related risk associated with a TRS is generally comparable to that of nonrecourse variable-rate mortgage debt.

The Company estimates the fair value of its hedging instruments based on interest rate market pricing models. At April 30 and January 31, 2006, interest rate caps were reported at fair value of approximately $3,034,000 and $2,454,000, respectively, in other assets in the Consolidated Balance Sheets. At April 30 and January 31, 2006, interest rate swap agreements had a positive fair value recorded as an unrealized gain of $9,942,000 and $7,887,000, respectively, and are included in other assets in the Consolidated Balance Sheets.

Other Comprehensive Income

Net unrealized gains or losses on securities are included in OCI and represent the difference between the market value of investments in unaffiliated companies that are available-for-sale at the balance sheet date and the Company s cost. Also included in OCI is the Company s portion of the unrealized gains and losses on the effective portions of derivative instruments designated and qualified as cash flow hedges. The amount of income tax expense related to accumulated OCI was $287,000 and $141,000 as of April 30, 2006 and January 31, 2006, respectively.

The following table summarizes the components of accumulated OCI included within the Company s Consolidated Balance Sheets, net of tax and minority interest.

	April 30, 2006	January 31, 2006
	(in thousands)	
Unrealized gains on securities	**$237**	$ 270
Unrealized gains (losses) on interest rate contracts	**220**	(47)
Accumulated Other Comprehensive Income	**$457**	$ 223

Reclassification

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

B. Stock-Based Compensation

The Company s 1994 Stock Plan, as amended, (the Plan) permits the award of Class A stock options (incentive and nonqualified), restricted shares, restricted stock units and stock appreciation rights to key employees and non-employee directors of the Company. The aggregate maximum number of shares that may be issued during the term of the Plan is 500,000 for restricted shares or units granted after June 21, 2005 and 11,750,000 for all types of awards. As of April 30, 2006, the total number of shares available for granting of all types of awards was 3,985,560, of which 309,000 may be restricted shares or units. The maximum annual award to an individual is 400,000 stock options or rights and 225,000 restricted shares or units. Stock options have a maximum term of 10 years and are awarded with an exercise price at least equal to the market value of the stock on the date of grant. Class A common stock issued upon the exercise of stock options may be issued out of unissued shares or treasury stock. The Plan, which is administered by the Compensation Committee of the Board of Directors, does not allow the exercise price to be lowered for outstanding options or to cancel and replace stock options at lower exercise price. The Company has

not amended the terms of any previously issued options. All outstanding stock options have an exercise price equal to the fair market value of the underlying stock at the date of grant, a 10-year term, and graded vesting over four years. All outstanding restricted shares have graded vesting over four years.

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

B. Stock-Based Compensation (continued)

In December 2004, the FASB issued SFAS No. 123 (Revised), Share-Based Payment (SFAS No. 123(R)). This statement requires the recognition of compensation costs related to the estimated fair value of employee stock options and similar stock awards. Among other changes, SFAS No. 123(R) provides for certain changes to the method of valuing share-based payments. On April 14, 2005, the U.S. Securities and Exchange Commission (SEC) adopted a new rule amending the compliance dates for SFAS No. 123(R), which extended the implementation date for the Company to February 1, 2006. The Company adopted the modified prospective application method which requires the provisions of SFAS No. 123(R) to be applied to unvested awards outstanding at the date of adoption and all new awards. The Company recognizes compensation costs for its stock option and restricted stock awards over the requisite service period using the straight-line attribution method. The current Plan, as amended, which covers awards granted in 2006, permits the acceleration of vesting upon the retirement of a grantee who retires on or after reaching the prescribed retirement age, as defined in the Plan. The cost of an award subject to this retirement provision is recognized immediately for grantees that are retirement eligible at the date of grant or on a straight-line basis over the period ending with the first anniversary from the date of grant which the individual reaches retirement age. This retirement provision does not apply to awards granted prior to 2006. The Company recognized approximately $1,170,000 of compensation expense related to stock-based compensation awards that were granted during 2006 to retirement eligible grantees.

Prior to February 1, 2006, the Company followed the provisions of APB No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations. As such, stock-based compensation was measured using the intrinsic value method, that is, the excess, if any, of the quoted market price of the Company s stock on the date of grant over the amount the employee is required to pay for the stock. None of the stock option awards were expensed under APB No. 25 because their intrinsic value was zero at the date of grant. The restricted stock awards were expensed under APB No. 25 because their intrinsic value was equal to the fair market value of the stock at the date of grant. In accordance with SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure , pro forma disclosures were provided illustrating the effect on net earnings and earnings per share as if the fair value based method had been applied.

As a result of adopting SFAS No. 123(R) on February 1, 2006, the Company s earnings before income taxes, earnings from continuing operations and net earnings for the three months ended April 30, 2006 are lower by $1,725,000, $1,195,000 and $1,195,000, respectively, than if the Company had continued to account for stock-based compensation under APB No. 25. Basic and diluted earnings per share for the three months ended April 30, 2006 would have both been $0.53 if the Company had not adopted SFAS No. 123(R), compared to the reported basic and diluted earnings per share of $0.52. The unearned compensation costs of $4,151,000 relating to 258,750 shares of unvested restricted stock at January 31, 2006, which was reflected as a reduction of shareholders equity at January 31, 2006 under APB No. 25, was eliminated against common stock and additional paid-in capital on February 1, 2006 upon the adoption of SFAS No. 123(R).

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits of deductions resulting from exercises of stock options and vesting of restricted stock as operating cash flows in the Consolidated Statements of Cash Flows. SFAS No. 123(R) requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those options or shares (excess tax benefits) to be classified as financing cash flows. The $1,199,000 excess tax benefit classified as a financing cash inflow would have been classified as an operating cash inflow if the Company had not adopted SFAS No. 123(R).

During the three months ended April 30, 2006, the Company recognized stock-based compensation costs of $3,044,000. The composition of the stock-based compensation costs, the amount charged to operating expenses and the amount capitalized into the basis of qualifying real estate projects under development are as follows:

Deferred

	Operating Expense	Capitalized	Total	Income Tax Benefit Recognized
		(in thousands)		
Stock option costs	$1,725	$518	$2,243	$ 530
Restricted stock costs	801		801	310
	$2,526	$518	$3,044	$ 840

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B. Stock-Based Compensation (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for options granted during the three months ended April 30, 2006:

Risk-free interest rate	4.89%
Expected volatility	20.00%
Expected dividend yield	0.70%
Expected term (in years)	6.60
Weighted-average grant-date fair value	$14.32

The risk-free interest rate was based on published yields of U.S. Treasury Strips having a maturity date approximating the expected term of the options. Expected volatility was based on the historical volatility of the Company s stock using the daily closing prices of the Company s Class A common stock over a period of time equivalent to the expected term of the options. The expected dividend yield was based on the Company s recent annual dividend divided by the average price of the Company s stock during that period. The Company used the simplified method for plain vanilla options, as provided in the SEC Staff Accounting Bulletin No. 107 to compute the expected term of the options granted in 2006.

The following table provides a summary of stock option activity for the three months ended April 30, 2006:

Stock Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Intrinsic Value (in thousands)
Outstanding at January 31, 2006	**3,054,148**	**$18.42**		
Granted	**960,100**	**$46.37**		
Exercised	**(51,450)**	**$15.05**		$ 1,597
Forfeited	**(26,600)**	**$21.85**		
Outstanding at April 30, 2006	**3,936,198**	**$25.26**	7.3	$78,263
Options exercisable (fully vested) at April 30, 2006	**1,565,348**	**$13.09**	4.9	$50,166

At April 30, 2006, there was $19,466,000 of unrecognized compensation cost related to unvested stock options that is expected to be recognized over a weighted-average period of 3.4 years.

The following table provides a summary of restricted stock activity for the three months ended April 30, 2006:

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value

Unvested shares at January 31, 2006	258,750	$ 21.15
Granted	191,000	$ 46.37
Vested	(56,250)	$ 15.50
Forfeited		$
Unvested shares at April 30, 2006	393,500	$ 34.20

Restricted stock represents a grant of Class A common stock to key employees subject to restrictions on disposition, transferability and risk of forfeiture, while having the rights to vote the shares and receive dividends. The restrictions generally lapse on the second, third and fourth anniversary of the date of grant. Restricted shares subject to the restrictions mentioned above are considered to be nonvested shares under SFAS No. 123(R) and are not reflected as issued and outstanding shares until the restrictions lapse. At that time, the shares are released to the employee and the Company records the issuance of the shares.

At April 30, 2006, there was $12,207,000 of unrecognized compensation cost related to unvested restricted stock that is expected to be recognized over a weighted-average period of 3.4 years. The total fair value of shares vested during the three months ended April 30, 2006 was $872,000.

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Forest City Enterprises, Inc. and Subsidiaries
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B. Stock-Based Compensation (continued)

In connection with the vesting of restricted stock during the three months ended April 30, 2006 and 2005, the Company repurchased into treasury 17,970 shares and 61,584 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 $826,000 and $1,945,000, respectively.

For the three months ended April 30, 2005, the Company expensed $573,000 related to compensation costs for restricted shares. For periods prior to February 1, 2006, the Company will continue to provide pro forma disclosures related to the impact of compensation costs for stock options as illustrated in the following table:

		Three Months Ended April 30, 2005
Net earnings *(in thousands)*		
As reported	$	22,216
Deduct stock-based employee compensation expense for stock options determined under the fair value based method, net of tax		(661)[(1)]
Pro forma	$	21,555
Basic earnings per share		
As reported	$	.22
Pro forma	$	.21
Diluted earnings per share		
As reported	$	.22
Pro forma	$	.21

(1) Stock option costs were assumed to be expensed in full for the pro forma disclosure.

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

Discontinued Operations

Pursuant to the definition of a component of an entity in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144) all earnings of discontinued operations sold or held for sale, assuming no significant continuing involvement, have been reclassified in the Consolidated Statements of Earnings for the three months ended April 30, 2006 and 2005. The Company considers assets held for sale when the transaction has been approved and there are no significant contingencies related to the sale that may prevent the transaction from closing. Summarized financial information for assets, liabilities and minority interest that were held for sale as of April 30, 2006 (*Providence at Palm Harbor*) and January 31, 2006 (*Hilton Times Square Hotel*) were as follows:

	April 30, 2006	January 31, 2006
	(in thousands)	

Assets		
Real estate	**$ 8,984**	$101,374
Cash and equivalents	**403**	2,854
Restricted cash	**416**	2,808
Notes and accounts receivable, net	**10**	3,154
Other assets	**315**	3,030
Total Assets	**$10,128**	$113,220
Liabilities		
Mortgage debt, nonrecourse	**$ 9,754**	$ 81,133
Notes payable		15,000
Accounts payable and accrued expenses	**256**	14,421
Total Liabilities	**10,010**	110,554
Minority interest	**1**	3,843
Total Liabilities and Minority Interest	**$10,011**	$114,397

Forest City Enterprises, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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C. Discontinued Operations, Gain on Disposition of Rental Properties and Provision for Decline in Real Estate (continued)

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

Property	Location	Square Feet/ Number of Units	Quarter/ Year Disposed	Three Months Ended 4/30/2006	Three Months Ended 4/30/2005
Commercial Group:					
G Street	Philadelphia, Pennsylvania	13,000 square feet	Q1-2006	Yes	Yes
Hilton Times Square	Manhattan, New York	444 rooms	Q1-2006	Yes	Yes
Residential Group:					
Providence at Palm Harbor	Tampa, Florida	236 units	Q2-2006	Yes	Yes
Enclave	San Jose, California	637 units	Q4-2005		Yes
Cherrywood Village	Denver, Colorado	360 units	Q3-2005		Yes
Ranchstone	Denver, Colorado	368 units	Q3-2005		Yes

The operating results related to discontinued operations were as follows:

	Three Months Ended April 30, 2006	2005
	(in thousands)	
Revenues	**$ 5,660**	$14,723
Expenses		
Operating expenses	**7,164**	10,961
Depreciation and amortization	**115**	1,999
	7,279	12,960
Interest expense	**(557)**	(3,432)
Amortization of mortgage procurement costs	**(40)**	(208)
Interest and other income	**608**	67
Gain on disposition of rental properties	**136,384**	
Earnings (loss) before income taxes	**134,776**	(1,810)

Income tax expense (benefit)		
Current	**(636)**	(1,282)
Deferred	**29,190**	568
	28,554	(714)
Earnings (loss) before minority interest	**106,222**	(1,096)
Minority interest	**60,880**	38
Net earnings (loss) from discontinued operations	**$ 45,342**	$ (1,134)

Gain on Disposition of Rental Properties

The following table summarizes the gain on disposition of properties, pre-tax and minority interest, for the three months ended April 30, 2006 and 2005:

		Three Months Ended April 30,	
		2006	2005
		(in thousands)	
Discontinued Operations:			
Hilton Times Square	Manhattan, New York	**$ 135,945**	$
G Street	Philadelphia, Pennsylvania	**439**	
Total		**$ 136,384**	$

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Forest City Enterprises, Inc. and Subsidiaries
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(Unaudited)

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

Investments accounted for on the equity method are not subject to the provisions of SFAS No. 144, and therefore the gains or losses on the sales of equity method properties are reported in continuing operations when sold. Any changes in fair value that are other than temporary are recognized in the period such decrease has occurred. The following table summarizes the Company s proportionate share of gains on equity method investments disposed of during the three months ended April 30, 2006 and 2005, which are included in equity in earnings of unconsolidated entities in the Consolidated Statements of Earnings:

		Three Months Ended April 30,	
		2006	2005
		(in thousands)	
Showcase (Specialty Retail Center)	Las Vegas, Nevada	$	$ 13,145
Colony Place (Apartments)	Fort Myers, Florida		5,352
Total		**$**	$ 18,497

Provision for Decline in Real Estate

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

There was no provision for decline in real estate recorded for the three months ended April 30, 2006.

For the three months ended April 30, 2005, the Company recorded a provision for decline in real estate of $1,500,000 related to the *Ritz Carlton*, a 206-room Commercial hotel located in Cleveland, Ohio. This provision represents a write down to the estimated fair value, less cost to sell, due to a change in events (unexpected offer to purchase) related to the estimated future cash flows.

D. Bank Revolving Credit Facility

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

On January 20, 2006, the Company further amended the bank revolving credit facility to increase the combined availability of letters of credit or surety bonds by $40,000,000 to $100,000,000. There were $65,971,000 in letters of credit and $-0- in surety bonds outstanding at April 30, 2006.

The amended credit facility provides, among other things, for 1) at the Company s election, interest rates of 1.95% over LIBOR or 1/2% over the prime rate; 2) maintenance of debt service coverage ratios and specified levels of net

worth and cash flows (as defined in the credit facility); and 3) restrictions on dividend payments and stock repurchases.

The outstanding balance of the revolving credit facility was $-0- and $82,500,000 at April 30, 2006 and January 31, 2006, respectively.

Forest City Enterprises, Inc. and Subsidiaries
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E. Senior and Subordinated Debt

Senior Notes

Along with its wholly-owned subsidiaries, Forest City Enterprises Capital Trust I (Trust I) and Forest City Enterprises Capital Trust II (Trust II), the Company filed an amended shelf registration statement with the SEC on May 24, 2002. This shelf registration statement amended the registration statement previously filed with the SEC in December 1997. This registration statement is intended to provide the Company flexibility to raise funds from the offering of Class A common stock, preferred stock, depositary shares and a variety of debt securities, warrants and other securities. Trust I and Trust II have not issued securities to date and, if issued, would represent the sole net assets of the trusts. The Company has $292,180,000 available under its shelf registration at April 30, 2006.

On January 25, 2005, the Company issued $150,000,000 of 6.50% senior notes due February 1, 2017 in a public offering under its shelf registration statement. The proceeds from this offering (net of approximately $4,300,000 of offering costs) were used to repay the outstanding balance under the Company s bank revolving credit facility (see Note D Bank Revolving Credit Facility) and for general working capital purposes. Accrued interest is payable semi-annually on February 1 and August 1, commencing on August 1, 2005. These senior notes may be redeemed by the Company, at any time on or after February 1, 2010 at a redemption price of 103.250% beginning February 1, 2010 and systematically reduced to 100% in the years thereafter. However, if the Company completes one or more public equity offerings prior to February 1, 2008, up to 35% of the original principal amount of the notes may be redeemed using all or a portion of the net proceeds within 75 days of the completion of the public equity offering at 106.50% of the principal amount of the notes.

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

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

The Company s senior notes are unsecured senior obligations and rank equally with all existing and future unsecured indebtedness; however, they are effectively subordinated to all existing and future secured indebtedness and other liabilities of the Company s subsidiaries to the extent of the value of the collateral securing such other debt, including the bank revolving credit facility. The indenture governing the senior notes contains covenants providing, among other things, limitations on incurring additional debt and payment of dividends.

Subordinated Debt

In May 2003, the Company purchased $29,000,000 of subordinate tax revenue bonds that were contemporaneously transferred to a custodian, which in turn issued custodial receipts that represent ownership in the bonds to unrelated third parties. The Company evaluated the transfer pursuant to the provisions of SFAS No. 140 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 (see the Variable Interest Entities Section of Note A) and the book value (which approximates 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 in the Consolidated Balance Sheets.

Forest City Enterprises, Inc. and Subsidiaries
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E. Senior and Subordinated Debt (continued)

In November 2000, the Company issued $20,400,000 of redevelopment bonds in a private placement. The bonds bear a fixed interest rate of 8.25% and are due September 15, 2010. The Company has entered into a TRS for the benefit of these bonds that expires on September 15, 2008. Under this TRS, the Company receives a rate of 8.25% and pays BMA plus a spread (1.15% through September 2006 and 0.90% thereafter). Interest is payable semi-annually on March 15 and September 15. This debt is unsecured and subordinated to the senior notes and the bank revolving credit facility.

F. Financing Arrangements

Collateralized Borrowings

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

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

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

In August 2004, the $75,000,000 TIF bonds were defeased and removed from the Trust with the proceeds of a new $75,000,000 bond issue by the Denver Urban Renewal Authority (DURA), and the $70,000,000 revenue bonds, which bear interest at a rate of 8.5%, were removed from the Trust through a third party purchase. Upon removal of the $70,000,000 revenue bonds from the Trust, the third party deposited the bonds into a special-purpose entity (the Entity).

As the TIF and revenue bonds were successfully removed from the Trust, the amounts previously recorded in OCI were recognized by Stapleton Land, LLC as interest income during the year ended January 31, 2005. Stapleton Land, LLC is not obligated to pay, nor is entitled to, any further amounts related to this Retained Interest.

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F. Financing Arrangements (continued)

Also in August 2004, the Entity issued two types of securities, 1) Puttable Floating Option Tax-Exempt Receipts (P-FLOATs), which bear interest at a short-term floating rate as determined by the remarketing agent and 2) Residual Interest Tax-Exempt Securities Receipts (RITES), which receive the residual interest from the revenue bonds after the P-FLOAT interest and various program fees have been paid. The P-FLOATs were sold to third parties. Stapleton Land II, LLC, a consolidated affiliate of Stapleton Land, LLC, acquired the RITES for a nominal amount and provided credit enhancement to the trustor of the Entity including an initial collateral contribution of $10,000,000. During the year ended January 31, 2005, the Company contributed additional net collateral of $2,094,000. The Company consolidated the collateralized borrowing given its obligation to absorb the majority of the expected losses. The book value (which approximates amortized cost) of the P-FLOATs was reported as nonrecourse mortgage debt until terminated in July 2005. As the bonds were redeemed in July 2005, there are no balances reported for the revenue bonds or collateral at April 30, 2006 and January 31, 2006 in the Consolidated Balance Sheets, and there was $-0- of interest income and interest expense recorded for the three months ended April 30, 2006 in the Consolidated Statements of Earnings related to this collateralized borrowing. For the three months ended April 30, 2005, the Company recorded approximately $1,475,000 and $659,000 of interest income and interest expense, respectively, related to this collateralized borrowing in the Consolidated Statements of Earnings. Of the interest income amount, approximately $1,471,000 is interest income on the RITES and $4,000 is interest income on the collateral.

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

On July 13, 2005, Stapleton Land II, LLC entered into an agreement whereby it will receive a 1% fee on the $65,000,000 Senior Subordinate Bonds described above and in exchange for providing certain credit enhancement. In connection with this transaction, Stapleton Land II, LLC provided collateral of approximately $10,000,000 which is recorded as restricted cash in the Consolidated Balance Sheets. For the three months ended April 30, 2006, the Company recorded approximately $237,000 of interest income related to this arrangement in the Consolidated Statements of Earnings. Of the interest income amount, approximately $158,000 is fee interest income and $79,000 is interest income on the collateral. The counterparty to the credit enhancement arrangement also owns the underlying Senior Subordinate Bonds and can exercise its rights requiring payment from Stapleton Land II, LLC upon an event of default of the Senior Subordinate Bonds, a refunding of the Senior Subordinate Bonds, or failure of Stapleton Land II, LLC to post required collateral. The agreement is scheduled to expire on July 1, 2009. The maximum potential amount of payments Stapleton Land II, LLC could be required to make under the agreement is the par value of the bonds. The Company does not have any rights or obligations to acquire the $65,000,000 Senior Subordinate Bonds under this agreement. At April 30, 2006, the fair value of this agreement, which is deemed to be a derivative financial instrument, was immaterial. Subsequent changes in fair value, if any, will be marked to market through earnings.

On August 16, 2005, 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 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 entered into a forward delivery placement agreement whereby Stapleton Land, LLC is entitled to and obligated to purchase the converted fixed rate Junior Subordinated Bonds through June 2, 2008. Prior to the incurrence of Qualifying Expenditures and the resulting Converted Bonds, Stapleton Land, LLC has no rights or obligations relating to the Junior Subordinated Bonds. In the event the District does not incur Qualifying Expenditures, the Junior Subordinated Bonds will mature on June 2, 2008. As of April 30, 2006 no draws have been made by the District.

Forest City Enterprises, Inc. and Subsidiaries
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F. Financing Arrangements (continued)

Other Financing Arrangements

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

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

The fair market value of the purchase obligation and the Fee is determined based on the present value of the estimated amount of future cash flows considering possible variations in the amount and/or timing. The fair value of approximately $8,378,000 at April 30, 2006 and $7,244,000 at January 31, 2006 is recorded in other assets in the Consolidated Balance Sheets. For the three months ended April 30, 2006 and 2005, the Company has reported interest income of approximately $1,134,000 and $480,000, respectively, related to the Fee in the Consolidated Statements of Earnings.

Also in May 2004, Stapleton Land, LLC entered into a TRS and an interest rate swap both with notional amounts of $75,000,000. Stapleton Land, LLC receives a rate of 6.3% and pays BMA plus 60 basis points on the TRS (Stapleton Land, LLC paid BMA plus 160 basis points for the first 6 months under this agreement). On the interest rate swap, Stapleton Land, LLC pays a rate of 2.85% and receives BMA. Stapleton Land, LLC does not hold the underlying borrowings on the TRS. (See the Accounting for Derivative Instruments and Hedging Activities section in Note A). The change in the fair value of the TRS is marked to market through earnings. The fair value of the TRS was $899,473 and $1,100,098 at April 30 and January 31, 2006, respectively.

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

G. Stock Split

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

H. Dividends

The Company pays quarterly cash dividends on shares of Class A and Class B common stock. The first quarterly dividend of $.06 per share on both Class A and Class B common stock was declared on March 23, 2006 and will be paid on June 15, 2006 to shareholders of record at the close of business on June 1, 2006.

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

I. Earnings per Share

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

	Earnings from Continuing Operations (Numerator) *(in thousands)*	Weighted Average Common Shares Outstanding (Denominator)	Per Common Share
Three Months Ended April 30, 2006			
Basic earnings per share	**$ 7,916**	**101,622,302**	**$ 0.08**
Effect of dilutive securities		**1,374,700**	
Diluted earnings per share	**$ 7,916**	**102,997,002**	**$ 0.08**
2005			
Basic earnings per share	$23,350	100,763,462	$ 0.23
Effect of dilutive securities		1,533,216	
Diluted earnings per share	$23,350	102,296,678	$ 0.23

Options to purchase 960,100 shares of common stock, which were granted in April 2006, were not included in the computation of diluted earnings per share because they were anti-dilutive.

J. Investments in and Advances to Affiliates

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

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

	April 30, 2006	January 31, 2006
	(in thousands)	
Members and partners equity as below	**$699,287**	$564,280
Equity of other members and partners	**511,675**	409,035
Company s investment in partnerships	**187,612**	155,245
Advances to and on behalf of other affiliates [1]	**216,187**	206,697
Total Investments in and Advances to Affiliates	**$403,799**	$361,942

(1) As is customary within the real estate industry, the Company invests in certain projects through joint ventures. The Company provides funding for certain of its partners equity contributions. The most significant partnership for which the Company provides funding relates to Forest City Ratner Companies, representing the Commercial Group s New York City operations and one unconsolidated project reported in the Residential Group. The Company consolidates the majority of its investments in these Commercial Group projects. The Company s partner is the President and Chief Executive Officer of Forest City Ratner

Companies and is the cousin to five executive officers of the Company. At April 30, 2006 and January 31, 2006, amounts advanced for projects on behalf of this partner, collateralized solely by each respective partnership interest were $52,781 and $50,230, respectively, of the $216,187 and $206,697 presented above for Advances to and on behalf of other affiliates. These advances entitle the Company to a preferred return on and of the outstanding balances, which are payable solely from cash flows of each respective property, as well as a deficit restoration obligation provided by the partner.

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

J. Investments in and Advances to Affiliates (continued)

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

	(Combined 100%)	
	April 30, 2006	January 31, 2006
	(in thousands)	
Balance Sheet:		
Completed rental properties	**$2,066,690**	$1,946,922
Projects under development	**1,000,402**	854,316
Land held for development or sale	**193,459**	181,315
Accumulated depreciation	**(539,303)**	(529,501)
Restricted cash	**600,366**	317,850
Other assets	**458,298**	469,676
Total Assets	**$3,779,912**	$3,240,578
Mortgage debt, nonrecourse	**$2,521,361**	$2,145,146
Other liabilities	**559,264**	531,152
Members and partners equity	**699,287**	564,280
Total Liabilities and Members /Partners Equity	**$3,779,912**	$3,240,578

	(Combined 100%)	
	Three Months Ended April 30,	
	2006	2005
	(in thousands)	
Operations:		
Revenues	**$ 167,688**	$ 171,490
Operating expenses	**(123,424)**	(106,593)
Interest expense including early extinguishment of debt	**(32,505)**	(26,324)
Provision for decline in real estate		(704)
Depreciation and amortization	**(37,475)**	(39,864)
Interest income	**3,048**	2,487
Gain on disposition of rental properties [2]		81,708
Net (Loss) Earnings (pre-tax) [3]	**$ (22,668)**	$ 82,200
Company s portion of net earnings (pre-tax)	**$ 379**	$ 20,036

(2) The following table shows the

detail of gain on disposition of rental properties that were held by equity method investments:

		Three Months Ended April 30,	
		2006	2005
Showcase (Specialty Retail Center)	(Las Vegas, Nevada)	**$**	$ 71,005
Colony Place (Apartments)	(Fort Myers, Florida)		10,703
Total gain on disposition of equity method rental properties		**$**	$ 81,708
Company s portion of gain on disposition of equity method rental properties		**$**	$ 18,497

(3) Included in the amounts above are the following amounts for the three months ended April 30, 2006 and 2005 related to the Company s investment in an entity that is reported in the Nets segment. This entity primarily reports on the operations of the New Jersey Nets basketball team, a franchise of the National Basketball Association, in which the Company has been an equity method investor since August 16, 2004. Summarized

financial information for this equity method investment is as follows:

	Three Months Ended April 30,	
	2006	2005
Operations:		
Revenues	**$ 40,677**	$ 37,566
Operating expenses	**(43,538)**	(33,875)
Interest expense	**(2,813)**	(2,012)
Depreciation and amortization	**(20,628)**	(20,850)
Interest income	**161**	259
Net loss (pre-tax)	**$ (26,141)**	$(18,912)
Company s portion of net loss (pre-tax)	**$ (7,882)**	$ (7,442)

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

K. Segment Information

The Company uses a measure defined as Earnings Before Depreciation, Amortization and Deferred Taxes (EBDT) to report its operating results. EBDT is defined as net earnings excluding the following items: i) gain (loss) on disposition of rental properties, division and other investments (net of tax); ii) the adjustment to recognize rental revenues and rental expense using the straight-line method; iii) non-cash charges from real estate operations of Forest City Rental Properties Corporation, a wholly-owned subsidiary of the Company, for depreciation, amortization, amortization of mortgage procurement costs and deferred income taxes; iv) provision for decline in real estate (net of tax); v) extraordinary items (net of tax); and vi) cumulative effect of change in accounting principle (net of tax).

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

K. Segment Information (continued)

The Company believes that, although its business has many facets such as development, acquisitions, disposals, and property management, the core of its business is the recurring operations of its portfolio of real estate assets. The Company s Chief Executive Officer (CEO), the chief operating decision maker, uses EBDT, as presented, to assess performance of its portfolio of real estate assets by operating segment because it provides information on the financial performance of the core real estate portfolio operations. EBDT tells the CEO how profitable a real estate segment is simply by operating for the sole purpose of collecting rent, paying operating expenses and servicing its debt. The Company s segments adhere to the accounting policies further described in Note A.

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

	April 30, 2006	January 31, 2006	**Three Months Ended April 30, 2006**	Three Months Ended April 30, 2005
	Identifiable Assets		Expenditures for Additions to Real Estate	
Commercial Group	**$5,450,315**	$5,357,159	**$165,875**	$167,294
Residential Group	**1,986,001**	2,161,902	**38,421**	58,691
Land Development Group	**265,601**	229,914	**4,237**	7,800
The Nets	**11,171**	19,236		
Corporate Activities	**125,362**	222,130	**68**	1,229
	$7,838,450	$7,990,341	**$208,601**	$235,014

	Three Months Ended April 30, 2006	Three Months Ended April 30, 2005	**Three Months Ended April 30, 2006**	Three Months Ended April 30, 2005
	Revenues from Real Estate Operations		Operating Expenses	
Commercial Group	**$188,227**	$179,084	**$ 97,560**	$ 87,627
Commercial Group Land Sales	**20,989**	30,236	**11,353**	15,411
Residential Group	**59,322**	49,606	**37,815**	32,295
Land Development Group	**20,816**	35,654	**12,999**	20,955
The Nets				
Corporate Activities			**7,789**	9,173
	$289,354	$294,580	**$167,516**	$165,461

	Three Months Ended April 30, 2006	Three Months Ended April 30, 2005	**Three Months Ended April 30, 2006**	Three Months Ended April 30, 2005	**Three Months Ended April 30, 2006**	Three Months Ended April 30, 2005

	Interest and Other Income		Interest Expense		Depreciation and Amortization Expense	
Commercial Group	**$ 957**	$1,291	**$45,147**	$42,618	**$30,500**	$31,713
Residential Group	**9,932**	890	**13,268**	11,263	**12,733**	9,658
Land Development Group	**3,546**	4,202	**1,829**	2,287	**45**	59
The Nets						
Corporate Activities	**527**	519	**10,173**	10,019	**339**	545
	$14,962	$6,902	**$70,417**	$66,187	**$43,617**	$41,975

	Three Months Ended April 30,		**Three Months Ended April 30,**	
	2006	2005	**2006**	2005
	Earnings Before Income Taxes (EBIT) [1]		Earnings Before Depreciation, Amortization & Deferred Taxes (EBDT)	
Commercial Group	**$ 24,151**	$ 29,730	**$ 48,597**	$ 54,110
Gain on disposition of equity method property		13,145		
Provision for decline in real estate		(1,500)		
Residential Group	**5,327**	(1,291)	**23,815**	15,767
Gain on disposition of equity method property		5,352		
Land Development Group	**16,320**	24,105	**6,850**	14,711
The Nets	**(8,701)**	(8,596)	**(5,375)**	(5,196)
Corporate Activities	**(17,774)**	(19,218)	**(10,548)**	(11,730)
Gain on disposition of other investments		606		
	$ 19,323	$ 42,333	**$ 63,339**	$ 67,662

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

K. Segment Information (continued)

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

Three Months Ended April 30, 2006	Commercial Group	Residential Group	Land Development Group	The Nets	Corporate Activities	Total
EBDT	**$ 48,597**	**$ 23,815**	**$ 6,850**	**$(5,375)**	**$(10,548)**	**$ 63,339**
Depreciation and amortization Real Estate Groups	**(30,962)**	**(15,882)**	**(31)**			**(46,875)**
Amortization of mortgage procurement costs Real Estate Groups	**(1,999)**	**(886)**				**(2,885)**
Deferred taxes Real Estate Groups	**(6,521)**	**(3,095)**	**2,853**		**(477)**	**(7,240)**
Straight-line rent adjustment	**1,226**	**11**	**(1)**			**1,236**
Discontinued operations, net of tax and minority interest: (2)						
Depreciation and amortization Real Estate Groups	**(225)**	**(100)**				**(325)**
Amortization of mortgage procurement costs Real Estate Groups	**(21)**	**(3)**				**(24)**
Deferred taxes Real Estate Groups	**(61)**	**(5)**				**(66)**
Straight-line rent adjustment	**(105)**					**(105)**
Gain on disposition of rental properties	**46,203**					**46,203**
Net earnings	**$ 56,132**	**$ 3,855**	**$ 9,671**	**$(5,375)**	**$(11,025)**	**$ 53,258**

Three Months Ended April 30, 2005	Commercial Group	Residential Group	Land Development Group	The Nets	Corporate Activities	Total
EBDT	$ 54,110	$ 15,767	$14,711	$(5,196)	$(11,730)	$ 67,662
Depreciation and amortization Real Estate Groups	(31,969)	(12,013)	(51)			(44,033)
Amortization of mortgage procurement costs Real Estate Groups	(1,990)	(609)				(2,599)
Deferred taxes Real Estate Groups	(5,776)	(1,881)	(763)		(666)	(9,086)
Straight-line rent adjustment	3,224	(5)				3,219
Gain on disposition of other investments, net of tax					366	366
Provision for decline in real estate, net of tax and minority interest	(907)					(907)
Gain on disposition recorded on equity method, net of tax	7,945	3,236				11,181
Provision for decline in real estate recorded on equity method, net of tax	(425)					(425)

Discontinued operations, net of tax and minority interest: (2)						
Depreciation and amortization Real Estate Groups	(1,179)	(1,060)				(2,239)
Amortization of mortgage procurement costs Real Estate Groups	(95)	(37)				(132)
Deferred taxes Real Estate Groups	(552)	(16)				(568)
Straight-line rent adjustment	(223)					(223)
Net earnings	$ 22,163	$ 3,382	$13,897	$(5,196)	$(12,030)	$ 22,216

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

(2) See Note C Discontinued Operations starting on page 14 for more information.

L. Subsequent Event

On June 2, 2006, Forest City Ratner Companies, an affiliate of the Company entered into an agreement to acquire its partner s (ING Real Estate) interest in the *New York Times Building*, an office building under construction in Manhattan, New York. Once the transaction is completed, the Company will fully own 708,000 square feet on floors 29 through 52 as well as 24,000 square feet of retail space on the ground floor. Floors 2 through 28 are owned by The New York Times and will serve as its headquarters when it opens in 2007.

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

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of Forest City Enterprises, Inc. and subsidiaries should be read in conjunction with the financial statements and the footnotes thereto contained in the annual report on Form 10-K for the year ended January 31, 2006.

RESULTS OF OPERATIONS

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

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. The Commercial Group, our largest business unit, owns, develops, acquires and operates regional malls, specialty/urban retail centers, office and life science buildings, hotels and mixed-use projects. The Residential Group owns, develops, acquires and operates residential rental property, including upscale and middle-market apartments, adaptive re-use developments and supported-living communities. Additionally, the Residential Group develops for-sale condominium projects and also owns, develops and manages military family housing. New York City operations through our partnership with Forest City Ratner Companies are part of the Commercial Group or Residential Group depending on the nature of the operations. Real Estate Groups are the combined Commercial and Residential Groups. The Land Development Group acquires and sells both land and developed lots to residential, commercial and industrial customers. It also owns and develops land into master-planned communities and mixed-use projects. The Nets, a franchise of the National Basketball Association (NBA) in which we account for our investment on the equity method of accounting, is a reportable segment of the Company.

We have approximately $7.8 billion of assets in 25 states and the District of Columbia at April 30, 2006. Our core markets include New York City/Philadelphia metropolitan area, Denver, Boston, Greater Washington D.C./Baltimore metropolitan area, Chicago and California. We have offices in Boston, Chicago, Denver, Los Angeles, New York City, San Francisco, Washington, D.C., and our corporate headquarters are in Cleveland, Ohio.

Overview

Significant milestones occurring during the first quarter of 2006 included:

The openings of our *Sky55* and *1251 S. Michigan* residential projects at Central Station in Chicago, Illinois;

Two acquisitions including the *Metreon* retail center in San Francisco, California and *Resurrection Health Care* office building adjacent to our *Illinois Science and Technology Park* in Skokie, Illinois;

Closing $186 million in mortgage financing transactions at attractive interest rates;

Taking advantage of market conditions and relatively high valuations by disposing of two properties, including the *Hilton Times Square;*

Received two Urban Land Institute Awards For Excellence for our *Stapleton* mixed-use urban redevelopment, and for our 1.2 million square-foot *Victoria Gardens* open-air regional lifestyle center in Rancho Cucamonga, California; and

In May, we announced our first tenant for the iconic 52-story *New York Times* office building, an approximately 100,000 square-foot lease with a national law firm.

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

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Net Earnings Net earnings for the three months ended April 30, 2006 were $53,258,000 versus $22,216,000 for the three months ended April 30, 2005. Although we have substantial recurring revenue sources from our properties, we are a transactional-based business, which could create substantial variances in net earnings between periods. This variance to the prior year is primarily attributable to the following increases, which are net of tax and minority interest:

$46,203,000 ($75,298,000, pre-tax) related to the 2006 gains on disposition of two consolidated Commercial properties, *Hilton Times Square*, a 444-room hotel located in Manhattan, New York and *G Street*, a specialty retail center located in Philadelphia, Pennsylvania;

$5,520,000 ($8,838,000, pre-tax) related to income recognition on the sale of State of Rhode Island Historical Preservation Tax Credits for *Ashton Mill*, an apartment community located in Cumberland, Rhode Island; and

Increase of $2,246,000 ($3,571,000, pre-tax) related to an increase in Commercial Group outlot land sales primarily at *Simi Valley* in California.

These increases were partially offset by the following decreases, net of tax and minority interest:

$11,181,000 ($18,497,000, pre-tax) related to the 2005 gains on disposition of two equity method properties, *Showcase*, a specialty retail center located in Las Vegas, Nevada and *Colony Place*, an apartment community located in Fort Myers, Florida;

$4,236,000 ($7,008,000, pre-tax) related to a 2005 land sale at *Twelve MetroTech Center* in Brooklyn, New York that did not recur;

Decrease of $4,226,000 ($6,854,000, pre-tax) in earnings reported in the Land Development Group primarily due to a decrease in land sales at *Stapleton*, in Denver, Colorado and *Central Station* in Chicago, Illinois, partially offset by an increase in land sales at *Sunrise* in Cleveland, Ohio; and

$2,737,000 ($4,528,000, pre-tax) related to the 2005 sale of a development project in Las Vegas, Nevada that did not recur.

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Summary of Segment Operating Results The following tables present a summary of revenues from real estate operations, interest and other income, equity in earnings (loss) of unconsolidated entities, operating expenses and interest expense incurred by each segment for the three months ended April 30, 2006 and 2005, respectively. See discussion of these amounts by segment in the narratives following the tables.

	Three Months Ended April 30,		
	2006	2005	Variance
		(in thousands)	
Revenues from Real Estate Operations			
Commercial Group	**$188,227**	$179,084	$ 9,143
Commercial Group Land Sales	**20,989**	30,236	(9,247)
Residential Group	**59,322**	49,606	9,716
Land Development Group	**20,816**	35,654	(14,838)
The Nets			
Corporate Activities			
Total Revenues from Real Estate Operations	**$289,354**	$294,580	$ (5,226)
Interest and Other Income			
Commercial Group	**$ 957**	$ 1,291	$ (334)
Residential Group	**9,932**	890	9,042
Land Development Group	**3,546**	4,202	(656)
The Nets			
Corporate Activities	**527**	519	8
Total Interest and Other Income	**$ 14,962**	$ 6,902	$ 8,060
Equity in Earnings (Loss) of Unconsolidated Entities			
Commercial Group	**$ 1,518**	$ 506	$ 1,012
Gain on sale of *Showcase*		13,145	(13,145)
Residential Group	**639**	2,011	(1,372)
Gain on sale of *Colony Place*		5,352	(5,352)
Land Development Group	**6,923**	7,618	(695)
The Nets	**(8,701)**	(8,596)	(105)
Corporate Activities			
Total Equity in Earnings (Loss) of Unconsolidated Entities	**$ 379**	$ 20,036	$(19,657)
Operating Expenses			
Commercial Group	**$ 97,560**	$ 87,627	$ 9,933
Cost of Commercial Group Land Sales	**11,353**	15,411	(4,058)
Residential Group	**37,815**	32,295	5,520
Land Development Group	**12,999**	20,955	(7,956)
The Nets			
Corporate Activities	**7,789**	9,173	(1,384)

Total Operating Expenses	**$167,516**	$165,461	$ 2,055
Interest Expense			
Commercial Group	**$ 45,147**	$ 42,618	$ 2,529
Residential Group	**13,268**	11,263	2,005
Land Development Group	**1,829**	2,287	(458)
The Nets			
Corporate Activities	**10,173**	10,019	154
Total Interest Expense	**$ 70,417**	$ 66,187	$ 4,230

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Commercial Group

Revenues from real estate operations Revenues from real estate operations for the Commercial Group decreased by $104,000, or 0.05%, for the three months ended April 30, 2006 compared to the same period in the prior year. This decrease was primarily the result of:

- Decrease of $19,456,000 related to a land sale at *Twelve Metrotech Center* in Brooklyn, New York, which did not recur; and
- Decrease of $4,528,000 related to the sale of a development project in Las Vegas, Nevada.

These decreases were partially offset by the following increases:

- Increase of $10,209,000 related to an increase in commercial outlot land sales primarily at *Bolingbrook* in Illinois and *Simi Valley* in California;
- Increase of $5,735,000 related to new property openings, as noted in the table below;
- Increase of $2,451,000 primarily related to increases in occupancy and rates in our hotel portfolio; and
- Increase of $791,000 primarily related to the expansion of *Short Pump Town Center* in Richmond, Virginia, which opened in September 2005.

The balance of the remaining increase in revenues from real estate operations of approximately $4,694,000 was generally due to fluctuations in mature properties.

Operating and Interest Expenses Operating expenses increased $5,875,000, or 5.7%, for the three months ended April 30, 2006 compared to the same period in the prior year. This increase was primarily the result of:

- Increase of $6,638,000 related to an increase in commercial outlot land sales primarily at *Bolingbrook* and *Simi Valley*;
- Increase of $2,272,000 related to new property openings, as noted in the table below;
- Increase of $1,095,000 primarily related to an increase in occupancy in our hotel portfolio; and
- Increase of $611,000 related to non-capitalizable promotional costs for new development projects.

These increases were partially offset by the following decreases:

- Decrease of $10,696,000 related to a land sale at *Twelve MetroTech Center*, which did not recur*;* and
- Decrease of $951,000 in write-offs of abandoned development projects.

The balance of the remaining increase in operating expenses of approximately $6,906,000 was generally due to fluctuations in mature properties and general operating activities.

Interest expense for the Commercial Group increased by $2,529,000, or 5.9%, for the three months ended April 30, 2006 compared to the same period in the prior year. The increase is primarily attributable to openings of the properties listed in the table below.

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The following table presents the increases in revenue and operating expenses incurred by the Commercial Group for newly-opened properties for the three months ended April 30, 2006 compared to the same period in the prior year (dollars in thousands):

Property	Location	Quarter/Year Opened/Acquired	Square Feet	Revenue from Real Estate Operations	Operating Expenses
Retail Centers:					
Simi Valley Town Center	Simi Valley, California	Q3-2005	660,000	$4,001	$1,663
Northfield at Stapleton Phases I and II	Denver, Colorado	Q4-2005/Q1-2006	486,000	300	220
Office Buildings:					
Ballston Common Office Center	Arlington, Virginia	Q2-2005(1)	176,000	1,404	389
Resurrection Health Care	Skokie, Illinois	Q1-2006(1)	40,000	30(2)	(2)
Total				$5,735	$2,272

(1) Acquired property.

(2) This property was acquired on March 22, 2006.

Residential Group

Revenues from real estate operations Revenues from real estate operations for the Residential Group increased by $9,716,000, or 19.6%, during the three months ended April 30, 2006 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $2,715,000 related to new property openings, as noted in the table below;

Increase of $2,301,000 related to fees earned from the new management and development of U.S. Navy family housing at Hawaii s Pearl Harbor and in Midwest Chicago; and

Increase of $1,493,000 related to an increase in rents and occupancy primarily at the following properties: *Mount Vernon Square* in Alexandria, Virginia, *Grand* in North Bethesda, Maryland, *Lenox Club* in Arlington, Virginia, *Lenox Park* in Silver Spring, Maryland and *Sterling Glen of Ryebrook* in Ryebrook, New York.

The balance of the remaining increase of approximately $3,207,000 was generally due to fluctuations in mature properties.

Operating and Interest Expenses Operating expenses for the Residential Group increased by $5,520,000, or 17.1% during the three months ended April 30, 2006 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $3,315,000 related to new property openings, as noted in the table below;

- Increase of $533,000 related to management expenditures associated with military housing fee income; and
- Increase of $411,000 in write-offs of abandoned development projects.

The balance of the remaining increase of approximately $1,261,000 was generally due to fluctuations in mature properties and general operating activities.

Interest expense for the Residential Group increased by $2,005,000, or 17.8%, during the three months ended April 30, 2006 compared to the same period in the prior year. The increase is primarily attributable to openings of properties in the table below.

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The following table presents the increases in revenue and operating expenses incurred by the Residential Group for newly-opened properties which have not yet reached stabilization for the three months ended April 30, 2006 compared to the same period in the prior year (dollars in thousands):

Property	Location	Quarter/Year Opened	Number of Units	Revenue from Real Estate Operations	Operating Expenses
1251 S. Michigan	Chicago, Illinois	Q1-2006	91	$ 2	$ 44
Sky55	Chicago, Illinois	Q1-2006	411	25	597
Sterling Glen of Lynbrook	Lynbrook, New York	Q4-2005	100	989	854
100 Landsdowne Street	Cambridge, Massachusetts	Q3-2005	203	566	678
Ashton Mill	Cumberland, Rhode Island	Q3-2005	193	331	351
Metro 417	Los Angeles, California	Q2-2005	277	559	609
23 Sidney Street	Cambridge, Massachusetts	Q1-2005	51	243	182
Total				$2,715	$3,315

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. Interest income for the Land Development Group is discussed beginning on page 33. Revenues from real estate operations for the Land Development Group decreased by $14,838,000 for the three months ended April 30, 2006 compared to the same period in the prior year. This decrease is primarily the result of:

Decrease of $13,199,000 in land sales at *Stapleton* in Denver, Colorado;

Decrease of $4,945,000 in land sales at *Suncoast Lakes* in Pasco County, Florida; and

Decrease of $3,140,000 in land sales primarily at two major land development projects, *Thornbury* in Solon, Ohio and *Waterbury* in North Ridgeville, Ohio, combined with several other sales decreases at various land development projects.

These decreases were partially offset by the following increases:

Increase of $4,181,000 in land sales at *Tangerine Crossing* in Tucson, Arizona; and

Increase of $2,265,000 in land sales primarily at two major land development projects, *Mill Creek* in York County, South Carolina and *Creekstone* in Copley, Ohio, combined with several other sales increases at various land development projects.

Operating and Interest Expenses Operating expenses decreased by $7,956,000 for the three months ended April 30, 2006 compared to the same period in the prior year. This decrease is primarily the result of:

Decrease of $6,049,000 at *Stapleton* primarily related to decreased land sales;

Decrease of $3,282,000 at *Suncoast Lakes* primarily related to decreased land sales; and

Decrease of $2,946,000 primarily at two major land development projects, *Waterbury* and *Thornbury*, combined with several other expense decreases at various land development projects.

These decreases were partially offset by the following increase:

Increase of $4,321,000 primarily at three major land development projects, *Tangerine Crossing*, *Mill Creek* and *Creekstone* combined with several other expense increases at various land development projects.

Interest expense decreased by $458,000 for the three months ended April 30, 2006 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.

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The Nets

Our equity investment in the Nets incurred a pre-tax loss of $8,701,000 and $8,596,000 for the three months ended April 30, 2006 and 2005, respectively, representing an increase of $105,000 compared to the same period in the prior year.

Included in the loss for the three months ended April 30, 2006 is approximately $6,853,000 of amortization, at our share, of certain assets related to the purchase of the team and our share of insurance premiums purchased on policies related to the standard indemnification required by the NBA. The remainder of the loss substantially relates to the operations of the team. The basketball team s current year cash losses have been funded by draws on the team s credit facilities.

Corporate Activities

Operating and Interest Expenses Operating expenses for Corporate Activities decreased by $1,384,000 for the three months ended April 30, 2006 compared to the same period in the prior year. General corporate expenses and Sarbanes-Oxley compliance costs were the primary reasons for the decrease.

Interest expense for Corporate Activities consists primarily of interest expense on the senior notes and the long-term credit facility, excluding the portion allocated to the Land Development Group (see Financial Condition and Liquidity section). Interest expense increased by $154,000 for the three months ended April 30, 2006 compared to the same period in prior year.

Other Activity

The following items are discussed on a consolidated basis.

Provision for Decline in Real Estate

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

There was no provision for decline in real estate recorded for the three months ended April 30, 2006.

For the three months ended April 30, 2005, we recorded a provision for decline in real estate of $1,500,000 related to the *Ritz Carlton*, a 206-room Commercial hotel located in Cleveland, Ohio. This provision represents a write down to the estimated fair value, less cost to sell, due to a change in events (unexpected offer to purchase) related to the estimated future cash flows.

Depreciation and Amortization

We recorded depreciation and amortization of $43,617,000 and $41,975,000 for the three months ended April 30, 2006 and 2005, respectively. Depreciation and amortization increased $1,642,000 for the three months ended April 30, 2006 compared to the same period in the prior year. This increase is primarily attributable to acquisitions and new property openings.

Amortization of Mortgage Procurement Costs

Mortgage procurement costs are amortized on a straight-line basis over the life of the related nonrecourse mortgage debt, which approximates the effective interest method. For the three months ended April 30, 2006 and 2005, we recorded amortization of mortgage procurement costs of $3,019,000 and $3,058,000, respectively. Amortization of mortgage procurement costs decreased $39,000 for the three months ended April 30, 2006 compared to the same period in the prior year.

Loss on Early Extinguishment of Debt

For the three months ended April 30, 2006, we recorded $803,000 as loss on early extinguishment of debt, which represents the impact of early extinguishment of the construction loan at *Simi Valley Town Center*, a retail center located in Simi Valley, California, in order to obtain permanent financing. For the three months ended April 30, 2005, we recorded $1,610,000 as loss on early extinguishment of debt, which represents the impact of early extinguishment of nonrecourse mortgage debt at *Ten MetroTech Center*, an office building located in Brooklyn, New York, in order to secure more favorable financing terms.

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Interest and Other Income

Interest and other income was $14,962,000 for the three months ended April 30, 2006 compared to $6,902,000 for the three months ended April 30, 2005 representing an increase of $8,060,000. This increase was primarily the result of the following:

Land Development Group

Increase of $654,000 related to changes in the fair value of a derivative held by Stapleton Land, LLC on the Denver Urban Renewal Authority (DURA) bonds (see Financing Arrangements section);

Increase of $237,000 related to interest income earned by Stapleton Land II, LLC on the collateral and the 1% fee related to an agreement on the $65,000,000 Senior Subordinate Limited Property Tax Supported Revenue Refunding and Improvement Bonds (Senior Subordinate Bonds) (see Financing Arrangements section); and

Increase of $202,000 related to interest income earned by Stapleton Land, LLC on an interest rate swap related to the $75,000,000 Tax Increment Financing (TIF) bonds (see Financing Arrangements section).

Residential Group

Increase of $8,838,000 related to the income recognition on the sale of State of Rhode Island Historic Preservation Investment Tax Credits for *Ashton Mill* in Cumberland, Rhode Island.

These increases were partially offset by the following decreases:

Land Development Group

Decrease of $1,475,000 related to interest income earned by Stapleton Land II, LLC on the Residual Interest Tax-Exempt Securities Receipts (RITES) and the collateral which were redeemed in July 2005 (see Financing Arrangements section); and

Decrease of $404,000 related to interest income earned by Stapleton Land, LLC s other financing arrangements.

The balance of the remaining increase in interest and other income of approximately $8,000 was due to other general investing activities.

Equity in Earnings of Unconsolidated Entities

Equity in earnings of unconsolidated entities was $379,000 for the three months ended April 30, 2006 compared to $20,036,000 for the three months ended April 30, 2005, representing a decrease of $19,657,000. This decrease was primarily the result of the following activities that occurred within our equity method investments:

Commercial Group

Decrease of $13,145,000 related to our portion of the gain on disposition of *Showcase,* a specialty retail center located in Las Vegas, Nevada, which was recognized during the three months ended April 30, 2005.

Residential Group

Decrease of $5,352,000 related to our portion of the gain on disposition of *Colony Place*, an apartment community located in Fort Myers, Florida, which was recognized during the three months ended April 30, 2005.

Land Development Group

Decrease of $3,411,000 related to decreased land sales at *Central Station*, located in Chicago, Illinois; and

Decrease of $1,283,000 related to decreased land sales at *Gladden Farms*, located in Marana, Arizona.

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These decreases were partially offset by the following increase:

Land Development Group

Increase of $4,217,000 related to increased land sales at *Sunrise*, located in Cleveland, Ohio.

The balance of the remaining decrease of approximately $683,000 was due to fluctuations in the operations of equity method investments.

Income Taxes

Income tax expense for the three months ended April 30, 2006 and 2005 was $7,150,000 and $16,151,000, respectively. This decrease is primarily attributable to the current tax impact of gains on disposition of equity method investments in 2005 of $18,497,000 ($11,181,000 net of tax) which did not recur in the current year. At January 31, 2006, we had a net operating loss carryforward for tax purposes of $110,229,000 (generated primarily from the impact on our net earnings of tax depreciation expense from real estate properties) that will expire in the years ending January 31, 2022 through January 31, 2026, a charitable contribution deduction carryforward of $33,747,000 that will expire in the years ending January 31, 2007 through January 31, 2011, general business credit carryovers of $11,765,000 that will expire in the years ending January 31, 2007 through 2026 and an alternative minimum tax (AMT) credit carryforward of $26,867,000 that is available until used to reduce Federal tax to the AMT amount. Our policy is to consider a variety of tax-deferral strategies, including tax deferred exchanges, when evaluating our future tax position.

Discontinued Operations

Pursuant to the definition of a component of an entity in SFAS No. 144, all earnings of discontinued operations sold or held for sale, assuming no significant continuing involvement, have been reclassified in the Consolidated Statements of Earnings for the three months ended April 30, 2006 and 2005. We consider assets held for sale when the transaction has been approved and there are no significant contingencies related to the sale that may prevent the transaction from closing.

Summarized financial information for assets, liabilities and minority interest that were held for sale as of April 30, 2006 (*Providence at Palm Harbor)* and January 31, 2006 (*Hilton Times Square Hotel*) were as follows:

	April 30, 2006	**January 31, 2006**
	(in thousands)	
Assets		
Real estate	**$ 8,984**	$101,374
Cash and equivalents	**403**	2,854
Restricted cash	**416**	2,808
Notes and accounts receivable, net	**10**	3,154
Other assets	**315**	3,030
Total Assets	**$10,128**	$113,220
Liabilities		
Mortgage debt, nonrecourse	**$ 9,754**	$ 81,133
Notes payable		15,000
Accounts payable and accrued expenses	**256**	14,421
Total Liabilities	**10,010**	110,554
Minority interest	**1**	3,843

Total Liabilities and Minority Interest	**$10,011**	$114,397

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

Property	Location	Square Feet/ Number of Units	Quarter/ Year Disposed	Three Months Ended 4/30/2006	Three Months Ended 4/30/2005
Commercial Group:					
G Street	Philadelphia, Pennsylvania	13,000 square feet	Q1-2006	Yes	Yes
Hilton Times Square	Manhattan, New York	444 rooms	Q1-2006	Yes	Yes
Residential Group:					
Providence at Palm Harbor	Tampa, Florida	236 units	Q2-2006	Yes	Yes
Enclave	San Jose, California	637 units	Q4-2005		Yes
Cherrywood Village	Denver, Colorado	360 units	Q3-2005		Yes
Ranchstone	Denver, Colorado	368 units	Q3-2005		Yes

The operating results related to discontinued operations were as follows:

	Three Months Ended April 30,	
	2006	2005
	(in thousands)	
Revenues	**$ 5,660**	$ 14,723
Expenses		
Operating expenses	**7,164**	10,961
Depreciation and amortization	**115**	1,999
	7,279	12,960
Interest expense	**(557)**	(3,432)
Amortization of mortgage procurement costs	**(40)**	(208)
Interest and other income	**608**	67
Gain on disposition of rental properties	**136,384**	
Earnings (loss) before income taxes	**134,776**	(1,810)
Income tax expense (benefit)		
Current	**(636)**	(1,282)
Deferred	**29,190**	568
	28,554	(714)

Earnings (loss) before minority interest	**106,222**	(1,096)
Minority interest	**60,880**	38
Net earnings (loss) from discontinued operations	**$ 45,342**	$ (1,134)

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Gain on Disposition of Rental Properties

The following table summarizes the gain on disposition of properties, pre-tax and minority interest, for the three months ended April 30, 2006 and 2005:

		Three Months Ended April 30,	
		2006	2005
		(in thousands)	
Discontinued Operations:			
Hilton Times Square	Manhattan, New York	**$ 135,945**	$
G Street	Philadelphia, Pennsylvania	**439**	
Total		**$ 136,384**	$

Investments accounted for on the equity method are not subject to the provisions of SFAS No. 144, and therefore the gains or losses on the sales of equity method properties are reported in continuing operations when sold. Any changes in fair value that are other than temporary are recognized in the period such decrease has occurred. The following table summarizes our proportionate share of gains on equity method investments disposed of during the three months ended April 30, 2006 and 2005, which are included in equity in earnings of unconsolidated entities in the Consolidated Statements of Earnings:

		Three Months Ended April 30,	
		2006	2005
		(in thousands)	
Showcase (Specialty Retail Center)	Las Vegas, Nevada	**$**	$ 13,145
Colony Place (Apartments)	Fort Myers, Florida		5,352
Total		**$**	$ 18,497

FINANCIAL CONDITION AND LIQUIDITY

We believe that our sources of liquidity and capital are adequate to meet our funding obligations. Our principal sources of funds are cash provided by operations, the bank revolving credit facility, refinancings of nonrecourse mortgage debt, dispositions of mature properties and proceeds from the issuance of senior notes. Our principal use of funds are the financing of development and acquisitions of real estate projects, capital expenditures for our existing portfolio, payments on nonrecourse mortgage debt, payments on our bank revolving credit facility and retirement of senior notes previously issued.

Effective December 1, 2005, the Securities and Exchange Commission (SEC) adopted new rules which substantially modify the registration, communications and offering procedures under the Securities Act of 1933. These new rules streamline the shelf registration process for well-known seasoned issuers (WKSI) by allowing them to file shelf registration statements that automatically become effective. Based upon the criteria set forth in the new rules, we have determined that we are a WKSI as of April 30, 2006. In the meantime, we may still issue securities under our existing shelf registration statement described below.

Bank Revolving Credit Facility

On April 7, 2005, we amended our bank revolving credit facility. The amendment to the credit facility extended the maturity by one year to March 2008, lowered the borrowing rate to 1.95% over the London Interbank Offered Rate (LIBOR), eliminated the higher rate tier on the last $50,000,000 of borrowings and contains an accordion provision that allows us to increase the availability under the revolving line of credit by $100,000,000 to $550,000,000 during the 24 months following the amendment. The amendment also lowered our unused commitment fee from 37.5 basis

points on any unused portion to 25 basis points if the revolver usage is less than 50% and 15 basis points if the revolver usage is greater than 50%. The amendment also increased the combined availability of letters of credit or surety bonds by $10,000,000 to $60,000,000 and added a swing line availability of $40,000,000 for up to three business days.

On January 20, 2006, we further amended the bank revolving credit facility to increase the combined availability of letters of credit or surety bonds by $40,000,000 to $100,000,000. There were $65,971,000 in letters of credit and $-0- in surety bonds outstanding at April 30, 2006.

The amended credit facility provides, among other things, for 1) at our election, interest rates of 1.95% over LIBOR or $^1/_2$% over the prime rate; 2) maintenance of debt service coverage ratios and specified levels of net worth and cash flows (as defined in the credit facility); and 3) restrictions on dividend payments and stock repurchases.

The outstanding balance of the revolving credit facility was $-0- and $82,500,000 at April 30, 2006 and January 31, 2006, respectively.

Senior and Subordinated Debt
Senior Notes
Along with our wholly-owned subsidiaries, Forest City Enterprises Capital Trust I (Trust I) and Forest City Enterprises Capital Trust II (Trust II), we filed an amended shelf registration statement with the SEC on May 24, 2002. This shelf registration statement amended the registration statement previously filed with the SEC in December 1997. This registration statement is intended to provide us flexibility to raise funds from the offering of Class A common stock, preferred stock, depositary shares and a variety of debt securities, warrants and other securities. Trust I and Trust II have not issued securities to date and, if issued, would represent the sole net assets of the trusts. We have $292,180,000 available under our shelf registration at April 30, 2006.
On January 25, 2005, we issued $150,000,000 of 6.50% senior notes due February 1, 2017 in a public offering under our shelf registration statement. The proceeds from this offering (net of approximately $4,300,000 of offering costs) were used to repay the outstanding balance under our bank revolving credit facility (see above) and for general working capital purposes. Accrued interest is payable semi-annually on February 1 and August 1, commencing on August 1, 2005. These senior notes may be redeemed by us, at any time on or after February 1, 2010 at a redemption price of 103.250% beginning February 1, 2010 and systematically reduced to 100% in the years thereafter. However, if we complete one or more public equity offerings prior to February 1, 2008, up to 35% of the original principal amount of the notes may be redeemed using all or a portion of the net proceeds within 75 days of the completion of the public equity offering at 106.50% of the principal amount of the notes.
On February 10, 2004, we issued $100,000,000 of 7.375% senior notes due February 1, 2034 in a public offering under our shelf registration statement. The proceeds from this offering (net of $3,808,000 of offering costs) were used to repay the outstanding term loan balance of $56,250,000 under our previous credit facility and for general working capital purposes. Accrued interest is payable quarterly on February 1, May 1, August 1, and November 1. These senior notes may be redeemed by us, in whole or in part, at any time on or after February 10, 2009 at a redemption price equal to 100% of their principal amount plus accrued interest.
On May 19, 2003, we issued $300,000,000 of 7.625% senior notes due June 1, 2015 in a public offering under our shelf registration statement. The proceeds from this offering (net of $8,151,000 of offering costs) were used to redeem all of the outstanding 8.5% senior notes originally due in 2008 at a redemption price equal to 104.25%, or $208,500,000. The remaining proceeds were used to repay the balance outstanding under our previous credit facility and for general working capital purposes. Accrued interest is payable semi-annually on December 1 and June 1. These senior notes may be redeemed by us, at any time on or after June 1, 2008 at a redemption price of 103.813% beginning June 1, 2008 and systematically reduced to 100% in years thereafter. However, if we complete one or more public equity offerings prior to June 1, 2006, up to 35% of the original principal amount of the notes may be redeemed using all or a portion of the net proceeds within 75 days of the completion of the public equity offering at 107.625% of the principal amount of the notes.
Our senior notes are unsecured senior obligations and rank equally with all existing and future unsecured indebtedness; however, they are effectively subordinated to all existing and future secured indebtedness and other liabilities of our subsidiaries to the extent of the value of the collateral securing such other debt, including our bank revolving credit facility. The indenture governing our senior notes contains covenants providing, among other things, limitations on incurring additional debt and payment of dividends.
Subordinated Debt
In May 2003, we purchased $29,000,000 of subordinate tax revenue bonds that were contemporaneously transferred to a custodian, which in turn issued custodial receipts that represent ownership in the bonds to unrelated third parties. We evaluated the transfer pursuant to the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140), and 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 variable interest entity (VIE) (see the Variable Interest Entities section of the MD&A) and the book value (which approximates 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 in the Consolidated Balance Sheets.

In November 2000, we issued $20,400,000 of redevelopment bonds in a private placement. The bonds bear a fixed interest rate of 8.25% and are due September 15, 2010. We have entered into a total rate of return swap (TRS) for the benefit of these bonds that expires on September 15, 2008. Under this TRS, we receive a rate of 8.25% and pay the Bond Market Association (BMA) plus a spread (1.15% through September 2006 and 0.90% thereafter). Interest is payable semi-annually on March 15 and September 15. This debt is unsecured and subordinated to the senior notes and the bank revolving credit facility.

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Financing Arrangements
Collateralized Borrowings

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

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

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

In August 2004, the $75,000,000 TIF bonds were defeased and removed from the Trust with the proceeds of a new $75,000,000 bond issue by DURA, and the $70,000,000 revenue bonds, which bear interest at a rate of 8.5%, were removed from the Trust through a third party purchase. Upon removal of the $70,000,000 revenue bonds from the Trust, the third party deposited the bonds into a special-purpose entity (the Entity).

As the TIF and revenue bonds were successfully removed from the Trust, the amounts previously recorded in OCI were recognized by Stapleton Land, LLC as interest income during the year ended January 31, 2005. Stapleton Land, LLC is not obligated to pay, nor is entitled to, any further amounts related to this Retained Interest.

Also in August 2004, the Entity issued two types of securities, 1) Puttable Floating Option Tax-Exempt Receipts (P-FLOATs), which bear interest at a short-term floating rate as determined by the remarketing agent and 2) Residual Interest Tax-Exempt Securities Receipts (RITES), which receive the residual interest from the revenue bonds after the P-FLOAT interest and various program fees have been paid. The P-FLOATs were sold to third parties. Stapleton Land II, LLC, a consolidated affiliate of Stapleton Land, LLC, acquired the RITES for a nominal amount and provided credit enhancement to the trustor of the Entity including an initial collateral contribution of $10,000,000. During the year ended January 31, 2005, we contributed additional net collateral of $2,094,000. We consolidated the collateralized borrowing given our obligation to absorb the majority of the expected losses. The book value (which approximates amortized cost) of the P-FLOATs was reported as nonrecourse mortgage debt until terminated in July 2005. As the bonds were redeemed in July 2005, there are no balances reported for the revenue bonds or collateral at April 30, 2006 and January 31, 2006 in the Consolidated Balance Sheets, and there was $-0- of interest income and interest expense recorded for the three months ended April 30, 2006 in the Consolidated Statements of Earnings related to this collateralized borrowing. For the three months ended April 30, 2005, we recorded

approximately $1,475,000 and $659,000 of interest income and interest expense, respectively, related to this collateralized borrowing in the Consolidated Statements of Earnings. Of the interest income amount, approximately $1,471,000 is interest income on the RITES and $4,000 is interest income on the collateral.

On July 13, 2005, the District issued $63,000,000 Senior Limited Property Tax Supported Revenue Refunding Bonds (Senior Limited Bonds), Series 2005 and $65,000,000 Senior Subordinate Limited Property Tax Supported Revenue Refunding and Improvement Bonds (Senior Subordinate Bonds), Series 2005 (collectively, the 2005 Bonds). Proceeds from the issuance of the 2005 Bonds were used to redeem the $70,000,000 revenue bonds held by the Entity, which were then removed from our Consolidated Balance Sheets. The Entity, in turn, redeemed the outstanding P-FLOATs.

As holder of the RITES, Stapleton Land II, LLC was

entitled to the remaining capital balances of the Entity after payment of P-FLOAT interest and other program fees. The District used additional proceeds of $30,271,000 to repay developer advances and accrued interest to Stapleton Land, LLC. Stapleton Land II, LLC was refunded $12,060,000 of collateral provided as credit enhancement under this borrowing.

On July 13, 2005, Stapleton Land II, LLC, entered into an agreement whereby it will receive a 1% fee on the $65,000,000 Senior Subordinate Bonds described above and in exchange for providing certain credit enhancement. In connection with this transaction, Stapleton Land II, LLC provided collateral of approximately $10,000,000, which is recorded as restricted cash in the Consolidated Balance Sheets. For the three months ended April 30, 2006, we recorded approximately $237,000 of interest income related to this arrangement in the Consolidated Statements of Earnings. Of the interest income amount, approximately $158,000 is fee interest income and $79,000 is interest income on the collateral. The counterparty to the credit enhancement arrangement also owns the underlying Senior Subordinate Bonds and can exercise its rights requiring payment from Stapleton Land II, LLC upon an event of default of the Senior Subordinate Bonds, a refunding of the Senior Subordinate Bonds, or failure of Stapleton Land II, LLC to post required collateral. The agreement is scheduled to expire on July 1, 2009. The maximum potential amount of payments Stapleton Land II, LLC could be required to make under the agreement is the par value of the bonds. We do not have any rights or obligations to acquire the $65,000,000 Senior Subordinate Bonds under this agreement. At April 30, 2006, the fair value of this agreement, which is deemed to be a derivative financial instrument, was immaterial. Subsequent changes in fair value, if any, will be marked to market through earnings.

On August 16, 2005, 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 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 entered into a forward delivery placement agreement whereby Stapleton Land, LLC is entitled to and obligated to purchase the converted fixed rate Junior Subordinated Bonds through June 2, 2008. Prior to the incurrence of Qualifying Expenditures and the resulting Converted Bonds, Stapleton Land, LLC has no rights or obligations relating to the Junior Subordinated Bonds. In the event the District does not incur Qualifying Expenditures, the Junior Subordinated Bonds will mature on June 2, 2008. As of April 30, 2006 no draws have been made by the District.

Other Financing Arrangements

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

We have concluded that the trust described above is considered a qualified special purpose entity pursuant to the provisions of SFAS No. 140 and thus is excluded from the scope of the Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 (Revised December 2003), Consolidation of Variable Interest Entities (FIN No. 46(R)). As a result, the DURA bonds and the activity of the trust have not been recorded in the consolidated financial statements. The purchase obligation and the Fee have been accounted for as a derivative with changes in fair value recorded through earnings.

The fair market value of the purchase obligation and the Fee is determined based on the present value of the estimated amount of future cash flows considering possible variations in the amount and/or timing. The fair value of

approximately $8,378,000 at April 30, 2006 and $7,244,000 at January 31, 2006, is recorded in other assets in the Consolidated Balance Sheets. For the three months ended April 30, 2006 and 2005, we have reported interest income of approximately $1,134,000 and $480,000, respectively, related to the Fee in the Consolidated Statements of Earnings.

Also in May 2004, Stapleton Land, LLC entered into a TRS and an interest rate swap both with notional amounts of $75,000,000. Stapleton Land, LLC receives a rate of 6.3% and pays BMA plus 60 basis points on the TRS (Stapleton Land, LLC paid BMA plus 160 basis points for the first 6 months under this agreement). On the interest rate swap, Stapleton Land, LLC pays a rate of 2.85% and receives BMA. Stapleton Land, LLC does not hold the underlying borrowings on the TRS. The change in the fair value of the TRS is marked to market through earnings. The fair value of the TRS was $899,473 and $1,100,098 at April 30 and January 31, 2006, respectively.

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

Mortgage Financings

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

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

We are actively working to extend the maturities and/or refinance the nonrecourse debt that is coming due in 2006 and 2007. During the three months ended April 30, 2006, we completed the following financings:

Purpose of Financing	**Amount**
	(in thousands)
Refinancings	$ 138,000
Loan extensions/additional fundings	48,000
	$ 186,000

Interest Rate Exposure

At April 30, 2006, the composition of nonrecourse mortgage debt was as follows:

	Operating Properties	**Development Projects**	**Total**	**Total Weighted Average Rate**
		(dollars in thousands)		
Fixed	$ 3,531,261	$ 53,877	$ 3,585,138	6.37%
Variable [(1)]				
Taxable	435,645	241,046	676,691	6.51%
Tax-Exempt	606,513	65,000	671,513	4.93%
Urban Development Action Grant (UDAG)	103,250		103,250	1.69%
	$ 4,676,669	$ 359,923	$ 5,036,592	6.10%
Commitment from lenders		$ 566,386		

(1) Taxable variable-rate debt of $676,691 and tax-exempt

variable rate debt of $671,513 as of April 30, 2006 is protected with swaps and caps described below.

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

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

	Caps		Swaps	
Period Covered	**Amount**	**Average Base Rate**	**Amount**	**Average Base Rate**
		(dollars in thousands)		
05/01/06-02/01/07 (1)	$834,643	5.41%	$471,927	4.03%
02/01/07-02/01/08	711,330	5.44	356,078	4.73
02/01/08-02/01/09	110,035	5.33	54,890	4.64
02/01/09-02/01/10	73,500	5.00	53,632	4.64

(1) These LIBOR-based hedges as of May 1, 2006 protect the debt currently outstanding as well as the anticipated increase in debt outstanding for projects under development or anticipated to be under development during the year ending January 31, 2007.

The interest rate hedges summarized in the tables above were purchased to mitigate variable interest rate risk. We currently intend to convert a significant portion of our committed variable-rate debt to fixed-rate debt. In order to protect against significant increases in long-term interest rates we executed forward 10-year swaps. We executed forward starting swaps with a notional amount of $22,300,000 at a strike price of 5.37% that commence in March 2009 which we expect to terminate in conjunction with anticipated fixed-rate financing. Subsequent to April 30, 2006, we executed an additional $585,370,000 of forward starting swaps at a weighted average rate of 5.71% with commencement dates ranging from December 2006 through May 2008.

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

	Caps	
Period Covered	**Amount**	**Average Base Rate**
	(dollars in thousands)	
05/01/06-02/01/07	$267,006	5.73%
02/01/07-02/01/08	232,025	5.99
02/01/08-02/01/09	176,200	6.03
02/01/09-02/01/10	57,000	6.88

The tax-exempt caps expressed above mainly represent protection that was purchased in conjunction with lender hedging requirements that require the borrower to protect against significant fluctuations in interest rates. Outside of such requirements, we generally do not hedge tax-exempt debt because, since 1990, the base rate of this type of financing has averaged 3.02% and has never exceeded 7.90%.

Due to the protection provided by the interest rate swaps, caps and long-term contracts in place as of April 30, 2006, a 100 basis point increase in taxable interest rates (including properties accounted for under the equity method) would not increase the annual pre-tax interest cost for the next 12 months of our variable-rate debt at April 30, 2006. 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 $8,324,000 at April 30, 2006. The analysis above includes a portion of our taxable and tax-exempt variable-rate debt related to construction loans for which the interest expense is capitalized.

From time to time, certain of our joint ventures (the Joint Ventures) enter into TRS on various tax-exempt fixed-rate borrowings generally held within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require that the Joint Ventures pay a variable rate, generally equivalent to the BMA rate. Additionally, the Joint Ventures have guaranteed the principal balance of the underlying borrowing. Any fluctuation in the value of the guarantee would be offset by the fluctuation in the value of the underlying borrowing, resulting in no financial impact to the Joint Ventures or us. At April 30, 2006, the aggregate notional amount of TRS in which the Joint Ventures have an interest is approximately $299,390,000. The fair value of such contracts is immaterial at April 30, 2006. We believe the economic return and related risk associated with a TRS is generally comparable to that of nonrecourse variable rate mortgage debt.

Cash Flows

Operating Activities

Net cash provided by operating activities was $56,632,000 and $94,867,000 for the three months ended April 30, 2006 and 2005, respectively. The decrease in net cash provided by operating activities in the three months ended April 30, 2006 compared to the three months ended April 30, 2005 of $38,235,000 is the result of the following (in thousands):

Increase in rents and other revenues received	$ 823
Increase in interest and other income received	9,149
Increase in cash distributions from unconsolidated entities	571
Decrease in proceeds from land sales Land Development Group	(28,545)

Decrease in proceeds from land sales Commercial Group	(3,541)
Decrease in land development expenditures	4,945
Increase in operating expenditures	(16,910)
Increase in interest paid	(4,727)
Net decrease in cash provided by operating activities	$ (38,235)

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Investing Activities

Net cash used in investing activities was $227,773,000 and $224,168,000 for the three months ended April 30, 2006 and 2005, respectively.

The net cash used in investing activities consisted of the following:

	Three Months Ended April 30,	
	2006	2005
	(in thousands)	
Capital expenditures*	**$(208,601)**	$(222,522)
Change in escrows to be used for capital expenditures and other investing activities:		
Victoria Gardens, a retail center in Rancho Cucamonga, California	**14,357**	
Simi Valley Town Center, a retail center in Simi Valley, California	**(6,534)**	(21,471)
Atlantic Yards, a commercial development project in Brooklyn, New York	**6,252**	(6,812)
Atlantic Terminal, an office building in Brooklyn, New York		7,315
Sale proceeds released from (placed in) escrow for future acquisitions:		
Hilton Times Square, a hotel in Manhattan, New York	**(108,408)**	
Pavilion, an office building in San Jose, California		16,114
Other	**(1,612)**	(4,366)
Subtotal	**$ (95,945)**	$ (9,220)
Net proceeds from disposition of rental properties and other investments :		
Hilton Times Square, a hotel in Manhattan, New York	**$ 120,400**	$
G Street, a retail center in Philadelphia, Pennsylvania	**805**	
Other		187
Subtotal	**$ 121,205**	$ 187
Change in investments in and advances to affiliates (Investment in) or return of investment:		
Dispositions:		
Showcase, an unconsolidated retail project in Las Vegas, Nevada	**$**	$ 13,491
Land Development:		
Mesa del Sol, an unconsolidated project in Covington, New Mexico	**(4,564)**	(627)
Residential Projects:		
Mercury, an unconsolidated condominium development project in Los Angeles, California	**(1,333)**	(5,235)
Metropolitan Lofts, an unconsolidated apartment complex in Los Angeles, California	**(1,442)**	
Ohana Military Communities, an unconsolidated military housing complex in Honolulu, Hawaii		1,428
New York City Projects:		
Sports arena complex and related development projects in Brooklyn, New York	**(3,493)**	(3,066)
Investment related activities in the *Nets* segment	**(634)**	(2,099)

Commercial Projects:		
San Francisco Centre, an unconsolidated retail project under construction in San Francisco, California	**(1,250)**	1,450
Metreon, acquisition of an unconsolidated retail project in San Francisco, California	**(20,000)**	
Hispanic Retail Group Coachella, an unconsolidated development retail project in Coachella, California	**(1,174)**	
Summit at Lehigh Valley, an unconsolidated development retail project in Bethlehem Township, Pennsylvania	**(2,209)**	
Other net (advances) returns of investment of equity method investments and other advances to affiliates	**(8,333)**	2,045
Subtotal	**$ (44,432)**	$ 7,387
Net cash used in investing activities	**$(227,773)**	$(224,168)
*Capital expenditures were financed as follows:		
New nonrecourse mortgage indebtedness	**$ 121,826**	$ 93,023
Proceeds from disposition of rental properties including release of investing escrows (see above)	**12,797**	16,301
Cash provided by operating activities	**56,632**	94,867
Portion of cash on hand at the beginning of the year	**17,346**	18,331
Total Capital Expenditures	**$ 208,601**	$ 222,522

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Financing Activities

Net cash provided by financing activities was $57,917,000 and $63,867,000 for the three months ended April 30, 2006 and 2005, respectively.

Net cash provided by financing activities reflected the following:

	Three Months Ended April 30,	
	2006	2005
	(in thousands)	
Payments on bank revolving credit facility	**$ (82,500)**	$
Proceeds from nonrecourse mortgage debt	**247,080**	143,011
Principal payments on nonrecourse mortgage debt	**(122,368)**	(83,825)
Net decrease in notes payable	**(18,995)**	(10,422)
(Increase) decrease in restricted cash and offsetting withdrawals for escrow deposits:		
Uptown Apartments, a residential development project in Oakland, California	**19,562**	
Sky55, a residential project in Chicago, Illinois	**5,153**	9,711
1251 S. Michigan, a residential project in Chicago, Illinois	**2,954**	
100 Landsdowne, an apartment complex in Cambridge, Massachusetts		9,765
Sterling Glen of Roslyn, a supported-living community in Roslyn, New York	**5,977**	2,527
Sterling Glen of Lynbrook, a supported-living community in Lynbrook, New York		2,394
Victoria Gardens, a retail center in Rancho Cucamonga, California		2,290
Other	**229**	3,020
Increase in book overdrafts, representing checks issued but not yet paid	**22,891**	19,768
Payment of deferred financing costs	**(9,518)**	(11,170)
Proceeds from the exercise of stock options	**782**	1,712
Excess tax benefit from stock-based compensation	**1,199**	
Payment of dividends	**(6,111)**	(5,036)
Purchase of treasury stock	**(826)**	(1,945)
Decrease in minority interest	**(7,592)**	(17,933)
Net cash provided by financing activities	$ **57,917**	$ 63,867

STOCK SPLIT

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

LEGAL PROCEEDINGS

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

DIVIDENDS

We pay quarterly cash dividends on shares of Class A and Class B common stock. The first quarterly dividend of $.06 per share on both Class A and Class B common stock was declared on March 23, 2006 and will be paid on June 15, 2006 to shareholders of record at the close of business on June 1, 2006. The second quarterly dividend is expected to be declared at the quarterly Board Meeting on June 15, 2006.

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NEW ACCOUNTING STANDARDS

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an Amendment of FASB Statement No. 140 (SFAS No. 156). SFAS No. 156 requires separate recognition of a servicing asset and a servicing liability each time an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement also requires that all separately recognized servicing assets and liabilities be initially measured at fair value and subsequently measured at fair value at the end of each reporting period. This statement is effective in fiscal years beginning after September 15, 2006. The adoption of SFAS No. 156 is not expected to have a material impact on our consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140 (SFAS No. 155). SFAS No. 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and (v) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (Revised), Share-Based Payment (SFAS No. 123(R)). SFAS No. 123(R) requires the recognition of compensation costs related to the estimated fair value of employee stock options and similar stock awards. We adopted SFAS No. 123(R) on February 1, 2006. Previously, we did not expense stock options. We have and will continue to expense restricted stock consistent with prior quarters because the accounting treatment remains substantially the same under SFAS No. 123 (R). For the quarter ended April 30, 2006, the adoption of this standard lowered net earnings $1,195,000 and lowered net earnings per share by $0.01.

VARIABLE INTEREST ENTITIES

As of April 30, 2006, we determined that we are the primary beneficiary of 30 VIEs representing 18 properties (19 VIEs representing 8 properties in Residential Group, 10 VIEs representing 9 properties in Commercial Group, and 1 VIE/property in Land Development Group). As of April 30, 2006, we held variable interests in 43 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 $101,000,000 at April 30, 2006, which is recorded as investments in and advances to affiliates. In addition, we have various VIEs that were previously consolidated that remain consolidated under FIN No. 46 (R). These VIEs consist of joint ventures that are engaged, directly or indirectly, in the ownership, development and management of office buildings, regional malls, specialty retail centers, apartment communities, military housing, supported-living communities and land development.

The total assets, nonrecourse mortgage debt, total liabilities and minority interest of VIEs consolidated due to the implementation of FIN No. 46 (R) for which we are the primary beneficiary are as follows as of April 30 and January 31, 2006:

	April 30, 2006	January 31, 2006
	(in thousands)	
Total assets	**$926,000**	$ 940,000
Nonrecourse mortgage debt	**837,000**	839,000
Total liabilities (including nonrecourse mortgage debt)	**890,000**	900,000
Minority interest	**36,000**	40,000

In addition to the VIEs described above, we have has also determined that we are the primary beneficiary of a VIE which holds collateralized borrowings of $29,000,000 (Senior and Subordinated Debt) as of April 30, 2006.

SUBSEQUENT EVENT

On June 2, 2006, Forest City Ratner Companies, an affiliate of ours entered into an agreement to acquire our partner s (ING Real Estate) interest in the *New York Times Building*, an office building under construction in Manhattan, New York. Once the transaction is completed, we will fully own 708,000 square feet on floors 29 through 52 as well as 24,000 square feet of retail space on the ground floor. Floors 2 through 28 are owned by The New York Times and will serve as its headquarters when it opens in 2007.

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INFORMATION RELATED TO FORWARD-LOOKING STATEMENTS

This Form 10-Q, together with other statements and information publicly disseminated by the Company, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements reflect management s current views with respect to financial results related to future events and are based on assumptions and expectations which may not be realized and are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial or otherwise, may differ from the results discussed in the forward-looking statements. Risk factors discussed in Item 1A of the Company s Form 10-K for the year ended January 31, 2006 and other factors that might cause differences, some of which could be material, include, but are not limited to, real estate development and investment risks including lack of satisfactory financing, construction and lease-up delays and cost overruns, the effect of economic and market conditions on a nationwide basis as well as regionally in areas where the Company has a geographic concentration of properties, reliance on major tenants, the impact of terrorist acts, the Company s substantial leverage and the ability to obtain and service debt, guarantees under the Company s credit facility, the level and volatility of interest rates, continued availability of tax-exempt government financing, the sustainability of substantial operations at the subsidiary level, illiquidity of real estate investments, dependence on rental income from real property, conflicts of interest, financial stability of tenants within the retail industry which may be impacted by competition and consumer spending, potential liability from syndicated properties, effects of uninsured loss, environmental liabilities, partnership risks, litigation risks, risks associated with an investment in a professional sports franchise, the rate revenue increases versus the rate of expense increases, as well as other risks listed from time to time in the Company s reports filed with the United States Securities and Exchange Commission. The Company has no obligation to revise or update any forward-looking statements, other than imposed by law, as a result of future events or new information. Readers are cautioned not to place undue reliance on such forward-looking statements.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure is interest rate risk. At April 30, 2006, our outstanding variable-rate debt portfolio consisted of $676,691,000 of taxable debt and $691,913,000 of tax-exempt variable-rate debt (which includes $20,400,000 of subordinated debt). Upon opening and achieving stabilized operations, we generally pursue long-term fixed-rate nonrecourse financing for our rental properties. Additionally, when the properties fixed-rate debt matures, the maturing amounts are subject to interest rate risk.

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

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

	Caps		Swaps	
	Amount	Average Base Rate	Amount	Average Base Rate
		(dollars in thousands)		
Period Covered				
05/01/06-02/01/07 (1)	$834,643	5.41%	$471,927	4.03%
02/01/07-02/01/08	711,330	5.44	356,078	4.73
02/01/08-02/01/09	110,035	5.33	54,890	4.64
02/01/09-02/01/10	73,500	5.00	53,632	4.64

(1) These LIBOR-based hedges as of May 1, 2006 protect the debt currently outstanding as well as the anticipated increase in debt outstanding for projects under development or anticipated to be under development during the year ending January 31, 2007.

The interest rate hedges summarized in the tables above were purchased to mitigate variable interest rate risk. We currently intend to convert a significant portion of our committed variable-rate debt to fixed-rate debt. In order to protect against significant increases in long-term interest rates we executed forward 10-year swaps. We executed forward starting swaps with a notional amount of $22,300,000 at a strike price of 5.37% that commence in March 2009 which we expect to terminate in conjunction with anticipated fixed-rate financing. Subsequent to April 30, 2006, we executed an additional $585,370,000 of forward starting swaps at a weighted average rate of 5.71% with commencement dates ranging from December 2006 through May 2008.

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

	Caps	
	Amount	Average Base Rate
	(dollars in thousands)	
Period Covered		
05/01/06-02/01/07	$267,006	5.73%
02/01/07-02/01/08	232,025	5.99
02/01/08-02/01/09	176,200	6.03
02/01/09-02/01/10	57,000	6.88

The tax-exempt caps expressed above mainly represent protection that was purchased in conjunction with lender hedging requirements that require the borrower to protect against significant fluctuations in interest rates. Outside of such requirements, we generally do not hedge tax-exempt debt because, since 1990, the base rate of this type of financing has averaged 3.02% and has never exceeded 7.90%.

We estimate the fair value of our debt instruments by discounting future cash payments at interest rates that approximate the current market. Based on these parameters, the carrying amount of our total fixed-rate debt at April 30, 2006 was $4,267,388,000 compared to an estimated fair value of $4,216,895,000. We estimate that a 100 basis point decrease in market interest rates would change the fair value of this fixed-rate debt to approximately $4,468,950,000 at April 30, 2006.

We estimate the fair value of our hedging instruments based on interest rate market pricing models. At April 30, 2006 and January 31, 2006, interest rate caps were reported at fair value of approximately $3,034,000 and $2,454,000, respectively, in other assets in the Consolidated Balance Sheets. At April 30 and January 31, 2006, interest rate swap agreements which had a positive fair value recorded as an unrealized gain of $9,942,000 and $7,887,000, respectively, are included in other assets in the Consolidated Balance Sheets.

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)
April 30, 2006

	Expected Maturity Date							
	Year Ending January 31,						Total	Fair Market Value
Long-Term Debt	**2007**	**2008**	**2009**	**2010**	**2011**	**Period Thereafter**	**Outstanding 04/30/06**	**04/30/06**
				(dollars in thousands)				
Fixed:								
Fixed-rate debt	$275,107	$162,070	$124,817	$254,877	$265,654	$2,502,613	$3,585,138	$3,559,522
Weighted average interest rate	7.04%	6.89%	6.79%	7.04%	7.16%	6.08%	6.37%	
UDAG	8,213	728	726	724	20,671	72,188	103,250	62,398
Weighted average interest rate	0.18%	2.56%	2.50%	2.44%	1.80%	1.81%	1.69%	
Senior & subordinated debt (1)						579,000	579,000	594,975
Weighted average interest rate						7.30%	7.30%	
Total Fixed-Rate Debt	283,320	162,798	125,543	255,601	286,325	3,153,801	4,267,388	4,216,895
Variable:								
Variable-rate debt	208,097	311,684	43,672	3,190	48,271	61,777	676,691	676,691
Weighted average interest rate	6.20%	7.22%	6.07%	5.30%	5.25%	5.37%	6.51%	
Tax-exempt	108,613	79,970	16,315	165,345	31,245	270,025	671,513	671,513
Weighted average interest rate	5.62%	5.25%	5.35%	4.51%	4.31%	4.87%	4.93%	
Bank revolving credit facility (1)								
Weighted average interest rate								
Subordinated debt (1)			20,400				20,400	20,400
Weighted average interest rate			4.95%				4.95%	
	316,710	391,654	80,387	168,535	79,516	331,802	1,368,604	1,368,604

Total Variable-Rate Debt								
Total Long Term Debt	$600,030	$554,452	$205,930	$424,136	$365,841	$3,485,603	$5,635,992	$5,585,499
Weighted average interest rate	6.40%	6.83%	6.33%	6.04%	6.36%	6.09%	6.22%	

(1) Represents recourse debt.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)
January 31, 2006

	Expected Maturity Date Fiscal Year Ending January 31,							
Long-Term Debt	**2007**	**2008**	**2009**	**2010**	**2011**	**Period Thereafter**	**Total Outstanding 1/31/06**	**Fair Market Value 1/31/06**
				(dollars in thousands)				
Fixed:								
Fixed-rate debt	$292,266	$160,787	$122,819	$267,652	$345,062	$2,357,321	$3,545,907	$3,524,313
Weighted average interest rate	7.07%	6.90%	6.81%	7.04%	6.88%	6.10%	6.39%	
UDAG	8,385	728	726	724	20,671	72,189	103,423	62,071
Weighted average interest rate	0.23%	2.56%	2.50%	2.44%	1.80%	1.81%	1.69%	
Senior & subordinated debt (1)						579,000	579,000	594,700
Weighted average interest rate						7.30%	7.30%	
Total Fixed-Rate Debt	300,651	161,515	123,545	268,376	365,733	3,008,510	4,228,330	4,181,084
Variable:								
Variable-rate debt	272,941	267,609	25,532	3,190	47,549	61,775	678,596	678,596
Weighted average interest rate	6.50%	6.50%	6.47%	5.81%	5.74%	5.99%	6.40%	
Tax-exempt	112,152	127,670	16,000	277,000	28,660	270,024	831,506	831,506
Weighted average interest rate	4.25%	4.50%	4.59%	4.70%	5.29%	4.20%	4.47%	
Bank revolving credit facility (1)			82,500				82,500	82,500
Weighted average interest rate			6.39%				6.39%	
Subordinated debt (1)			20,400				20,400	20,400
Weighted average interest rate			4.17%				4.17%	

Total Variable-Rate Debt	385,093	395,279	144,432	280,190	76,209	331,799	1,613,002	1,613,002
Total Long Term Debt	$685,744	$556,794	$267,977	$548,566	$441,942	$3,340,309	$5,841,332	$5,794,086
Weighted average interest rate	6.30%	6.15%	6.30%	5.85%	6.42%	6.06%	6.11%	

(1) Represents recourse debt.

Item 4. Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 (Securities Exchange Act) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. In addition, the Company s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act 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 are effective.

There have been no changes in the Company s internal control over the financial reporting identified in connection with the evaluation required by Rule 13a-15(d) of the Securities Exchange Act during the Company s most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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	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, 2006		$		
March 1 through March 31, 2006 (1)	17,970	$ 45.95		
April 1 through April 30, 2006		$		
Total	17,970	$ 45.95		

(1) In March 2006, the Company repurchased into treasury 17,970 shares of Class A common stock to satisfy the minimum tax withholding requirements relating to restricted stock vesting. These shares were not reacquired as part of a publicly announced repurchase plan or program.

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Item 6. Exhibits

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

Ratner and Audrey Ratner, effective June 26, 1996, incorporated by reference to Exhibit 10.21 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).

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

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

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

1996, incorporated by reference to Exhibit 10.31 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).

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

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

+10.16 - Amended and Restated Form of Stock Option Agreement, effective as of June 8, 2004, incorporated by reference to Exhibit 10.17 to the Company s Form 10-Q for the quarter ended April 30, 2005 (File No. 1-4372).

+10.17 - Amended and Restated Form of Restricted Stock Agreement, effective as of June 8, 2004, incorporated by reference to Exhibit 10.18 to the Company s Form 10-Q for the quarter ended April 30, 2005 (File No. 1-4372).

+10.18 - Dividend Reinvestment and Stock Purchase Plan, incorporated by reference to Exhibit 10.42 to the Company s Form 10-K for the year ended January 31, 1999 (File No. 1-4372).

+10.19 - 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).

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Exhibit Number		Description of Document
+10.20	-	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).
+10.21	-	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).
+10.22	-	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).
+10.23	-	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).
+10.24	-	Employment Agreement entered into on May 31, 1999, effective January 1, 1999, by the Company and Albert B. Ratner, incorporated by reference to Exhibit 10.47 to the Company s Form 10-Q for the quarter ended July 31, 1999 (File No. 1-4372).
+10.25	-	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).
+10.26	-	Employment Agreement entered into on May 31, 1999, effective January 1, 1999, by the Company and Samuel H. Miller, incorporated by reference to Exhibit 10.48 to the Company s Form 10-Q for the quarter ended July 31, 1999 (File No. 1-4372).
+10.27	-	Deferred Compensation Agreement between Forest City Enterprises, Inc. and Thomas G. Smith dated December 27, 1995, incorporated by reference to Exhibit 10.33 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.28	-	Employment Agreement (re: death benefits) entered into on May 31, 1999, by the Company and Thomas G. Smith dated December 27, 1995, incorporated by reference to Exhibit 10.49 to the Company s Form 10-Q for the quarter ended October 31, 1999 (File No. 1-4372).
+10.29	-	Summary of Forest City Enterprises, Inc. Management Incentive Plan as adopted in 1997, incorporated by reference to Exhibit 10.51 to the Company s Form 10-Q for the quarter ended July 31, 2001 (File No. 1-4372).
+10.30	-	Summary of Forest City Enterprises, Inc. Long-Term Performance Plan as adopted in 2000, incorporated by reference to Exhibit 10.52 to the Company s Form 10-Q for the quarter ended July 31, 2001 (File No. 1-4372).

10.31	-	Credit Agreement, dated as of March 22, 2004, by and among Forest City Rental Properties Corporation, the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.40 to the Company s Form 10-K for the year ended January 31, 2004 (File No. 1-4372).
10.32	-	Guaranty of Payment of Debt, dated as of March 22, 2004, by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.41 to the Company s Form 10-K for the year ended January 31, 2004 (File No. 1-4372).
10.33	-	First Amendment to Credit Agreement, dated as of January 19, 2005, by and among Forest City Rental Properties Corporation, the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.37 to the Company s Form 10-K for the year ended January 31, 2005 (File No. 1-4372).

Exhibit Number		Description of Document
10.34	-	First Amendment to Guaranty of Payment of Debt, dated as of January 19, 2005 by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.38 to the Company s Form 10-K for the year ended January 31, 2005 (File No. 1-4372).
+10.35	-	Forest City Enterprises, Inc. Executive Bonus Plan, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on March 30, 2005 (File No. 1-4372).
+10.36	-	Forest City Enterprises, Inc. Board of Directors Compensation Policy, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on March 30, 2005 (File No. 1-4372).
10.37	-	Second Amendment to Credit Agreement, dated as of April 7, 2005, by and among Forest City Rental Properties Corporation, the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.43 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
10.38	-	Second Amendment to Guaranty of Payment of Debt, dated as of April 7, 2005, by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on April 13, 2005 (File No. 1-4372).
+10.39	-	First Amendment to the Deferred Compensation Plan for Executives, effective as of October 1, 1999, incorporated by reference to Exhibit 10.45 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
+10.40	-	Second Amendment to the Deferred Compensation Plan for Executives, effective as of December 31, 2004, incorporated by reference to Exhibit 10.46 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
+10.41	-	Fourth Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective as of December 31, 2004, incorporated by reference to Exhibit 10.47 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
+10.42	-	Forest City Enterprises, Inc. Long-Term Incentive Plan, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on June 30, 2005 (File No. 1-4372).
+10.43	-	Employment Agreement entered into on July 20, 2005, effective February 1, 2005, by the Company and Charles A. Ratner, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372).
+10.44	-	Employment Agreement entered into on July 20, 2005, effective February 1, 2005, by the Company and James A. Ratner, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372).
+10.45	-	

Employment Agreement entered into on July 20, 2005, effective February 1, 2005, by the Company and Ronald A. Ratner, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372).

+10.46 - Forest City Enterprises, Inc. 1994 Stock Plan, as Amended and Restated as of June 21, 2005, incorporated by reference to Exhibit A to the Company s Proxy Statement for its Annual Meeting of Shareholders held on June 21, 2005 (File No. 1-4372).

+10.47 - Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Executives (As Amended and Restated Effective January 1, 2005), incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on December 16, 2005 (File No. 1-4372).

+10.48 - Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Nonemployee Directors (As Amended and Restated Effective January 1, 2005), incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on December 16, 2005 (File No. 1-4372).

Exhibit Number		Description of Document
+10.49	-	Forest City Enterprises, Inc. Unfunded Nonqualified Supplemental Pension Plan for Executives (As Amended and Restated Effective January 1, 2005), incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on December 16, 2005 (File No. 1-4372).
10.50	-	Consent Letter to Credit Agreement and Guaranty of Payment of Debt, dated January 20, 2006 by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on February 24, 2006 (File No. 1-4372).
+10.51	-	Amendment No. 1 to Forest City Enterprises, Inc. 1994 Stock Plan (As Amended and Restated as of June 21, 2005), incorporated by reference to Exhibit 10.53 to the Company s Form 10-K for the year ended January 31, 2006 (File No. 1-4372).
*31.1	-	Principal Executive Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	-	Principal Financial Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	-	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

* Filed herewith.

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SIGNATURES

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

FOREST CITY ENTERPRISES, INC.
(Registrant)

Date: June 8, 2006 /S/ THOMAS G. SMITH

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

Date: June 8, 2006 /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.