FOREST CITY ENTERPRISES INC
Form 10-Q
June 06, 2008

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, 2008

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, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 3, 2008

Class A Common Stock, $.33 1/3 par value	79,253,885 shares
Class B Common Stock, $.33 1/3 par value	23,698,349 shares

Forest City Enterprises, Inc. and Subsidiaries
Table of Contents

		Page
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Forest City Enterprises, Inc. and Subsidiaries	
	Consolidated Balance Sheets April 30, 2008 and January 31, 2008	2
	Consolidated Statements of Operations Three Months Ended April 30, 2008 and 2007	3
	Consolidated Statements of Comprehensive Loss Three Months Ended April 30, 2008 and 2007	4
	Consolidated Statements of Shareholders Equity Three Months Ended April 30, 2008 and 2007	5
	Consolidated Statements of Cash Flows Three Months Ended April 30, 2008 and 2007	6
	Notes to Consolidated Financial Statements	8
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	53
Item 4.	Controls and Procedures	57
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	57
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 6.	Exhibits	58
Signatures		63
Certifications		

EX-10.60
EX-31.1
EX-31.2
EX-32.1

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Forest City Enterprises, Inc. and Subsidiaries
Consolidated Balance Sheets

	April 30, 2008 (Unaudited)	January 31, 2008
	(in thousands)	
Assets		
Real Estate		
Completed rental properties	**$ 7,794,681**	$ 7,561,685
Projects under development	**1,591,749**	1,499,495
Land held for development or sale	**161,875**	155,524
Total Real Estate	**9,548,305**	9,216,704
Less accumulated depreciation	**(1,291,523)**	(1,244,391)
Real Estate, net	**8,256,782**	7,972,313
Cash and equivalents	**179,850**	254,434
Restricted cash	**408,568**	248,262
Notes and accounts receivable, net	**415,233**	419,090
Investments in and advances to affiliates	**365,067**	495,828
Other assets	**887,595**	829,998
Operating property assets held for sale	**31,617**	31,672
Total Assets	**$ 10,544,712**	$ 10,251,597
Liabilities and Shareholders Equity		
Liabilities		
Mortgage debt, nonrecourse	**$ 6,666,259**	$ 6,338,610
Notes payable	**173,920**	143,874
Bank revolving credit facility	**32,000**	39,000
Senior and subordinated debt	**886,900**	886,900
Accounts payable and accrued expenses	**978,559**	1,015,844
Deferred income taxes	**460,420**	477,238
Liabilities of operating property held for sale	**28,570**	28,498
Total Liabilities	**9,226,628**	8,929,964
Minority Interest	**389,108**	349,517
Commitments and Contingencies	**-**	-

Company-Obligated Trust Preferred Securities	**-**	-
Shareholders Equity		
Preferred stock - without par value; 10,000,000 shares authorized; no shares issued	**-**	-
Common stock - $.33 1/3 par value		
Class A, 271,000,000 shares authorized, 78,834,468 and 78,237,993 shares issued and 78,781,255 and 78,201,673 shares outstanding, respectively	**26,278**	26,079
Class B, convertible, 56,000,000 shares authorized, 23,878,414 and 24,387,607 shares issued and outstanding, respectively; 26,257,961 issuable	**7,960**	8,129
	34,238	34,208
Additional paid-in capital	**230,211**	229,358
Retained earnings	**734,359**	782,871
Less treasury stock, at cost; 53,213 and 36,320 Class A shares, respectively	**(2,307)**	(1,665)
	996,501	1,044,772
Accumulated other comprehensive loss	**(67,525)**	(72,656)
Total Shareholders Equity	**928,976**	972,116
Total Liabilities and Shareholders Equity	**$ 10,544,712**	$ 10,251,597

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

Table of Contents

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

	Three Months Ended April 30,	
	2008	2007
	(in thousands, except per share data)	
Revenues from real estate operations	**$ 307,646**	$ 268,365
Expenses		
Operating expenses	**207,676**	168,592
Depreciation and amortization	**66,619**	59,787
	274,295	228,379
Interest expense	**(83,371)**	(76,799)
Amortization of mortgage procurement costs	**(2,938)**	(2,564)
Loss on early extinguishment of debt	**(5,179)**	(2,544)
Interest and other income	**8,401**	11,399
Gain on disposition of other investments	**150**	-
Loss before income taxes	**(49,586)**	(30,522)
Income tax expense (benefit)		
Current	**555**	(1,692)
Deferred	**(20,134)**	(12,348)
	(19,579)	(14,040)
Minority interest	**(694)**	(2,548)
Equity in (loss) earnings of unconsolidated entities	**(9,647)**	1,361
Loss from continuing operations	**(40,348)**	(17,669)
Discontinued operations, net of tax:		
Operating earnings from rental properties	**79**	488
Net loss	**$ (40,269)**	$ (17,181)

Basic and diluted loss per common share				
Loss from continuing operations	**$**	**(0.39)**	$	(0.17)
Earnings from discontinued operations, net of tax		**-**		-
Net loss	**$**	**(0.39)**	$	(0.17)

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

3

Table of Contents

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

	Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Net loss	**$ (40,269)**	$ (17,181)
Other comprehensive income (loss), net of tax and minority interest:		
Unrealized net gains (losses) on investment securities	**51**	(41)
Change in unrealized net gains (losses) on interest rate derivative contracts	**5,080**	(9,178)
Other comprehensive income (loss), net of tax and minority interest	**$ 5,131**	$ (9,219)
Comprehensive loss	**$ (35,138)**	$ (26,400)

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

Table of Contents

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

	Common Stock				Additional		Treasury Stock		Accumulated Other	
	Class A		Class B		Paid-In	Retained			Comprehensive (Loss)	
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Earnings**	**Shares**	**Amount**	**Income**	**Total**
					(in thousands)					
Three Months Ended April 30, 2008										
Balances at January 31, 2008	78,238	$ 26,079	24,388	$ 8,129	$ 229,358	$ 782,871	36	$ (1,665)	$ (72,656)	$ 972,116
Net loss						(40,269)				(40,269)
Other comprehensive income, net of tax and minority interest									5,131	5,131
Dividends $.08 per share						(8,243)				(8,243)
Purchase of treasury stock							17	(642)		(642)
Conversion of Class B to Class A shares	510	169	(510)	(169)						-
Exercise of stock options	12	4			120					124
Restricted stock vested	74	26			(26)					-
Stock-based compensation					4,469					4,469
Distribution of accumulated equity to minority partners					(3,710)					(3,710)
Balances at April 30, 2008	78,834	$ 26,278	23,878	$ 7,960	$ 230,211	$ 734,359	53	$ (2,307)	$ (67,525)	$ 928,976

Three Months Ended

April 30, 2007

Balances at January 31, 2007	76,693	$ 25,564	25,254	$ 8,418	$ 247,884	$ 762,062	65	$ (3,449)	$ (14,668)	$ 1,025,811
Cumulative effect of change in accounting for uncertain tax positions						245				245
Net loss						(17,181)				(17,181)
Other comprehensive loss, net of tax and minority interest									(9,219)	(9,219)
Dividends $.07 per share						(7,218)				(7,218)
Purchase of treasury stock							50	(3,138)		(3,138)
Conversion of Class B to Class A shares	82	27	(82)	(27)						-
Exercise of stock options	212	71			3,347					3,418
Restricted stock granted out of treasury	(107)	(36)			(6,020)		(107)	6,056		-
Restricted stock vested	135	45			(45)					-
Stock-based compensation					5,912					5,912
Distribution of accumulated equity to minority partners					(9,558)					(9,558)
Balances at April 30, 2007	77,015	$ 25,671	25,172	$ 8,391	$ 241,520	$ 737,908	8	$ (531)	$ (23,887)	$ 989,072

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

Table of Contents

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

	Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Net Loss	**$ (40,269)**	$ (17,181)
Depreciation and amortization	**66,619**	59,787
Amortization of mortgage procurement costs	**2,938**	2,564
(Gain) loss on early extinguishment of debt, net of cash prepayment penalties	**(305)**	2,544
Gain on disposition of other investments	**(150)**	-
Deferred income tax benefit	**(20,134)**	(12,348)
Minority interest	**694**	2,548
Equity in loss (earnings) of unconsolidated entities	**9,647**	(1,361)
Stock-based compensation	**2,737**	4,225
Amortization and mark-to-market adjustments of derivative instruments	**362**	941
Cash distributions from operations of unconsolidated entities	**11,619**	6,358
Write-off of abandoned development projects	**26,692**	2,570
Discontinued operations:		
Depreciation and amortization	**5**	1,013
Amortization of mortgage procurement costs	**11**	35
Deferred income tax expense	**114**	250
Cost of sales of land included in projects under development and completed rental properties	**2,862**	3,266
Increase in land held for development or sale	**(10,533)**	(11,397)
Decrease (increase) in notes and accounts receivable	**14,909**	(8,611)
Increase in other assets	**(3,270)**	(6,514)
Decrease (increase) in restricted cash used for operating purposes	**3,632**	(4,774)
Decrease in accounts payable and accrued expenses	**(70,783)**	(33,113)
Net cash used in operating activities	**(2,603)**	(9,198)
Cash Flows from Investing Activities		
Capital expenditures, including real estate acquisitions	**(236,535)**	(306,906)
Payment of lease procurement costs and other assets	**(40,730)**	(12,047)
(Increase) decrease in restricted cash used for capital expenditures	**(161,316)**	32,109
Proceeds from disposition of other investments	**150**	-
Decrease (increase) in investments in and advances to affiliates	**56,655**	(27,648)
Net cash used in investing activities	**(381,776)**	(314,492)

Cash Flows from Financing Activities		
Borrowings on bank revolving credit facility	**80,000**	193,000
Payments on bank revolving credit facility	**(87,000)**	(53,000)
Proceeds from nonrecourse mortgage debt	**683,815**	215,418
Principal payments on nonrecourse mortgage debt	**(404,259)**	(100,435)
Proceeds from notes payable	**35,388**	151
Payments on notes payable	**(5,342)**	(18,421)
Change in restricted cash and book overdrafts	**5,697**	(6,919)
Payment of deferred financing costs	**(22,694)**	(4,148)
Purchase of treasury stock	**(642)**	(3,138)
Exercise of stock options	**124**	3,418
Distributions of accumulated equity to minority partners	**(3,710)**	(9,558)
Dividends paid to shareholders	**(8,234)**	(7,160)
Increase in minority interest	**36,652**	21,191
Net cash provided by financing activities	**309,795**	230,399
Net decrease in cash and equivalents	**(74,584)**	(93,291)
Cash and equivalents at beginning of period	**254,434**	254,213
Cash and equivalents at end of period	**$ 179,850**	$ 160,922

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

Table of Contents

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

Supplemental Non-Cash Disclosures:

The table below represents the effect of the following non-cash transactions for the three months ended April 30, 2008 and 2007:

	Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Operating Activities		
Decrease (increase) in notes and accounts receivable (1)(2)	**$ 4,064**	$ (9,251)
Decrease (increase) in land held for development or sale (4)(5)	**1,320**	(2,537)
Increase in other assets (1)(2)	**(19,909)**	(61,208)
Increase in restricted cash (1)	**(363)**	(2,307)
Increase in accounts payable and accrued expenses (1)(2)(4)(7)	**34,607**	58,801
Total effect on operating activities	**$ 19,719**	$ (16,502)
Investing Activities		
(Increase) decrease in projects under development (1)(3)(4)(5)(7)	**$ (100,878)**	$ 12,855
Increase in completed rental properties (1)(2)(6)	**25**	(56,400)
Increase in restricted cash (1)	**(244)**	-
Decrease (increase) in investments in and advances to affiliates (1)	**27,685**	(5,534)
Total effect on investing activities	**$ (73,412)**	$ (49,079)
Financing Activities		
Increase in nonrecourse mortgage debt (1)(6)	**$ 51,970**	$ 65,364
Increase in restricted cash (1)	**-**	(1,412)
Increase in additional paid-in capital (3)	**1,732**	1,687
Dividends declared but not yet paid	**(9)**	(58)
Total effect on financing activities	**$ 53,693**	$ 65,581

(1) Change to full consolidation method of accounting from equity method due to the

restructuring of the partnership agreement related to *Shops at Wiregrass*, a retail development project in the Commercial Group, and acquisition of partners interest in *Village Center* apartment community in the Residential Group during the three months ended April 30, 2008 and acquisition of partners interest in *Midtown Towers*, *Sterling Glen of Glen Cove* and *Sterling Glen of Great Neck* apartments in the Residential Group during the three months ended April 30, 2007.

(2) Finalization of the preliminary purchase price allocation during the three months ended April 30, 2008 for *Commerce Court* and *Colorado Studios*, two office buildings in the Commercial Group, and during the three months ended

April 30, 2007 for the New York portfolio transaction that closed in November 2006.

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

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

(5) Commercial Group outlots reclassified prior to sale from projects under development to land held for sale.

(6) Assumption of nonrecourse mortgage debt due to acquisition of properties in the Commercial Group during the three months ended April 30, 2007.

(7) Estimate for environmental

liabilities in the
Commercial
Group as of
April 30, 2007.

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

Table of Contents

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, 2008, 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.

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 Variable Interest Entities (VIEs). As a result of the nature of estimates made by the Company, actual results could differ.

In March 2007, management approved a plan to demolish two buildings owned by the Company adjacent to *Ten MetroTech Center*, an office building located in Brooklyn, New York, to clear the land for a residential project named *80 DeKalb Avenue*. Due to the new development plan, the estimated useful lives of the two adjacent buildings were adjusted to expire at the scheduled demolition date in April 2007, which resulted in approximately $7,837,000 of accelerated depreciation expense reflected in the Consolidated Statements of Operations during the three months ended April 30, 2007.

Reclassification

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

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 restricted deposits with qualified intermediaries related to like-kind exchanges.

Capitalized Software Costs

Costs related to software developed or obtained for internal use are capitalized pursuant to Statement of Position No. 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and amortized using the straight-line method over their estimated useful life, which is primarily three years. The Company capitalizes significant costs incurred in the acquisition or development of software for internal use, including the costs of the software, materials, consultants, interest and payroll and payroll-related costs for employees directly involved in developing internal-use computer software once final selection of the software is made. Costs incurred prior to the final selection of software and costs not qualifying for capitalization are charged to expense as incurred.

At April 30 and January 31, 2008, the Company has capitalized $24,921,000 and $26,840,000, respectively, of software costs net of accumulated amortization of $14,409,000 and $11,393,000, respectively. The Company has been implementing an enterprise resource planning (ERP) project of which the first phase was placed into service March 1, 2007. Total amortization of capitalized software costs amounted to $3,016,000 and $1,709,000 for the three months ended April 30, 2008 and 2007, respectively, primarily related to the first phase of the ERP project.

Table of Contents

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

A. Accounting Policies (continued)

Historic and New Market Tax Credit Entities

The Company has certain investments in properties that have received, or the Company believes are entitled to receive, historic rehabilitation tax credits on qualifying expenditures under Internal Revenue Code (IRC) section 47 and new market tax credits on qualifying investments in designated community development entities (CDEs) under IRC section 45D, as well as various state credit programs. The Company typically enters into these investments with sophisticated financial investors. In exchange for the financial investors initial contribution into these investments, they are entitled to substantially all of the benefits derived from the tax credit, but generally have no material interest in the underlying economics of the properties. Typically, these arrangements have put/call provisions (which range up to 7 years) whereby the Company may be obligated (or entitled) to repurchase the financial investors interest. The Company has consolidated each of these properties in its consolidated financial statements, and has reflected the investors contribution as a liability in its Consolidated Balance Sheets.

The Company guarantees the financial investor that in the event of a subsequent recapture by a taxing authority due to the Company s noncompliance with applicable tax credit guidelines that it will indemnify the financial investor for any recaptured tax credits. The Company initially records a liability for the cash received from the financial investor. The Company generally records income upon completion and certification of the qualifying development expenditures for historic tax credits and upon certification of the qualifying investments in designated CDEs for new market tax credits resulting in an adjustment of the liability at each balance sheet date to the amount that would be paid to the financial investor based upon the tax credit compliance regulations, which range from 0 to 7 years. During the three months ended April 30, 2008 and 2007, the Company recognized income related to tax credits of $1,491,000 and $888,000, respectively, which were recorded in interest and other income in its Consolidated Statements of Operations.

Distribution of Accumulated Equity to Minority Partners

Distributions to minority partners in excess of their recorded minority interest balance related to refinancing proceeds from nonrecourse debt, which generally arise from appreciation of the underlying real estate assets, are reported as a reduction of additional paid-in-capital in the Consolidated Statements of Shareholders Equity. During the three months ended April 30, 2008, the Company refinanced *Nine MetroTech Center North*, an office building located in Brooklyn, New York. Of the total nonrecourse refinancing proceeds distributed to its minority partner in this property during the three months ended April 30, 2008, $3,710,000 was in excess of its minority partners book capital accounts. During the three months ended April 30, 2007, the Company refinanced *Promenade in Temecula*, a regional mall located in Temecula, California, and *Columbia Park Center*, a specialty retail center located in North Bergen, New Jersey. Of the total nonrecourse refinancing proceeds distributed to its minority partners in these two properties during the three months ended April 30, 2007, $9,558,000 was in excess of its minority partners book capital accounts.

Accumulated Other Comprehensive Loss

Net unrealized gains or losses on securities are included in accumulated other comprehensive income (loss) (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 accumulated OCI is the Company s portion of the unrealized gains and losses on the effective portions of derivative instruments designated and qualifying as cash flow hedges. The following table summarizes the components of accumulated OCI included within the Company s Consolidated Balance Sheets.

	April 30, 2008	January 31, 2008
	(in thousands)	
Unrealized gains on securities	**$ 168**	$ 91

Unrealized losses on interest rate contracts	**(110,683)**	(119,953)
	(110,515)	(119,862)
Minority interest and income tax benefit	**(42,990)**	(47,206)
Accumulated Other Comprehensive Loss	**$ (67,525)**	$ (72,656)

Table of Contents

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

A. Accounting Policies (continued)

Accounting for Derivative Instruments and Hedging Activities

During the three months ended April 30, 2008 and 2007, the Company recorded interest expense of approximately $25,000 and $328,000, respectively, in the Consolidated Statements of Operations, representing the total ineffectiveness of all cash flow hedges. For the three months ended April 30, 2008 and 2007, the amount of hedge ineffectiveness relating to hedges designated and qualifying as fair value hedges under Statement of Financial Accountintg (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), was not material. The amount of derivative gains reclassified into earnings from accumulated OCI as a result of forecasted transactions that did not occur by the end of the originally specified time period or within an additional two-month period of time thereafter was $-0- and $9,000 for the three months ended April 30, 2008 and 2007, respectively. As of April 30, 2008, the Company expects that within the next twelve months it will reclassify amounts recorded in accumulated OCI into earnings as an increase in interest expense of approximately $15,449,000, net of tax.

The Company entered into various forward swaps to protect itself against fluctuations in the swap rate at terms ranging between five to ten years associated with forecasted fixed rate borrowings. At the time the Company secures and locks an interest rate on an anticipated financing, it intends to simultaneously terminate the forward hedge associated with that financing. The table below lists the forward swaps outstanding as of April 30, 2008 (in thousands):

Forward Swaps

	Fully Consolidated Properties[1]		Property Accounted for under the Equity Method of Accounting[2]	
Expirations for Years Ending January 31,	**Notional Amount**	**Rate**	**Notional Amount**	**Rate**
2009	$ -	-	$ -	-
2010	$91,625	5.72%	$ 120,000	5.93%
Thereafter	$ -	-	$ -	-

(1) As these forward swaps have been designated and qualify as cash flow hedges under SFAS No. 133, the Company s portion of unrealized gains and losses on the effective portion of the

hedges has been recorded in accumulated OCI. To the extent effective, the receipt or payment of cash at termination on these forward swaps will be recorded in accumulated OCI and will be amortized as either an increase or decrease to interest expense in the same periods as the interest payments on the financing.

(2) This forward swap does not qualify as a cash flow hedge under the provisions of SFAS No. 133 because it relates to an unconsolidated property. Therefore, the change in the fair value of this swap is marked to market through earnings on a quarterly basis.

For the three months ended April 30, 2008 and 2007, the Company recorded $12,000 and $(1,447,000), respectively, of interest income (expense) related to its forward swap in its Consolidated Statements of Operations, which represents the change in fair value of the swap that did not qualify for hedge accounting.

From time to time, the Company and/or certain of its joint ventures (the Joint Ventures) enter into total rate of return swaps (TRS) on various tax-exempt fixed-rate borrowings generally held by the Company and/or within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require that the Company and/or the Joint Ventures pay a variable rate, generally equivalent to the Security Industry and Financial Markets Association

(SIFMA) rate. Additionally, the Company and/or 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 Company and/or the Joint Ventures. At April 30, 2008, the aggregate notional amount of TRS in which the Company and/or the Joint Ventures have an interest is approximately $499,520,000 (which includes the TRS on the $20,400,000 redevelopment bonds. Refer to Note D - Senior and Subordinated Debt). The Company believes the economic return and related risk associated with a TRS is generally comparable to that of nonrecourse variable-rate mortgage debt.

In addition, in May 2004 Stapleton Land, LLC, a consolidated subsidiary, entered into an agreement to purchase $200,000,000 of tax increment revenue bonds issued by the Denver Urban Renewal Authority (DURA) from a trust if they are not repurchased or remarketed between June 1, 2007 and June 1, 2009 (see the Other Structured Financing Arrangements section of Note E). Stapleton Land, LLC will receive a fee upon removal of the DURA bonds from the trust. This purchase obligation and related fee have been accounted for as a derivative with changes in fair value recorded through earnings. The fair value at April 30 and January 31, 2008 of approximately $24,278,000 and $23,108,000, respectively, is recorded in other assets in the Consolidated Balance Sheets.

Table of Contents

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

A. Accounting Policies (continued)

The Company estimates the fair value of its hedging instruments based on interest rate market pricing models. At April 30 and January 31, 2008, interest rate caps and swaptions were reported at fair value of approximately $4,515,000 and $209,000, respectively, in other assets in the Consolidated Balance Sheets. At April 30 and January 31, 2008, interest rate swap agreements, which had a positive fair value of approximately $3,027,000 and $3,019,000, respectively, were included in other assets in the Consolidated Balance Sheets. At April 30 and January 31, 2008, interest rate swap agreements, which had a negative fair value of approximately $98,813,000 and $109,232,000, respectively, (which includes the forward swaps) were included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

Variable Interest Entities

As of April 30, 2008, the Company determined that it is the primary beneficiary under Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities (FIN No. 46 (R)) of 32 VIEs representing 20 properties (19 VIEs representing 9 properties in Residential Group, 11 VIEs representing 9 properties in Commercial Group, and 2 VIEs/properties in Land Development Group). As of April 30, 2008, the Company held variable interests in 43 VIEs for which it is not the primary beneficiary. As of April 30, 2008, 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 $89,000,000. The Company s VIEs consist of joint ventures that are engaged, directly or indirectly, in the ownership, development and management of office buildings, regional malls, specialty retail centers, apartment communities, military housing, supported-living communities, land development and the Nets.

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 D - Senior and Subordinated Debt) as of April 30, 2008.

New Accounting Standards

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1), which requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. FSP APB 14-1 requires the initial debt proceeds from the sale of a company s convertible debt instrument to be allocated between a liability component and an equity component. The resulting debt discount will be amortized over the debt instrument s expected life as additional interest expense. As a result, a lower net income could be reflected as interest expense would include both the current period s amortization of the debt discount and the instrument s coupon interest. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years, with retrospective application required. This statement will change the accounting treatment for the Company s 3.625% Puttable Equity-Linked Senior Notes due October 2011, which were issued in October 2006. The impact of this new accounting treatment could be significant to the Company s results of operations and result in an increase to non-cash interest expense beginning in fiscal year 2009 for financial statements covering past and future periods. The Company is currently assessing the impact FSP APB 14-1 will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162), which is intended to improve financing reporting by identifying a consistent framework or hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission s (SEC) approval of the Public Company Accounting Oversight Board amendment to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company does not expect adoption of SFAS No. 162 to have a material impact on its consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets . This FSP allows the Company to use its historical experience in renewing or extending the useful life of intangible assets. This FSP is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and shall be applied prospectively to intangible assets acquired after the effective date. The Company does not expect the application of this FSP to have a material impact on its consolidated financial statements.

Table of Contents

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

A. Accounting Policies (continued)

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of how derivative instruments and hedging activities affect an entity s financial position, financial performance and cash flows. These disclosure requirements include a tabular summary of the fair values of derivative instruments and their gains and losses, disclosure of derivative features that are credit risk related to provide more information regarding an entity s liquidity and cross-referencing within footnotes to make it easier for financial statement users to locate important information about derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. The Company is currently assessing the impact SFAS No. 161 will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) provides greater consistency in the accounting and financial reporting of business combinations. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed and requires the acquirer to disclose the nature and financial effect of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact SFAS No. 141(R) will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51 (SFAS No. 160). A non-controlling interest, sometimes called minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require: (i) the ownership interest in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent s equity; (ii) the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of operations; (iii) changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently and requires that they be accounted for similarly, as equity transactions; (iv) when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value, the gain or loss on the deconsolidation of the subsidiary is measured using fair value of any non-controlling equity investments rather than the carrying amount of that retained investment; and (v) entities provide sufficient disclosures that clearly identify and distinguish between the interest of the parent and the interest of the non-controlling owners. This statement is effective for fiscal years, and interim reporting periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently assessing the impact SFAS No. 160 will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about the use of fair value measurements. SFAS No. 157 does not require new fair value measurements, but applies to accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued two Staff Positions on SFAS No. 157: (1) FSP No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP FAS 157-1) and (2) FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2). FSP FAS 157-1 excludes SFAS No. 13, Accounting for Leases (SFAS No. 13), and other accounting pronouncements that address fair value measurements for purposes of lease

classification or measurement under SFAS No. 13 from SFAS No. 157 s scope. FSP FAS 157-2 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company partially adopted this statement for its financial assets and liabilities on February 1, 2008 (see Note F - Fair Value Measurements).

Table of Contents

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

B. Investments in and Advances to Affiliates

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

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

	April 30, 2008	January 31, 2008
	(in thousands)	
Members and partners equity, as below	**$ 608,445**	$ 741,871
Equity of other members and partners	**477,235**	553,842
Company s investment in partnerships	**131,210**	188,029
Advances to and on behalf of other affiliates	**233,857**	307,799
Total Investments in and Advances to Affiliates	**$ 365,067**	$ 495,828

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

	(Combined 100%)	
	April 30, 2008	January 31, 2008
	(in thousands)	
Balance Sheet:		
Completed rental properties	**$3,029,984**	$2,989,525
Projects under development	**1,352,943**	1,271,998
Land held for development or sale	**281,395**	265,943
Accumulated depreciation	**(619,452)**	(606,961)
Restricted cash - military housing bond funds	**948,816**	1,029,503
Other restricted cash	**544,055**	574,638
Other assets	**425,737**	409,973
Total Assets	**$5,963,478**	$5,934,619
Mortgage debt, nonrecourse	**$4,526,885**	$4,486,786
Other liabilities	**828,148**	705,962
Members and partners equity	**608,445**	741,871
Total Liabilities and Members /Partners Equity	**$5,963,478**	$5,934,619

Table of Contents

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

B. Investments in and Advances to Affiliates (continued)

	(Combined 100%) Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Operations:		
Revenues	**$ 240,838**	$ 216,949
Operating expenses	**(168,886)**	(154,568)
Interest expense	**(59,533)**	(53,925)
Depreciation and amortization	**(48,235)**	(37,677)
Interest and other income	**17,364**	19,187
Loss from continuing operations	**(18,452)**	(10,034)
Discontinued operations:		
Gain on disposition of rental properties [1]	**3,070**	4,212
Operating earnings (loss) from rental properties	**(18)**	699
Discontinued operations subtotal	**3,052**	4,911
Net loss (pre-tax)	**$ (15,400)**	$ (5,123)
Company s portion of net (loss) earnings (pre-tax)	**$ (9,647)**	$ 1,361

(1) 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,	
	2008	2007
One International Place (Office Building) (Cleveland, Ohio)	**$ 3,070**	$ -
	-	4,212

White Acres (Apartments) (Richmond Heights, Ohio)		
Total gain on disposition of equity method rental properties	**$ 3,070**	$ 4,212
Company s portion of gain on disposition of equity method rental properties	**881**	2,106

Included in the amounts above are the following amounts for the three months ended April 30, 2008 and 2007 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,	
	2008	2007
	(in thousands)	
Operations:		
Revenues and interest income	**$ 48,216**	$ 42,358
Operating expenses	**(50,471)**	(48,017)
Interest expense	**(1,857)**	(2,676)
Depreciation and amortization	**(20,214)**	(20,528)
Net loss (pre-tax)	**$ (24,326)**	$ (28,863)
Company s portion of net loss (pre-tax)	**$ (12,827)**	$ (2,670)

Table of Contents

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

C. Bank Revolving Credit Facility

At April 30 and January 31, 2008, the Company s bank revolving credit facility, as amended, provides for maximum borrowings of $750,000,000 and matures in March 2010. The facility bears interest at the Company s option at either (1) a LIBOR-based rate plus 1.45% (4.39% and 4.89% at April 30 and January 31, 2008, respectively), or (2) a Prime-based rate plus .50%. The Company has historically elected the LIBOR-based rate option. Of the available borrowings, up to $100,000,000 may be used for letters of credit or surety bonds. The credit facility also contains certain financial covenants, including maintenance of certain debt service and cash flow coverage ratios, specified levels of net worth (as defined in the credit facility) and a dividend and stock repurchase limitation of $40,000,000 per annual period.

Outstanding balances on the bank revolving credit facility at April 30 and January 31, 2008 were as follows (in thousands):

	April 30, 2008	January 31, 2008
Outstanding balances:		
Borrowings	**$ 32,000**	$ 39,000
Letters of credit	**$ 82,312**	$ 71,802
Surety bonds	**$ -**	$ -

D. Senior and Subordinated Debt

The Company s Senior and Subordinated Debt is comprised of the following at both April 30 and January 31, 2008 (in thousands):

Senior Notes:	
3.625% Puttable Equity-Linked Senior Notes due 2011	**$ 287,500**
Other Senior Notes:	
7.625% Senior Notes due 2015	**300,000**
6.500% Senior Notes due 2017	**150,000**
7.375% Senior Notes due 2034	**100,000**
Total Senior Notes	**837,500**
Subordinated Debt:	
Redevelopment Bonds due 2010	**20,400**
Subordinate Tax Revenue Bonds due 2013	**29,000**
Total Subordinated Debt	**49,400**
Total Senior and Subordinated Debt	**$ 886,900**

Puttable Equity-Linked Senior Notes

On October 10, 2006, the Company issued $287,500,000 of 3.625% puttable equity-linked senior notes due October 15, 2011 in a private placement. The proceeds from this offering (net of $25,000,000 of offering costs, underwriting fees and the cost of the puttable note hedge and warrant transactions described below) were used to repurchase $24,962,000 of the Company s Class A common stock, to repay the outstanding balance of $190,000,000 under the bank revolving credit facility (see Note C Bank Revolving Credit Facility) and for general working capital purposes. The notes were issued at par and accrued interest is payable semi-annually in arrears on April 15 and October 15 of each year, which began on April 15, 2007. The Company may not redeem these notes prior to maturity. The notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness.

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

D. Senior and Subordinated Debt (continued)

Holders may put their notes to the Company at their option on any day prior to the close of business on the scheduled trading day immediately preceding July 15, 2011 only under the following circumstances: (1) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price per note for each day of that measurement period was less than 98% of the product of the last reported sale price of the Company s Class A common stock and the put value rate (as defined) on each such day; (2) during any fiscal quarter after the fiscal quarter ending January 31, 2007, if the last reported sale price of the Company s Class A common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the applicable put value price in effect on the last trading day of the immediately preceding fiscal quarter; or (3) upon the occurrence of specified corporate events as set forth in the applicable indenture. On and after July 15, 2011 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may put their notes to the Company at any time, regardless of the foregoing circumstances. In addition, upon a designated event, as defined, the holders may require the Company to purchase for cash all or a portion of their notes for 100% of the principal amount of the notes plus accrued and unpaid interest, if any, as set forth in the applicable indenture.

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

The Company entered into a registration rights agreement that required a shelf registration statement to be filed within 90 days and declared effective under the Securities Act of 1933, as amended (Securities Act) within 180 days after October 10, 2006. The Company filed a shelf registration statement under the Securities Act for the resale of the notes and the Class A common stock issuable upon the Company s exercise of the net share settlement option on January 4, 2007 and it was immediately effective due to the Company s status as a Well-Known Seasoned Issuer. The Company will use its best efforts to keep the shelf registration statement effective until the earliest of: (1) the date all of the registrable securities have been sold pursuant to the shelf registration statement; (2) the expiration of the holding period under Rule 144(k) under the Securities Act, or any successor provision; or (3) two years from the date the shelf registration statement is declared effective. The Company refers to each of the following as an effective failure: (1) the shelf registration statement ceases to be effective, or (2) the Company suspends the use of the prospectus or the holders are otherwise prevented or restricted by the Company from effecting sales pursuant to the shelf registration statement, and either continues for more than 30 days, whether or not consecutive, in any 90-day period, or for more than 90 days, whether or not consecutive, during any 12-month period.

Upon the occurrence of an effective failure, the Company will be required to pay additional amounts, in cash, to holders of the notes. Such additional amounts will accrue on the notes that are registrable securities, from and including the day following the effective failure, to but excluding, the earlier of the time such holders are again able to make resales under the shelf registration statement and the date the shelf registration statement is no longer required to be kept effective. Additional amounts will be paid semiannually in arrears on each April 15 and October 15 and will accrue at a rate per annum equal to 0.25% for the first 90 days after the occurrence of the event and 0.50% after the first 90 days. In no event will additional amounts exceed 0.50% per annum. At April 30, 2008, the maximum potential additional amounts that could be required to be paid by the Company is approximately $796,000 for the remaining period in which the shelf registration is required to be effective. At April 30, 2008, in accordance with FASB Statement No. 5, Accounting for Contingencies, the Company has concluded that it is not probable it will be required to pay additional amounts as a result of an effective failure.

Concurrent with the issuance of the notes, the Company purchased a call option on its Class A common stock in a private transaction. The purchased call option allows the Company to receive shares of its Class A common stock and/or cash from counterparties equal to the amounts of Class A common stock and/or cash related to the excess put value that it would pay to the holders of the notes if put to the Company. These purchased call options will terminate upon the earlier of the maturity dates of the notes or the first day all of the notes are no longer outstanding due to a put or otherwise. The purchased call options, which cost an aggregate $45,885,000 ($28,155,000 net of the related tax benefit), were recorded net of tax as a reduction of shareholders equity through additional paid-in capital during the year ended January 31, 2007. In a separate transaction, the Company sold warrants to issue shares of the Company s Class A common stock at an exercise price of $74.35 per share in a private transaction. If the average price of the Company s Class A common stock during a defined period ending on or about the respective settlement dates exceeds the exercise price of the warrants, the warrants will be settled in shares of the Company s Class A common stock. Proceeds received from the issuance of the warrants totaled approximately $28,923,000 and were recorded as an addition to shareholders equity through additional paid-in capital during the year ended January 31, 2007.

Table of Contents

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

D. Senior and Subordinated Debt (continued)

Other 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, such securities would represent the sole net assets of the trusts.

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. 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.

On January 25, 2005, the Company issued $150,000,000 of 6.500% senior notes due February 1, 2017 in a public offering under its shelf registration statement. Accrued interest is payable semi-annually on February 1 and August 1. 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.

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. 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.

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

Subordinated Debt

In 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 the SIFMA rate 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.

In May 2003, the Company purchased $29,000,000 of subordinate tax revenue bonds that were contemporaneously transferred to a custodian, which in turn issued custodial receipts that represent ownership in the bonds to unrelated third parties. The bonds bear a fixed interest rate of 7.875%. The Company evaluated the transfer pursuant to the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140), and determined that the transfer did not qualify for sale accounting treatment principally because the Company guaranteed the payment of principal and interest in the unlikely event that there is insufficient tax revenue to support the bonds when the custodial receipts are subject to mandatory tender on December 1, 2013. As such, the Company is the primary beneficiary of this VIE and the book value (which approximated amortized costs) of the bonds was recorded as a collateralized borrowing reported as senior and subordinated debt and as held-to-maturity securities reported as other assets in the Consolidated Balance Sheets.

Table of Contents

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

E. Financing Arrangements

Collateralized Borrowings

On July 13, 2005, the Park Creek Metropolitan District (the District) issued $65,000,000 Senior Subordinate Limited Property Tax Supported Revenue Refunding and Improvement Bonds (Senior Subordinate Bonds), Series 2005. On July 13, 2005, Stapleton Land II, LLC, a consolidated subsidiary, entered into an agreement whereby it will receive a 1% fee on the Senior Subordinate Bonds in exchange for providing certain credit enhancement. In connection with this transaction, Stapleton Land II, LLC provided a combination of cash and notes receivable aggregating approximately $10,000,000 as collateral. During the year ended January 31, 2008, the cash component was replaced as collateral by certain notes receivable owned by the Company. For the three months ended April 30, 2008 and 2007, the Company recorded $160,000 and $231,000 of interest income related to this arrangement in the Consolidated Statements of Operations, respectively. 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 Senior Subordinate 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, 2008, 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, a consolidated subsidiary, entered into a Forward Delivery Placement Agreement (FDA) 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, 2008, the District had withdrawn a total of $58,000,000 of funds from the trustee for reimbursement of certain Qualifying Expenditures, of which $14,000,000 was withdrawn during the three months ended April 30, 2008. Therefore, a corresponding amount of the Junior Subordinated Bonds became Converted Bonds and were acquired by Stapleton Land, LLC under the terms of the FDA. Stapleton Land, LLC immediately transferred the Converted Bonds to investment banks and the Company simultaneously entered into TRS with a notional amount of $58,000,000. The Company receives a fixed rate of 8.5% and pays SIFMA plus a spread on the TRS related to the Converted Bonds. The Company determined the sale of the Converted Bonds to the investment banks and simultaneous execution of the TRS did not surrender control; therefore, the Converted Bonds have been recorded as a secured borrowing in the Consolidated Balance Sheets. The Company has classified the Converted Bonds as available for sale, with unrealized holding gains and losses recorded in accumulated OCI. The fair value of the Converted Bonds was $58,000,000 and $44,000,000, respectively, at April 30, 2008 and January 31, 2008. For the three months ended April 30, 2008 and 2007, the Company recorded net interest income of $838,000 and $214,000, respectively, related to the TRS in the Consolidated Statements of Operations.

Other Structured 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 SIFMA index plus 40 basis points, less all fees and expenses due to the third party (collectively, the Fee). As of April 30, 2008, the DURA bonds have not been repurchased or remarketed.

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

E. Financing Arrangements (continued)

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 $24,278,000 and $23,108,000 at April 30, 2008 and January 31, 2008, respectively, is recorded in other assets in the Consolidated Balance Sheets. For the three months ended April 30, 2008 and 2007, the Company recorded interest income of $1,170,000 and $2,006,000, respectively, related to the Fee in the Consolidated Statements of Operations.

Stapleton Land, LLC has committed to fund $24,500,000 to the District to be used for certain infrastructure projects and has funded $13,788,000 of this commitment as of April 30, 2008.

F. Fair Value Measurements

The Company adopted SFAS No. 157 on February 1, 2008 for its financial assets and liabilities. The Company determined the financial assets and liabilities subject to SFAS No. 157 were interest rate caps and swaptions, interest rate swap agreements (including forward swaps), TRS, borrowings subject to TRS, and the DURA purchase obligation and related fee (see page 10).

Fair Value Hierarchy

SFAS No. 157 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (also referred to as observable inputs). In accordance with SFAS No. 157, the following summarizes the fair value hierarchy:

Level 1 Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant observable inputs are available, either directly or indirectly such as interest rates and yield curves that are observable at commonly quoted intervals; and

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Measurement of Fair Value

The Company estimates the fair value of its hedging instruments, which includes the interest rate caps and swaptions, and interest rate swap agreements (including forward swaps), based on interest rate market pricing models. Although the Company has determined that the significant inputs used to value its hedging instruments fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company s counterparties and its own credit risk utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of April 30, 2008, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its hedging instruments positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its hedging instruments. As a result, the

Company has determined that its hedging instruments valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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

F. Fair Value Measurements (continued)

The Company s TRS have termination values equal to the difference between the fair value of the underlying bonds and the bonds base (acquired) price times the stated par amount of the bonds. Upon termination of the contract with the counterparty, the Company is entitled to receive the termination value if the underlying fair value of the bonds is greater than the base price and is obligated to pay the termination value if the underlying fair value of the bonds is less than the base price. The underlying borrowings generally have call features at par and without prepayment penalties. The call features of the underlying borrowings would result in a significant discount factor to any value attributed to the exchange of cash flows in these contracts by another market participant willing to purchase the Company s positions. Therefore, the Company believes the termination value of the TRS approximates the fair value another market participant would assign to these contracts. The Company compares estimates of fair value to those provided by the respective counterparties on a quarterly basis. The Company has determined its fair value estimate of TRS is classified in Level 3 of the fair value hierarchy.

To determine the fair value of the underlying borrowings subject to TRS, the base price is initially used as the estimate of fair value. The Company adjusts the fair value based upon observable and unobservable measures such as the financial performance of the underlying collateral; interest rate risk spreads for similar transactions and loan to value ratios. In the absence of such evidence, management s best estimate is used. The Company compares estimates of fair value to those provided by the respective counterparties on a quarterly basis. The Company has determined its fair value estimate of borrowings subject to TRS is classified in Level 3 of the fair value hierarchy.

To determine the fair value of the DURA purchase obligation and related fee, the Company uses observable and unobservable measures such as the underlying tax revenue to support future bonding capacity of DURA, credit spreads, movements in variable interest rates, the period remaining before the remarketing date, and management s estimates of the likelihood of remarketing the underlying bonds. Additionally, the Company compares its estimate of fair value to an independent calculation by the counterparty. The Company has determined its fair value estimate of the DURA purchase obligation and related fee is classified in Level 3 of the fair value hierarchy.

Items Measured at Fair Value on a Recurring Basis

The Company s financial assets consists of interest rate caps and swaptions, interest rate swap agreements with a positive fair value, TRS with a positive fair value, and the DURA purchase obligation and related fee and are included in other assets. The Company s financial liabilities consists of interest rate swap agreements with a negative fair value (which includes the forward swaps) and TRS with a negative fair value included in accounts payable and accrued expenses and borrowings subject to TRS included in mortgage debt, nonrecourse. The following table presents information about the Company s financial assets and liabilities that were measured at fair value on a recurring basis as of April 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

	Fair Value Measurements at April 30, 2008			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Interest rate caps and swaptions	$ -	$ 4,515	$ -	$ 4,515
Interest rate swap agreements (positive fair value)	-	3,027	-	3,027
TRS (positive fair value)	-	-	1,542	1,542
DURA purchase obligation and related fee	-	-	24,278	24,278
Interest rate swap agreements (negative fair value)	-	(98,813)	-	(98,813)
TRS (negative fair value)	-	-	(10,472)	(10,472)
Fair value adjustment to the borrowings subject to TRS	-	-	4,983	4,983

Total	$ -	$ (91,271)	$ 20,331	$ (70,940)

20

Table of Contents

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

F. Fair Value Measurements (continued)

The table below presents a reconciliation of all financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended April 30, 2008.

	Fair Value Measurements Three Months ended April 30, 2008 *(in thousands)*			
	Net TRS	Fair value adjustment to the borrowings subject to TRS	Total TRS Related	DURA purchase obligation and related fee
Balance, February 1, 2008	$ (2,866)	$ (934)	$ (3,800)	$ 23,108
Total realized and unrealized gains (losses):				
Included in earnings	(6,064)	5,917	(147)	1,170
Included in other comprehensive income	-	-	-	-
Purchases, issuances and settlements	-	-	-	-
Balance, April 30, 2008	$ (8,930)	$ 4,983	$ (3,947)	$ 24,278

G. Stock-Based Compensation

During the three months ended April 30, 2008, the Company granted 26,594 stock options and 24,289 shares of restricted stock under the Company s 1994 Stock Plan. The stock options had a total grant-date fair value of $250,000, or $9.40 per option, which was computed using the Black-Scholes option-pricing model with the following assumptions: expected term of 5.5 years, expected volatility of 22.5%, risk-free interest rate of 2.69%, and expected dividend yield of .54%. The exercise price of the options is $37.68, which was the closing price of the underlying stock on the date of grant. The restricted stock had a total grant-date fair value of $924,360, or $38.06 weighted average fair value per share, which was valued at the closing price of the stock on the respective grant dates.

At April 30, 2008, there was $17,370,000 of unrecognized compensation cost related to unvested stock options that is expected to be recognized over a weighted-average period of 2.43 years, and there was $19,214,000 of unrecognized compensation cost related to unvested restricted stock that is expected to be recognized over a weighted-average period of 3.18 years.

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

	Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Stock option costs	**$ 2,576**	$ 4,215
Restricted stock costs	**1,893**	1,697

Total stock-based compensation costs		**4,469**		5,912
Less amount capitalized into qualifying real estate projects		**(1,732)**		(1,687)
Amount charged to operating expenses		**2,737**		4,225
Depreciation expense on capitalized stock-based compensation		**61**		20
Total stock-based compensation expense	**$**	**2,798**	$	4,245
Deferred income tax benefit	**$**	**921**	$	1,450

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

G. Stock-Based Compensation (continued)

SFAS No. 123(R) Share-Based Payment requires the immediate recognition of stock-based compensation costs for awards granted to retirement-eligible grantees. The amount of grant-date fair value expensed immediately for awards granted to retirement-eligible grantees during the three months ended April 30, 2008 and 2007 was $974,000 and $2,152,000, respectively.

In connection with the vesting of restricted stock during the three months ended April 30, 2008 and 2007, the Company repurchased into treasury 16,893 shares and 50,186 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 $642,000 and $3,138,000, respectively.

H. Income Taxes

Income tax benefit for the three months ended April 30, 2008 and 2007 was $(19,579,000) and $(14,040,000), respectively. The difference in the income tax benefit reflected in the Consolidated Statements of Operations versus the income tax benefit computed at the statutory federal income tax rate is primarily attributable to state income taxes, additional general business credits, changes to the Company s charitable contribution and state NOL valuation allowances based upon management s assessment of the Company s ability to utilize such deferred tax assets, and various permanent differences between pre-tax GAAP income and taxable income.

The Company applies an estimated annual income tax rate to its year-to-date earnings from operations to derive its tax provision each quarter. Certain circumstances may arise which makes it difficult for the Company to determine a reasonable estimate of its effective tax rate for the year. FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods (FIN No. 18) provides that if a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. The Company s current projected operating results coupled with permanent items results in an effective tax rate that changes significantly with small variations in projected income or loss from operations. With the recent difficulties in the lending and capital markets and uncertainties in the housing markets, variations in the current projected operating results are probable which would significantly impact the estimated annual income tax rate. Therefore, for the three months ended April 30, 2008, the Company has determined that a reliable estimate cannot be made, and that the actual effective tax rate for the year-to-date period is its best estimate of the annual effective tax rate.

At January 31, 2008, the Company had a net operating loss carryforward for tax purposes of $64,589,000 (generated primarily from the impact on the Company s net earnings of tax depreciation expense from real estate properties and excess deductions from stock-based compensation) that will expire in the years ending January 31, 2024 through January 31, 2028, a charitable contribution deduction carryforward of $40,676,000 that will expire in the years ending January 31, 2009 through January 31, 2013 ($7,111,000 expiring in the year ended January 31, 2009), general business credit carryovers of $13,866,000 that will expire in the years ending January 31, 2009 through January 31, 2028 ($39,000 expiring in the year ended January 31, 2009), and an alternative minimum tax (AMT) credit carryforward of $34,894,000 that is available to be used to reduce Federal tax to the AMT amount. The Company has a full valuation allowance against the deferred tax asset associated with its charitable contributions because management believes at this time that it is more likely than not that the Company will not realize these benefits. The Company s policy is to consider a variety of tax-deferral strategies, including tax deferred exchanges, when evaluating its future tax position.

The Company applies the with-and-without methodology for recognizing excess tax benefits from the deduction of stock-based compensation. The net operating loss available for the tax return, as is noted in the paragraph above, is significantly greater than the net operating loss available for the tax provision due to excess deductions from stock-based compensation reported on the return, as well as the impact of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN No. 48) adjustments to the net operating loss. The Company has not recorded a net deferred tax asset of approximately $13,355,000 from excess stock-based compensation deductions for which a benefit has not yet been recognized.

FIN No. 48

The Company adopted the provisions of FIN No. 48 effective February 1, 2007. Unrecognized tax benefits represent those tax benefits related to tax positions that have been taken or are expected to be taken in tax returns that are not recognized in the financial statements because management has either concluded that it is not more likely than not that the tax position will be sustained if audited by the appropriate taxing authority or the amount of the benefit will be less than the amount taken or expected to be taken in its income tax returns.

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

H. Income Taxes (continued)

The Company recognizes estimated interest payable on underpayments of income taxes and estimated penalties that may result from the settlement of some uncertain tax positions as components of income tax expense. As of April 30 and January 31, 2008, the Company had approximately $929,000 and $840,000, respectively, of accrued interest and penalties related to uncertain income tax positions. During the three months ended April 30, 2008 and 2007, $89,000 and $331,000, respectively, of tax expense was booked relating to interest and penalties.

As of April 30 and January 31, 2008, the Company had unrecognized tax benefits of $2,699,000 and $2,556,000, respectively.

The total amount of unrecognized tax benefits that would affect the Company s effective tax rate, if recognized as of April 30, 2008 and 2007, is $348,000 and $549,000, respectively. Based upon the Company s assessment of the outcome of examinations that are in progress, the settlement of liabilities, or as a result of the expiration of the statutes of limitation for certain jurisdictions, it is reasonably possible that the related unrecognized tax benefits for tax positions taken regarding previously filed tax returns will materially change from those recorded at April 30, 2008. Included in the $2,699,000 of unrecognized benefits noted above, is $2,583,000 which, due to the reasons above, could significantly decrease during the next twelve months.

I. 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 Operations for the three months ended April 30, 2008 and 2007. 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. *Sterling Glen of Lynbrook*, a supported-living apartment community in Lynbrook, New York, was held for sale at April 30 and January 31, 2008. *Sterling Glen of Lynbrook s* assets and liabilities as of April 30 and January 31, 2008 are presented in the table below.

	April 30, 2008	January 31, 2008
	(in thousands)	
Assets		
Real estate	**$ 29,858**	$ 29,858
Notes and accounts receivable, net	**83**	179
Other assets	**1,676**	1,635
Total Assets	**$ 31,617**	$ 31,672
Liabilities		
Mortgage debt, nonrecourse	**$ 27,700**	$ 27,700
Accounts payable and accrued expenses	**870**	798
Total Liabilities	**$ 28,570**	$ 28,498

Table of Contents

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

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

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

Property	Location	Number of Units	Period Disposed	Three Months Ended 4/30/2008	4/30/2007
Residential Group:					
Sterling Glen of Lynbrook	Lynbrook, New York	130 units	Q2-2008	Yes	Yes
Sterling Glen of Bayshore	Bayshore, New York	85 units	Q2-2007	-	Yes
Sterling Glen of Center City	Philadelphia, Pennsylvania	135 units	Q2-2007	-	Yes
Sterling Glen of Darien	Darien, Connecticut	80 units	Q2-2007	-	Yes
Sterling Glen of Forest Hills	Forest Hills, New York	83 units	Q2-2007	-	Yes
Sterling Glen of Plainview	Plainview, New York	79 units	Q2-2007	-	Yes
Sterling Glen of Stamford	Stamford, Connecticut	166 units	Q2-2007	-	Yes

During the year ended January 31, 2008, the Company consummated an agreement to sell eight (seven operating properties and one property that was under construction at the time of the agreement) and lease four supported-living apartment properties to a third party. Pursuant to the agreement, during the second quarter of 2007, six operating properties listed in the table above and the property under construction, *Sterling Glen of Roslyn* located in Roslyn, New York, were sold. The seventh operating property, *Sterling Glen of Lynbrook*, was being operated by the purchaser under a short-term lease through the date of sale. On May 20, 2008, the Company sold this property for $39,000,000.

Pursuant to the agreement, the four remaining properties entered into long-term operating leases with the purchaser. The operating leases have stated terms of five or ten years with various put and call provisions at a pre-determined purchase price that can be exercised beginning in the second year of each lease at an amount that is in excess of the current carrying amount of the properties. The Company is generally entitled to a fixed lease payment from the lessee over the term of the lease in exchange for the operations of the properties, which will be retained by the lessee. The Company has continued to consolidate the leased properties in its Consolidated Balance Sheets as the criteria for sales accounting pursuant to the provisions of SFAS No. 66, Accounting for Sales of Real Estate (SFAS No. 66), have not been achieved. Further, the Company has concluded that the leased properties have met the criteria as VIEs pursuant to FIN No. 46(R), and due to the Company s obligation to absorb a majority of expected losses, the leased properties are consolidated by the Company at April 30, 2008. These properties do not meet the qualifications of assets held for sale under SFAS No. 144 as of April 30, 2008; therefore, these properties have not been included in discontinued operations.

The operating results related to discontinued operations were as follows:

	Three Months Ended April 30, 2008	2007
	(in thousands)	
Revenues	**$ 544**	$ 12,202
Expenses		

Operating expenses	**211**	8,847
Depreciation and amortization	**5**	1,013
	216	9,860
Interest expense	**(192)**	(1,608)
Amortization of mortgage procurement costs	**(11)**	(35)
Interest income	**4**	97
Earnings before income taxes	**129**	796
Income tax expense (benefit)		
Current	**(64)**	58
Deferred	**114**	250
	50	308
Net earnings from discontinued operations	**$ 79**	$ 488

24

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

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

Gain on Disposition of Rental Properties

Investments accounted for on the equity method are not subject to the provisions of SFAS No. 144, and therefore the gains or losses on the sales of equity method properties are reported in continuing operations when sold. The following table summarizes the Company s proportionate share of the gain on equity method investments disposed of during the three months ended April 30, 2008 and 2007, which is included in equity in earnings of unconsolidated entities in the Consolidated Statements of Operations.

		Three Months Ended April 30,	
		2008	2007
		(in thousands)	
One International Place (Office Building)	Cleveland, Ohio	**$ 881**	$ -
White Acres (Apartments) [1]	Richmond Heights, Ohio	**-**	2,106
Total		**$ 881**	$ 2,106

(1) The Company disposed of its interest in White Acres in a non-monetary exchange for the remaining outside interest in Midtown Towers, which was also an equity method investment. The Company has accounted for the non-monetary transaction based upon the fair value of the equity method investments exchanged, which resulted in the above

gain of $2,106.

Provision for Decline in Real Estate

The Company reviews its real estate portfolio, including land held for development or sale, 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 supported by current assumptions. 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 pursuant to the guidance established in SFAS No. 144. For its equity method real estate investments, a loss in value of an investment which is other than a temporary decline is recognized as a provision for decline in real estate based upon the length of time elapsed, severity of decline and all other relevant facts and circumstances.

There was no provision for decline in real estate recorded for the three months ended April 30, 2008 or 2007.

J. Dividends

The Company pays quarterly cash dividends on shares of Class A and Class B common stock. The quarterly dividend of $.08 per share on both Class A and Class B common stock was declared on March 26, 2008 and will be paid on June 17, 2008 to shareholders of record at the close of business on June 2, 2008.

Table of Contents

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

K. Earnings per Share

Earnings per share (EPS) has been computed under the provisions of SFAS No. 128 Earnings Per Share. Pursuant to EITF No. 03-6 Participating Securities and the Two-Class Method under FASB 128 (EITF 03-6), the Class A Common Units issued in exchange for Bruce C. Ratner s minority interests in the Forest City Ratner Company portfolio in November 2006, which are reflected as minority interest in the Company s Consolidated Balance Sheets, are considered participating securities as they are entitled to participate in any dividends paid to the Company s common stock holders. Therefore, the Class A units are included in the computation of basic and diluted earnings per share if the effect of applying the if-converted method is dilutive.

The computation of EPS for continuing operations and net earnings for the three months ended April 30, 2008 and 2007 did not allocate any amounts to the holders of the Class A Common Units, which are considered participating securities in accordance with EITF 03-6. For the three months ended April 30, 2008 and 2007, the $40,348,000 and $17,669,000, respectively, loss from continuing operations and the $40,269,000 and $17,181,000, respectively, net loss were allocated solely to the holders of common stock as the participating security holders do not share in the losses in accordance with EITF 03-6.

The reconciliation of the amounts used in the basic and diluted earnings per share computations is shown in the following table (in thousands, except share and per share amounts).

	Three Months Ended April 30,	
	2008	2007
Numerators		
Loss from continuing operations - basic and diluted	**$ (40,348)**	$ (17,669)
Net loss - basic and diluted	**$ (40,269)**	$ (17,181)
Denominators		
Weighted average shares outstanding - basic	**102,613,817**	101,990,754
Effect of stock options and restricted stock (1)	**-**	-
Effect of convertible Class A Common Units (1)	**-**	-
Weighted average shares outstanding - diluted (2)	**102,613,817**	101,990,754
Earnings Per Share		
Loss from continuing operations - basic and diluted	**$ (0.39)**	$ (0.17)
Net loss - basic and diluted	**$ (0.39)**	$ (0.17)

(1) For the three months ended April 30, 2008 and 2007, the

effect of 4,616,829 and 6,746,140 weighted average shares of dilutive securities, respectively, were not included in the computation of diluted earnings per share because their effect is anti-dilutive due to the loss from continuing operations.

(2) The Puttable Equity-Linked Senior Notes issued in October 2006 can be put to the Company by the holders under certain circumstances (see Note D Senior and Subordinated Debt). If the Company exercises its net share settlement option upon a put of the notes by the holders, it will then issue shares of its Class A common stock. The effect of these shares was not included in the computation of diluted earnings per share for the

three months ended April 30, 2008 and 2007 as the Company s average stock price did not exceed the put value price of the Puttable Equity-Linked Senior Notes. Additionally, the Company sold a warrant with an exercise price of $74.35, which has also been excluded from diluted earnings per share for the three months ended April 30, 2008 and 2007 as the Company s stock price did not exceed the exercise price.

Table of Contents

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

L. Segment Information

The Company operates through three strategic business units and five reportable segments, determined in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131). The three strategic units/reportable segments are the Commercial Group, Residential Group and Land Development Group (Real Estate Groups). The Commercial Group, the Company s 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 properties, including upscale and middle-market apartments and adaptive re-use developments. Additionally, the Residential Group develops for-sale condominium projects and also owns interests in entities that develop and manage military family housing. The Land Development Group acquires and sells both land and developed lots to residential, commercial and industrial customers. It also owns and develops land into master-planned communities and mixed-use projects. The remaining two reportable segments are the Nets, a franchise of the National Basketball Association in which the Company accounts for its investment on the equity method of accounting, and Corporate Activities. The following tables summarize financial data for the Company s five reportable segments. All amounts are presented in thousands.

	April 30, 2008	January 31, 2008	**Three Months Ended April 30, 2008**	2007
	Identifiable Assets		Expenditures for Additions to Real Estate	
Commercial Group	**$ 7,420,859**	$ 7,345,283	**$ 166,256**	$ 241,825
Residential Group	**2,588,457**	2,322,971	**69,352**	63,896
Land Development Group	**423,541**	402,452	**869**	347
The Nets	**7,706**	14,454	**-**	-
Corporate Activities	**104,149**	166,437	**58**	838
	$ 10,544,712	$ 10,251,597	**$ 236,535**	$ 306,906

	Three Months Ended April 30, 2008	2007	**Three Months Ended April 30, 2008**	2007
	Revenues from Real Estate Operations		Operating Expenses	
Commercial Group	**$ 218,619**	$ 197,434	**$ 127,627**	$ 102,549
Commercial Group Land Sales	**3,648**	5,593	**2,862**	3,266
Residential Group	**78,957**	54,605	**54,907**	36,803
Land Development Group	**6,422**	10,733	**9,530**	12,097
The Nets	**-**	-	**-**	-
Corporate Activities	**-**	-	**12,750**	13,877

	$ 307,646	$ 268,365	**$ 207,676**	$ 168,592

	Three Months Ended April 30,		**Three Months Ended April 30,**		**Three Months Ended April 30,**	
	2008	2007	**2008**	2007	**2008**	2007
	Depreciation and Amortization		Interest Expense		Interest and Other Income	
Commercial Group	**$ 50,749**	$ 45,589	**$ 58,745**	$ 47,369	**$ 1,783**	$ 1,938
Residential Group	**14,925**	13,463	**10,211**	13,282	**3,590**	3,844
Land Development Group	**191**	178	**75**	2,306	**2,836**	5,010
The Nets	**-**	-	**-**	-	**-**	-
Corporate Activities	**754**	557	**14,340**	13,842	**192**	607
	$ 66,619	$ 59,787	**$ 83,371**	$ 76,799	**$ 8,401**	$ 11,399

The Company uses a measure defined as Earnings Before Depreciation, Amortization and Deferred Taxes (EBDT) to report its operating results. EBDT is a non-GAAP measure and is defined as net earnings excluding the following items: i) gain (loss) on disposition of rental properties, divisions and other investments (net of tax); ii) the adjustment to recognize rental revenues and rental expense using the straight-line method; iii) non-cash charges for real estate depreciation, amortization, amortization of mortgage procurement costs and deferred income taxes; iv) preferred payment which is classified as minority interest expense in the Company s Consolidated Statements of Operations; v) provision for decline in real estate (net of tax); vi) extraordinary items (net of tax); and vii) cumulative effect of change in accounting principle (net of tax).

Table of Contents

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

L. 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, the chief operating decision maker, uses EBDT, as presented, to assess performance of its portfolio of real estate assets by operating segment because it provides information on the financial performance of the core real estate portfolio operations. EBDT measures the profitability of a real estate segment s operations of collecting rent, paying operating expenses and servicing its debt. The Company s segments adhere to the accounting policies described in Note A. Unlike the real estate segments, EBDT for the Nets segment equals net earnings.

Reconciliation of EBDT to Net Earnings by Segment:

	Commercial	Residential	Land Development	The		
hree Months Ended April 30, 2008	**Group**	**Group**	**Group**	**Nets**	**Corporate**	**Total**
BDT	**$ 33,031**	**$ 17,227**	**$ (686)**	**$ (8,960)**	**$ (24,658)**	**$ 15,95**
epreciation and amortization - Real Estate Groups	**(52,088)**	**(18,597)**	**(75)**	**-**	**-**	**(70,76**
mortization of mortgage procurement costs - Real Estate Groups	**(2,482)**	**(727)**	**(123)**	**-**	**-**	**(3,33**
eferred taxes - Real Estate Groups	**5,531**	**3,890**	**291**	**-**	**5,443**	**15,15**
traight-line rent adjustment	**3,144**	**4**	**(1)**	**-**	**-**	**3,14**
reference payment (1)	**(936)**	**-**	**-**	**-**	**-**	**(93**
ain on disposition of other investments, net of tax	**-**	**-**	**-**	**-**	**92**	**9**
ain on disposition of equity method rental properties, net of tax	**541**	**-**	**-**	**-**	**-**	**54**
iscontinued operations, net of tax: (2)						
epreciation and amortization - Real Estate Groups	**-**	**(5)**	**-**	**-**	**-**	**(**
mortization of mortgage procurement costs - Real Estate Groups	**-**	**(11)**	**-**	**-**	**-**	**(1**
eferred taxes - Real Estate Groups	**-**	**(114)**	**-**	**-**	**-**	**(11**
et earnings (loss)	**$ (13,259)**	**$ 1,667**	**$ (594)**	**$ (8,960)**	**$ (19,123)**	**$ (40,26**
ree Months Ended April 30, 2007						
BDT	$ 44,801	$ 12,490	$ (2,697)	$ (2,050)	$ (18,015)	$ 34,5
epreciation and amortization - Real Estate Groups	(46,426)	(16,956)	(114)	-	-	(63,4
nortization of mortgage procurement costs - Real Estate Groups	(2,026)	(717)	(141)	-	-	(2,8
eferred taxes - Real Estate Groups	470	4,608	3,185	-	3,161	11,4
raight-line rent adjustment	4,147	4	(1)	-	-	4,1
eference payment (1)	(898)	-	-	-	-	(8
ain on disposition of equity method rental properties, net of tax	-	1,292	-	-	-	1,2
scontinued operations, net of tax: (2)						
preciation and amortization - Real Estate Groups	-	(1,013)	-	-	-	(1,0
nortization of mortgage procurement costs - Real Estate Groups	-	(35)	-	-	-	(
ferred taxes - Real Estate Groups	-	(250)	-	-	-	(2

et earnings (loss)	$ 68	$ (577)	$ 232	$ (2,050)	$ (14,854)	$ (17,18

(1) The preference payment of $936 and $898 for the three months ended April 30, 2008 and 2007, respectively, represents one quarter s share of the annual preferred payment in connection with the issuance of Class A Common Units in exchange for Bruce C. Ratner s minority interests in the Forest City Ratner Company portfolio.

(2) See Note I Discontinued Operations for more information.

Table of Contents

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

M. Subsequent Events

The Company and certain of its affiliates (the FCE Entities) entered into a Master Contribution and Sale Agreement (the Master Contribution Agreement) with Bruce C. Ratner (Mr. Ratner) and certain entities and individuals affiliated with Mr. Ratner (the BCR Entities) on August 14, 2006. Pursuant to the Master Contribution Agreement, the Company and Mr. Ratner agreed that certain projects under development would remain owned jointly until such time as each individual project was completed and achieved stabilization. As each of the development projects achieves stabilization, it is valued and the Company, in its discretion, chooses among various options for the ownership of the project following stabilization. The development projects were not covered by the Tax Protection Agreement that the parties entered into in connection with the Master Contribution Agreement. The Tax Protection Agreement indemnified the BCR Entities against taxes payable by reason of any subsequent sale of certain operating properties. Two of the development projects, *New York Times*, an office building located in Manhattan, New York and *Twelve MetroTech Center*, an office building located in Brooklyn, New York, recently achieved stabilization. The Company and Mr. Ratner have agreed to a valuation, and the Company has elected to cause certain affiliates of the Company to acquire for cash the BCR Entities interests in the two projects in agreements dated May 6, 2008 and May 12, 2008, respectively. Pursuant to the agreements, the applicable BCR Entities assigned and transferred their interests in the two projects to affiliates of the Company and will receive approximately $121,000,000, over a 15 year period, as consideration for those interests. An affiliate of the Company has also agreed to indemnify the applicable BCR Entity against taxes payable by it by reason of a subsequent sale or other disposition of one of the projects. The tax indemnity provided by the affiliate of the Company expires on December 31, 2014 and is similar to the indemnities provided for the operating properties under the Tax Protection Agreement. As was provided in the Master Contribution Agreement, the agreement also includes customary representations and warranties from the applicable BCR Entities regarding the operation of the projects. The applicable BCR Entities will indemnify the applicable FCE Entities for breaches of the representations and warranties subject to certain time limits and limitations on liability. Consistent with the Master Contribution Agreement, the applicable FCE Entities agreed to indemnify the applicable BCR Entities for losses resulting from claims made after the transfer of Mr. Ratner s interests. The total amount of consideration paid will be accounted for in accordance with SFAS No. 141, Business Combinations, and allocated according to the fair value of the underlying assets and liabilities of the stabilized properties during the quarter ended July 31, 2008.

Table of Contents

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, 2008.

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 and five reportable segments. 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 properties, including upscale and middle-market apartments and adaptive re-use developments. Additionally, the Residential Group develops for-sale condominium projects and also owns interests in entities that develop and manage military family housing. New York City operations are part of the Commercial Group or Residential Group depending on the nature of the operations. The **Land Development Group** acquires and sells both land and developed lots to residential, commercial and industrial customers. It also owns and develops land into master-planned communities and mixed-use projects.

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

We have approximately $10.5 billion of assets in 27 states and the District of Columbia at April 30, 2008. Our core markets include the New York City/Philadelphia metropolitan area, Denver, Boston, Greater Washington D.C./Baltimore metropolitan area, Chicago and the state of California. We have offices in Albuquerque, Boston, Chicago, Denver, London (England), Los Angeles, New York City, San Francisco, Washington, D.C., and our corporate headquarters in Cleveland, Ohio.

Overview

Significant milestones occurring during the first quarter of 2008 included:

The opening of *Orchard Town Center*, an outdoor lifestyle village located in Westminster, Colorado;

The opening of *John Hopkins 855 North Wolfe Street*, the first office building at The Science + Technology Park at Johns Hopkins in Baltimore, Maryland;

The opening of three apartment communities the 131-unit *Lucky Strike*, located in Richmond, Virginia, and the first phases of the 665-unit *Uptown Apartments*, located in Oakland, California and the 366-unit *Mercantile Place on Main* located in Dallas, Texas;

Closing on a $680,000,000 nonrecourse mortgage financing for the mixed-use *Beekman* residential project in lower Manhattan, the largest construction financing in our history; and

Closing $822,000,000 in other nonrecourse mortgage financing transactions.

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.

Table of Contents

Net Loss Net loss for the three months ended April 30, 2008 was $40,269,000 versus $17,181,000 for the three months ended April 30, 2007. Although we have substantial recurring revenue sources from our properties, we also enter into significant one-time transactions, which could create substantial variances in net earnings (loss) between periods. This variance to the prior year is primarily attributable to the following decreases, which are net of tax and minority interest:

$14,801,000 ($24,122,000, pre-tax) related to increased write-offs of abandoned development projects in 2008 compared to 2007, primarily at *Summit at Lehigh Valley*, a Commercial development project with a housing component located in Allentown, Pennsylvania, which represented $13,200,000 ($21,513,000 pre-tax) of the total increase. Due to delays in the public entitlement process to fund infrastructure and overall slowdown in retail and housing markets, we did not acquire the underlying land, which the land owner decided to sell to a third party for an alternative use. As a result, we determined it was no longer probable that the project would be completed resulting in the charge for the three months ended April 30, 2008;

$6,910,000 ($10,222,000, pre-tax) related to the increased share of losses from our equity investment in the New Jersey Nets basketball team (see The Nets section);

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

$1,803,000 ($2,939,000, pre-tax) in 2008 of additional expenses related to the early extinguishment of nonrecourse mortgage debt primarily at *Galleria at Sunset*, a regional mall located in Henderson, Nevada and at *1251 S. Michigan* and *Sky 55*, apartment communities located in Chicago, Illinois, in order to secure more favorable financing terms. These changes were offset, in part, by a gain on the early extinguishment of the Urban Development Action Grant loan at *M.K. Ferguson Plaza*, an office building located in Cleveland, Ohio;

$1,481,000 ($2,414,000, pre-tax) related to a decrease in interest income earned on financial instruments held by Stapleton Land, LLC;

$752,000 ($1,225,000, pre-tax) related to the difference in gains on disposition of equity method properties between years. The 2007 gain on the disposition of our partnership interest in *White Acres*, an apartment community located in Richmond Heights, Ohio was higher than the 2008 gain on the sale of our partnership interest in *One International Place*, an office building located in Cleveland, Ohio; and

$711,000 ($1,159,000, pre-tax) related to decreases in Commercial Group outlot land sales in 2008 primarily at *Victoria Gardens*, a regional mall located in Rancho Cucamonga, California.

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

$4,809,000 ($7,837,000, pre-tax) of expense in 2007 that did not recur in 2008 related to management s approved plan to demolish two buildings owned by us adjacent to *Ten MetroTech Center*, an office building located in Brooklyn, New York, to clear the land for a residential project named *80 DeKalb Avenue*. Due to this new development plan, the estimated useful lives of the two adjacent buildings were adjusted to expire at the scheduled demolition date in April 2007 resulting in accelerated depreciation expense; and

$3,511,000 ($6,033,000, pre-tax) primarily related to military housing fee income from the management and development of units in Hawaii, Illinois, Washington and Colorado.

Table of Contents

Summary of Segment Operating Results - The following tables present a summary of revenues from real estate operations, operating expenses, interest expense and equity in earnings (loss) of unconsolidated entities by segment for the three months ended April 30, 2008 and 2007, respectively. See discussion of these amounts by segment in the narratives following the tables.

	Three Months Ended April 30,		
	2008	2007	Variance
		(in thousands)	
Revenues from Real Estate Operations			
Commercial Group	**$ 218,619**	$ 197,434	$ 21,185
Commercial Group Land Sales	**3,648**	5,593	(1,945)
Residential Group	**78,957**	54,605	24,352
Land Development Group	**6,422**	10,733	(4,311)
The Nets	**-**	-	-
Corporate Activities	**-**	-	-
Total Revenues from Real Estate Operations	**$ 307,646**	$ 268,365	$ 39,281
Operating Expenses			
Commercial Group	**$ 127,627**	$ 102,549	$ 25,078
Cost of Commercial Group Land Sales	**2,862**	3,266	(404)
Residential Group	**54,907**	36,803	18,104
Land Development Group	**9,530**	12,097	(2,567)
The Nets	**-**	-	-
Corporate Activities	**12,750**	13,877	(1,127)
Total Operating Expenses	**$ 207,676**	$ 168,592	$ 39,084
Interest Expense			
Commercial Group	**$ 58,745**	$ 47,369	$ 11,376
Residential Group	**10,211**	13,282	(3,071)
Land Development Group	**75**	2,306	(2,231)
The Nets	**-**	-	-
Corporate Activities	**14,340**	13,842	498
Total Interest Expense	**$ 83,371**	$ 76,799	$ 6,572
Equity in Earnings (Loss) of Unconsolidated Entities			
Commercial Group	**$ 441**	$ 1,467	$ (1,026)
Gain on sale of *One International Place*	**881**	-	881
Residential Group	**2,731**	1,466	1,265
Gain on sale of *White Acres*	**-**	2,106	(2,106)
Land Development Group	**(227)**	(427)	200
The Nets	**(13,473)**	(3,251)	(10,222)
Corporate Activities	**-**	-	-

Total Equity in Earnings (Loss) of Unconsolidated Entities	**$ (9,647)**	$ 1,361	$ (11,008)

Table of Contents

Commercial Group

Revenues from Real Estate Operations Revenues from real estate operations for the Commercial Group, including the segment s land sales, increased by $19,240,000, or 9.48%, for the three months ended April 30, 2008 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $20,930,000 related to new property openings, as noted in the table below; and

Increase of $1,204,000 related to an increase in rents primarily at the following regional malls: *Short Pump Town Center* in Richmond, Virginia, *Northfield at Stapleton* in Denver, Colorado and *Simi Valley Town Center* in Simi Valley, California.

These increases were partially offset by the following decrease:

Decrease of $1,944,000 related to a decrease in commercial outlot land sales primarily at *Victoria Gardens*, located in Rancho Cucamonga, California.

The balance of the remaining decrease in revenues from real estate operations of approximately $950,000 was generally due to fluctuations in mature properties.

Operating and Interest Expenses Operating expenses increased $24,674,000, or 23.32%, for the three months ended April 30, 2008 compared to the same period in the prior year. This increase was primarily the result of:

Increase of approximately $22,907,000 related to write-offs of abandoned development projects, primarily at *Summit at Lehigh Valley*, which represented $21,513,000 of the total increase;

Increase of $5,786,000 related to new property openings, as noted in the table below; and

Increase of $1,571,000 primarily related to a participation payment on the refinancing at *Jackson Building*, an office building located in Cambridge, Massachusetts.

These increases were partially offset by the following decrease:

Decrease of $404,000 related to a decrease in commercial outlot land sales primarily at *Victoria Gardens*.

The balance of the remaining decrease in operating expenses of approximately $5,186,000 was generally due to fluctuations in mature properties and general operating activities.

Interest expense for the Commercial Group increased by $11,376,000, or 24.02%, for the three months ended April 30, 2008 compared to the same period in the prior year. The increase is primarily attributable to the openings of the properties listed in the table below.

The following table presents the increases in revenue and operating expenses incurred by the Commercial Group for newly-opened/acquired properties for the three months ended April 30, 2008 compared to the same period in the prior year (dollars in thousands):

Property	Location	Quarter/Year Opened/Acquired	Square Feet	Revenues from Real Estate Operations	Operating Expenses
Retail Centers:					
Orchard Town Center	Westminster, Colorado	Q1-2008	983,000	$ 461	$ 843
Victoria Gardens-Bass Pro	Rancho Cucamonga, California	Q2-2007	180,000	950	147
Promenade Bolingbrook	Bolingbrook, Illinois	Q1-2007	750,000	3,432	801

Office Buildings:					
Johns Hopkins - 855 North Wolfe Street	East Baltimore, Maryland	Q1-2008	278,000	30	68
New York Times	Manhattan, New York	Q3-2007	737,000	12,662	2,464
Richmond Office Park	Richmond, Virginia	Q2-2007 (1)	570,000	3,038	903
Illinois Science and Technology Park - Building Q	Skokie, Illinois	Q1-2007 (1)	158,000	343	529
Colorado Studios	Denver, Colorado	Q1-2007 (1)	75,000	14	31
Total				$ 20,930	$ 5,786

(1) Acquired property.

Total occupancy for the Commercial Group is 91.1% and 89.0% for retail and office, respectively, as of April 30, 2008 compared to 93.0% and 89.6%, respectively, as of April 30, 2007. Retail and office occupancy as of April 30, 2008 and 2007 is based on square feet leased at the end of the fiscal quarter. Average occupancy for hotels for the three months ended April 30, 2008 is 60.0% compared to 64.0% for the three months ended April 30, 2007. Total hotel average occupancy year-to-date for April 30, 2007 has been restated to exclude *University Park at MIT Hotel*, which was sold during the year ended January 31, 2008.

As of April 30, 2008, the average base rent per square foot expiring for retail and office leases is $26.66 and $30.15, respectively, compared to $25.44 and $26.74, respectively, as of April 30, 2007. Square feet of expiring leases and average base rent per square foot are operating statistics that represent 100% of the square footage and base rental income per square foot from expiring leases. The average daily rate (ADR) for our hotel portfolio is $134.45 and $130.25 for the three months ended April 30, 2008 and 2007, respectively. ADR is an operating statistic and is calculated by dividing revenue by the number of rooms sold for all hotels that were open and operating for both the three months ended April 30, 2008 and 2007.

Residential Group

Revenues from Real Estate Operations Revenues from real estate operations for the Residential Group increased by $24,352,000, or 44.6%, during the three months ended April 30, 2008 compared to the same period in the prior year. This increase was primarily the result of:

- Increase of $23,741,000 related to military housing fee income from the management and development of units located primarily on the islands of Oahu and Kauai, Hawaii; Chicago, Illinois; Seattle, Washington; and Colorado Springs, Colorado;

- Increase of $2,497,000 related to the purchase of our partners interest in *Sterling Glen of Glen Cove* in Glen Cove, New York, *Sterling Glen of Great Neck* in Great Neck, New York, *Midtown Towers* in Parma, Ohio, *Easthaven at the Village* in Beachwood, Ohio and *Village Center* in Detroit, Michigan, all of which were previously accounted for on the equity method of accounting; and

- Increase of $2,315,000 related to new property openings and acquired properties as noted in the table on page 35.

These increases were partially offset by the following decrease:

- Decrease of $5,229,000 due to the leasing of certain supported-living apartment properties (see the Discontinued Operations section of the MD&A).

The balance of the remaining increase of approximately $1,028,000 was generally due to fluctuations in other mature properties.

Operating and Interest Expenses Operating expenses for the Residential Group increased by $18,104,000, or 49.2%, during the three months ended April 30, 2008 compared to the same period in the prior year. This increase was primarily the result of:

- Increase of $19,397,000 related to management expenditures associated with military housing fee income;

- Increase of $1,355,000 related to new property openings and acquired properties as noted in the table on page 35;

- Increase of $1,214,000 in write-offs of abandoned development projects; and

- Increase of $755,000 related to the purchase of our partners interest in *Sterling Glen of Glen Cove*, *Sterling Glen of Great Neck*, *Midtown Towers*, *Easthaven at the Village* and *Village Center*, all of which were previously accounted for on the equity method of accounting.

These increases were partially offset by the following decrease:

- Decrease of $4,587,000 due to the leasing of certain supported-living apartment properties (see the Discontinued Operations section of the MD&A).

The balance of the remaining decrease of approximately $30,000 was generally due to fluctuations in mature properties and general operating activities.

Interest expense for the Residential Group decreased by $3,071,000, or 23.1%, during the three months ended April 30, 2008 compared to the same period in the prior year.

Table of Contents

The following table presents the increases (decreases) in revenues 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, 2008 compared to the same period in the prior year (dollars in thousands):

Property	Location	Quarter/Year Opened/Acquired	Number of Units	Revenues from Real Estate Operations	Operating Expenses
Lucky Strike	Richmond, Virginia	Q1-2008	131	$ 21	$ 166
Mercantile Place on Main	Dallas, Texas	Q1-2008	366	14	445
Wilson Building	Dallas, Texas	Q4-2007 (1)	143	556	245
Tobacco Row - Cameron Kinney	Richmond, Virginia	Q2-2007 (1)	259	721	349
Stapleton Town Center - Botanica Phase II	Denver, Colorado	Q2-2007	154	331	215
1251 S. Michigan	Chicago, Illinois	Q1-2006	91	70	(18)
Sky55	Chicago, Illinois	Q1-2006	411	602	(47)
Total				**$ 2,315**	**$ 1,355**

(1) Acquired property.

Total average occupancy for the Residential Group is 91.0% and 91.4% for the three months ended April 30, 2008 and 2007, respectively. Average residential occupancy for the three months ended April 30, 2008 and 2007 is calculated by dividing gross potential rent less vacancy by gross potential rent.

Net rental income (NRI) for our Residential Group was 87.9% and 89.1% for the three months ended April 30, 2008 and 2007, respectively. NRI is an operating statistic that represents the percentage of potential rent received after deducting vacancy and rent concessions from gross potential rent.

Land Development Group

Revenues from Real Estate Operations Land sales and the related gross margins vary from period to period depending on the timing of sales and general market conditions relating to the disposition of significant land holdings. We have an inventory of land that we believe is in good markets throughout the country. Our land sales have been impacted by slowing demand from home buyers in certain core markets for the land business, reflecting conditions throughout the housing industry that are anticipated to continue throughout 2008. Revenues from real estate operations for the Land Development Group decreased by $4,311,000 for the three months ended April 30, 2008 compared to the same period in the prior year. This decrease is primarily the result of:

Decrease of $1,587,000 in land sales at *Mill Creek* in York County, South Carolina;

Decrease of $1,423,000 in land sales at *Stapleton* in Denver, Colorado;

Decrease of $812,000 in unit sales at *Rockport Square* in Lakewood, Ohio; and

- Decrease $2,090,000 in land sales primarily at four major land development projects: *Tangerine Crossing* in Tucson, Arizona; *Waterbury* in North Ridgeville, Ohio; *Sunrise Development* in Cleveland, Ohio; and *Creekstone* in Copley, Ohio; combined with several smaller sales decreases at other land development projects.

These decreases were partially offset by the following increase:

- Increase of $1,601,000 in land sales primarily at one major land development project, *Summers Walk* in Davidson, North Carolina, combined with several smaller sales increases at other land development projects.

Operating and Interest Expenses Operating expenses decreased by $2,567,000 for the three months ended April 30, 2008 compared to the same period in the prior year. This decrease is primarily the result of:

- Decrease of $1,307,000 at *Mill Creek* primarily related to decreased land sales;

- Decrease of $938,000 at *Rockport Square* primarily related to decreased unit sales;

- Decrease of $555,000 at *Stapleton* primarily related to decreased land sales; and

- Decrease of $1,358,000 primarily related to decreased land sales at *Sunrise Development* and *Creekstone*, combined with several smaller expense decreases at other land development projects.

Table of Contents

These decreases were partially offset by the following increase:

Increase of $1,591,000 primarily related to increased land sales at *Summers Walk*, combined with several smaller increases at various other land development projects.

Interest expense decreased by $2,231,000 for the three months ended April 30, 2008 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.

The Nets

Our equity investment in The Nets incurred a pre-tax loss of $13,473,000 and $3,251,000 for the three months ended April 30, 2008 and 2007, respectively, representing an increase in allocated losses of $10,222,000 compared to the same period in the prior year. For the three months ended April 30, 2008 and 2007, we recognized approximately 53% and 9% of the net loss, respectively, because profits and losses are allocated to each member based on an analysis of the respective member s claim on the net book equity assuming a liquidation at book value at the end of the accounting period without regard to unrealized appreciation (if any) in the fair value of The Nets. For the three months ended April 30, 2008, we recognized a higher share of the loss than in the prior year because we advanced capital to fund anticipated future operating losses on behalf of both us and certain non-funding partners. While these capital advances receive certain preferential capital treatment, generally accepted accounting principles require us to report losses, including significant non-cash losses resulting from amortization, in excess of our legal ownership of approximately 22%.

Included in the losses for the three months ended April 30, 2008 and 2007 are approximately $11,012,000 and $2,341,000, respectively, 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.

Corporate Activities

Operating and Interest Expenses Operating expenses for Corporate Activities decreased by $1,127,000 for the three months ended April 30, 2008 compared to the same period in the prior year. The decrease was primarily related to $1,291,000 of stock-based compensation, offset with an increase in general corporate expenses.

Interest expense for Corporate Activities consists primarily of interest expense on the senior notes and the bank revolving credit facility, excluding the portion allocated to the Land Development Group (see Financial Condition and Liquidity section). Interest expense increased by $498,000 for the three months ended April 30, 2008 compared to the same period in prior year.

Other Activity

The following items are discussed on a consolidated basis.

Depreciation and Amortization

We recorded depreciation and amortization of $66,619,000 and $59,787,000 for the three months ended April 30, 2008 and 2007, respectively. Depreciation and amortization increased $6,832,000 for the three months ended April 30, 2008 compared to the same period in the prior year. Included in this increase is $13,362,000 of depreciation and amortization primarily related to new property openings and acquisitions and $1,307,000 of amortization related to capitalized software costs. This increase was partially offset by accelerated depreciation of $7,837,000 recorded during the three months ended April 30, 2007 due to management s approval to demolish two buildings adjacent to *Ten MetroTech Center*, an office building located in Brooklyn, New York, to clear the land for a residential project named *80 DeKalb Avenue*. Due to the new development plan, the estimated useful lives of the two adjacent buildings were adjusted to expire at the scheduled demolition date in April 2007.

Provision for Decline in Real Estate

We review our real estate portfolio, including land held for development or sale, 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 supported by current assumptions. 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 pursuant to the guidance established in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). For our equity method real estate investments, a loss in value of an investment which is other than a temporary decline is recognized as a provision for decline in real estate based upon the length of time elapsed, severity of decline and all

other relevant facts and circumstances.

There was no provision for decline in real estate recorded for the three months ended April 30, 2008 or 2007.

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, 2008 and 2007, we recorded amortization of mortgage procurement costs of $2,938,000 and $2,564,000, respectively. Amortization of mortgage procurement costs increased $374,000 for the three months ended April 30, 2008 compared to the same period in the prior year.

Loss on Early Extinguishment of Debt

For the three months ended April 30, 2008, we recorded $5,179,000 as loss on early extinguishment of debt, which primarily represents the impact of early extinguishment of nonrecourse mortgage debt at *Galleria at Sunset*, a regional mall located in Henderson, Nevada and *1251 S. Michigan* and *Sky 55*, apartment communities located in Chicago, Illinois, in order to secure more favorable financing terms. These charges were offset, in part, by a gain on the early extinguishment of the Urban Development Action Grant loan at *M.K. Ferguson Plaza*, an office building located in Cleveland, Ohio. For the three months ended April 30, 2007, we recorded $2,544,000 as loss on early extinguishment of debt, which represents the impact of early extinguishment of nonrecourse mortgage debt at *Columbia Park Center*, a specialty retail center located in North Bergen, New Jersey, in order to secure more favorable financing terms.

Interest and Other Income

Interest and other income was $8,401,000 for the three months ended April 30, 2008 compared to $11,399,000 for the three months ended April 30, 2007, representing a decrease of $2,998,000. This decrease was primarily the result of a decrease of $2,682,000 related to interest income earned on financial instruments held by Stapleton Land, LLC, partially offset by an increase of $603,000 related to the income recognition on the sale of Historic Preservation and New Market Tax Credits.

Income Taxes

Income tax benefit for the three months ended April 30, 2008 and 2007 was $(19,579,000) and $(14,040,000), respectively. The difference in the income tax benefit reflected in the Consolidated Statements of Operations versus the income tax benefit computed at the statutory federal income tax rate is primarily attributable to state income taxes, additional general business credits, changes to our charitable contribution and state NOL valuation allowances based upon management s assessment of our ability to utilize such deferred tax assets, and various permanent differences between pre-tax GAAP income and taxable income.

We apply an estimated annual income tax rate to our year-to-date earnings from operations to derive our tax provision each quarter. Certain circumstances may arise which makes it difficult for us to determine a reasonable estimate of our effective tax rate for the year. FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods (FIN No. 18) provides that if a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. Our current projected operating results coupled with permanent items results in an effective tax rate that changes significantly with small variations in projected income or loss from operations. With the recent difficulties in the lending and capital markets and uncertainties in the housing markets, variations in the current projected operating results are probable which would significantly impact the estimated annual income tax rate. Therefore, for the three months ended April 30, 2008, we have determined that a reliable estimate cannot be made, and that the actual effective tax rate for the year-to-date period is our best estimate of the annual effective tax rate.

At January 31, 2008, we had a net operating loss carryforward for tax purposes of $64,589,000 (generated primarily from the impact on our net earnings of tax depreciation expense from real estate properties and excess deductions from stock-based compensation) that will expire in the years ending January 31, 2024 through January 31, 2028, a charitable contribution deduction carryforward of $40,676,000 that will expire in the years ending January 31, 2009 through January 31, 2013 ($7,111,000 expiring in the year ended January 31, 2009), general business credit carryovers of $13,866,000 that will expire in the years ending January 31, 2009 through January 2028 ($39,000 expiring in the year ended January 31, 2009), and an alternative minimum tax (AMT) credit carryforward of $34,894,000 that is available to be used to reduce Federal tax to the AMT amount. We have a full valuation allowance against the deferred tax asset associated with our charitable contributions because management believes at this time that it is more likely than not that we will not realize these benefits. Our policy is to consider a variety of tax-deferral strategies,

including tax deferred exchanges, when evaluating our future tax position.

We apply the with-and-without methodology for recognizing excess tax benefits from the deduction of stock-based compensation. The net operating loss available for the tax return, as is noted in the paragraph above, is significantly greater than the net operating loss available for the tax provision due to excess deductions from stock-based compensation reported on the return, as well as the impact of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN No. 48) adjustments to the net operating loss. We have not recorded a net deferred tax asset of approximately $13,355,000 from excess stock-based compensation deductions for which a benefit has not yet been recognized.

Table of Contents

FIN No. 48

We adopted the provisions of FIN No. 48 effective February 1, 2007. Unrecognized tax benefits represent those tax benefits related to tax positions that have been taken or are expected to be taken in tax returns that are not recognized in the financial statements because management has either concluded that it is not more likely than not that the tax position will be sustained if audited by the appropriate taxing authority or the amount of the benefit will be less than the amount taken or expected to be taken in our income tax returns.

We recognize estimated interest payable on underpayments of income taxes and estimated penalties that may result from the settlement of some uncertain tax positions as components of income tax expense. As of April 30 and January 31, 2008, we had approximately $929,000 and $840,000, respectively, of accrued interest and penalties related to uncertain income tax positions. During the three months ended April 30, 2008 and 2007, $89,000 and $331,000, respectively, of tax expense was booked relating to interest and penalties.

As of April 30 and January 31, 2008, we had unrecognized tax benefits of $2,699,000 and $2,556,000, respectively. The total amount of unrecognized tax benefits that would affect our effective tax rate, if recognized as of April 30, 2008 and 2007, is $348,000 and $549,000, respectively. Based upon our assessment of the outcome of examinations that are in progress, the settlement of liabilities, or as a result of the expiration of the statutes of limitation for certain jurisdictions, it is reasonably possible that the related unrecognized tax benefits for tax positions taken regarding previously filed tax returns will materially change from those recorded at April 30, 2008. Included in the $2,699,000 of unrecognized benefits noted above, is $2,583,000 which, due to the reasons above, could significantly decrease during the next twelve months.

Equity in (Loss) Earnings of Unconsolidated Entities

Equity in (loss) earnings of unconsolidated entities was $(9,647,000) for the three months ended April 30, 2008 compared to $1,361,000 for the three months ended April 30, 2007, representing a decrease of $11,008,000. This decrease was primarily the result of the following activities that occurred within our equity method investments:

- The Nets
  - Decrease of $10,222,000 due to an increase in our share of the loss related to our equity investment in The Nets (see The Nets section).
- Residential Group
  - Decrease of $2,106,000 related to the 2007 gain on disposition of our partnership interest in *White Acres*, an apartment community located in Richmond Heights, Ohio; and
  - Decrease of $1,101,000 due to a reduction in the sale of condominium units at *1100 Wilshire* and *Mercury*, located in Los Angeles, California.
- Commercial Group
  - Decrease of $1,237,000, primarily related to a participation payment on the refinancing during 2008, at *350 Massachusetts Avenue*, an office building located in Cambridge, Massachusetts.

These decreases were partially offset by the following increase:

- Commercial Group
  - Increase of $881,000 related to the 2008 gain on sale of partnership interest in *One International Place*, an office building located in Cleveland, Ohio.

The balance of the remaining increase of approximately $2,777,000 was due to fluctuations in the operations of equity method investments.

Table of Contents

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 Operations for the three months ended April 30, 2008 and 2007. 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.

Sterling Glen of Lynbrook, a supported-living apartment community in Lynbrook, New York, was held for sale at April 30 and January 31, 2008. *Sterling Glen of Lynbrook* s assets and liabilities as of April 30 and January 31, 2008 are presented in the table below.

	April 30, 2008	January 31, 2008
	(in thousands)	
Assets		
Real estate	**$ 29,858**	$ 29,858
Notes and accounts receivable, net	**83**	179
Other assets	**1,676**	1,635
Total Assets	**$ 31,617**	$ 31,672
Liabilities		
Mortgage debt, nonrecourse	**$ 27,700**	$ 27,700
Accounts payable and accrued expenses	**870**	798
Total Liabilities	**$ 28,570**	$ 28,498

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

Property	**Location**	**Number of Units**	**Period Disposed**	**Three Months Ended 4/30/2008**	**4/30/2007**
Residential Group:					
Sterling Glen of Lynbrook	Lynbrook, New York	130 units	Q2-2008	Yes	Yes
Sterling Glen of Bayshore	Bayshore, New York	85 units	Q2-2007	-	Yes
Sterling Glen of Center City	Philadelphia, Pennsylvania	135 units	Q2-2007	-	Yes
Sterling Glen of Darien	Darien, Connecticut	80 units	Q2-2007	-	Yes
Sterling Glen of Forest Hills	Forest Hills, New York	83 units	Q2-2007	-	Yes
Sterling Glen of Plainview	Plainview, New York	79 units	Q2-2007	-	Yes

Sterling Glen of Stamford	Stamford, Connecticut	166 units	Q2-2007	-	Yes

During the year ended January 31, 2008, we consummated an agreement to sell eight (seven operating properties and one property that was under construction at the time of the agreement) and lease four supported-living apartment properties to a third party. Pursuant to the agreement, during the second quarter of 2007, six operating properties listed in the table above and the property under construction, *Sterling Glen of Roslyn* located in Roslyn, New York, were sold. The seventh operating property, *Sterling Glen of Lynbrook*, was being operated by the purchaser under a short-term lease through the date of sale. On May 20, 2008, we sold this property for $39,000,000.

Pursuant to the agreement, the four remaining properties entered into long-term operating leases with the purchaser. The operating leases have stated terms of five or ten years with various put and call provisions at a pre-determined purchase price that can be exercised beginning in the second year of each lease at an amount that is in excess of the current carrying amount of the properties. We are generally entitled to a fixed lease payment from the lessee over the term of the lease in exchange for the operations of the properties, which will be retained by the lessee. We have continued to consolidate the leased properties in our Consolidated Balance Sheets as the criteria for sales accounting pursuant to the provisions of SFAS No. 66, Accounting for Sales of Real Estate, (SFAS No. 66), have not been achieved. Further, we have concluded that the leased properties have met the criteria as a Variable Interest Entity (VIEs) pursuant to FASB interpretation No. 46 (Revised December 2003) Consolidation of Variable Interest Entities (FIN No. 46(R)), and due to our obligation to absorb a majority of expected losses, the leased properties are consolidated by us at April 30, 2008. These properties do not meet the qualifications of assets held for sale under SFAS No. 144 as of April 30, 2008; therefore, these properties have not been included in discontinued operations.

Table of Contents

The operating results related to discontinued operations were as follows:

	Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Revenues	**$ 544**	$ 12,202
Expenses		
Operating expenses	**211**	8,847
Depreciation and amortization	**5**	1,013
	216	9,860
Interest expense	**(192)**	(1,608)
Amortization of mortgage procurement costs	**(11)**	(35)
Interest income	**4**	97
Earnings before income taxes	**129**	796
Income tax expense (benefit)		
Current	**(64)**	58
Deferred	**114**	250
	50	308
Net earnings from discontinued operations	**$ 79**	$ 488

Gain on Disposition of Rental Properties

Investments accounted for on the equity method are not subject to the provisions of SFAS No. 144, and therefore the gains or losses on the sales of equity method properties are reported in continuing operations when sold. The following table summarizes our proportionate share of the gain on equity method investments disposed of during the three months ended April 30, 2008 and 2007, which is included in equity in earnings of unconsolidated entities in the Consolidated Statements of Operations.

	Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Cleveland, Ohio	**$ 881**	$ -

One International Place (Office Building)			
White Acres (Apartments) [1]	Richmond Heights, Ohio	-	2,106
Total		**$ 881**	$ 2,106

(1) We disposed of our interest in White Acres in a non-monetary exchange for the remaining outside interest in Midtown Towers, which was also an equity method investment. We have accounted for the non-monetary transaction based upon the fair value of the equity method investments exchanged, which resulted in the above gain of $2,106.

FINANCIAL CONDITION AND LIQUIDITY

We believe that our sources of liquidity and capital are adequate to meet our funding obligations. Recent difficulties in the sub-prime mortgage markets have negatively impacted the lending and capital markets, particularly for real estate. The risk premium demanded by capital suppliers has increased significantly. Lending spreads have widened from recent levels and originations of new loans for the Commercial Mortgage Backed Securities market have decreased significantly. Underwriting standards are being tightened and spreads have risen. While the long-term impact cannot be known, borrowing costs for us may rise and financing levels may be modestly lower. To date, we have not experienced any significant negative impact to our access to capital from the recent changes in the debt marketplace.

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. The discussion below under Bank Revolving Credit Facility and Senior and Subordinated Debt outline events that have enhanced our liquidity and financial flexibility which will be important in our efforts to continue to develop and acquire quality real estate assets.

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, with each property separately financed. We do not cross-collateralize our mortgage debt outside of a single identifiable project. 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 we believe will drive favorable returns for our shareholders. This strategy has historically provided us with the necessary liquidity to take advantage of investment opportunities, and we believe will continue to do so in the future.

Effective December 1, 2005, the Securities and Exchange Commission (SEC) adopted new rules that substantially modify the registration, communications and offering procedures under the Securities Act of 1933, as amended (Securities Act). 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 still a WKSI as of April 30, 2008 and would be eligible to file an automatic shelf registration statement. In the meantime, we may still issue securities under our existing shelf registration statement described on pages 42-43.

Bank Revolving Credit Facility

At April 30 and January 31, 2008, our bank revolving credit facility, as amended, provides for maximum borrowings of $750,000,000 and matures in March 2010. The facility bears interest at our option at either (1) a LIBOR-based rate plus 1.45% (4.39% and 4.89% at April 30 and January 31, 2008, respectively), or (2) a Prime-based rate plus .50%. We have historically elected the LIBOR-based rate option. Of the available borrowings, up to $100,000,000 may be used for letters of credit or surety bonds. The credit facility also contains certain financial covenants, including maintenance of certain debt service and cash flow coverage ratios, specified levels of net worth (as defined in the credit facility) and a dividend and stock repurchase limitation of $40,000,000 per annual period.

Outstanding balances on the bank revolving credit facility at April 30 and January 31, 2008 were as follows (in thousands):

	April 30, 2008	January 31, 2008
Outstanding balances:		
Borrowings	**$ 32,000**	$ 39,000
Letters of credit	**$ 82,312**	$ 71,802
Surety bonds	**$ -**	$ -

Senior and Subordinated Debt

Our Senior and Subordinated Debt is comprised of the following at both April 30 and January 31, 2008 (in thousands):

Senior Notes:	
3.625% Puttable Equity-Linked Senior Notes due 2011	**$ 287,500**
Other Senior Notes:	
7.625% Senior Notes due 2015	**300,000**
6.500% Senior Notes due 2017	**150,000**
7.375% Senior Notes due 2034	**100,000**
Total Senior Notes	**837,500**
Subordinated Debt:	

Redevelopment Bonds due 2010	**20,400**
Subordinate Tax Revenue Bonds due 2013	**29,000**
Total Subordinated Debt	**49,400**
Total Senior and Subordinated Debt	**$ 886,900**

Puttable Equity-Linked Senior Notes

On October 10, 2006, we issued $287,500,000 of 3.625% puttable equity-linked senior notes due October 15, 2011 in a private placement. The proceeds from this offering (net of $25,000,000 of offering costs, underwriting fees and the cost of the puttable note hedge and warrant transactions described below) were used to repurchase $24,962,000 of our Class A common stock, to repay the outstanding balance of $190,000,000 under the bank revolving credit facility (see Bank Revolving Credit Facility section) and for general working capital purposes. The notes were issued at par and accrued interest is payable semi-annually in arrears on April 15 and October 15 of each year, which began on April 15, 2007. We may not redeem these notes prior to maturity. The notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness.

Holders may put their notes to us at their option on any day prior to the close of business on the scheduled trading day immediately preceding July 15, 2011 only under the following circumstances: (1) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price per note for each day of that measurement period was less than 98% of the product of the last reported sale price of the Company s Class A common stock and the put value rate (as defined) on each such day; (2) during any fiscal quarter after the fiscal quarter ending January 31, 2007, if the last reported sale price of our Class A common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the applicable put value price in effect on the last trading day of the immediately preceding fiscal quarter; or (3) upon the occurrence of specified corporate events as set forth in the applicable indenture. On and after July 15, 2011 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may put their notes to us at any time, regardless of the foregoing circumstances. In addition, upon a designated event, as defined, the holders may require us to purchase for cash all or a portion of their notes for 100% of the principal amount of the notes plus accrued and unpaid interest, if any, as set forth in the applicable indenture.

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

We entered into a registration rights agreement that required a shelf registration statement to be filed within 90 days and declared effective under the Securities Act of 1933, as amended (Securities Act) within 180 days after October 10, 2006. We filed a shelf registration statement under the Securities Act for the resale of the notes and the Class A common stock issuable upon our exercise of the net share settlement option on January 4, 2007 and it was immediately effective due to our status as a Well-Known Seasoned Issuer. We will use our best efforts to keep the shelf registration statement effective until the earliest of: (1) the date all of the registrable securities have been sold pursuant to the shelf registration statement; (2) the expiration of the holding period under Rule 144(k) under the Securities Act, or any successor provision; or (3) two years from the date the shelf registration statement is declared effective. We refer to each of the following as an effective failure: (1) the shelf registration statement ceases to be effective, or (2) we suspend the use of the prospectus or the holders are otherwise prevented or restricted by us from effecting sales pursuant to the shelf registration statement, and either continues for more than 30 days, whether or not consecutive, in any 90-day period, or for more than 90 days, whether or not consecutive, during any 12-month period. Upon the occurrence of an effective failure, we will be required to pay additional amounts, in cash, to holders of the notes. Such additional amounts will accrue on the notes that are registrable securities, from and including the day following the effective failure, to but excluding, the earlier of the time such holders are again able to make resales under the shelf registration statement and the date the shelf registration statement is no longer required to be kept effective. Additional amounts will be paid semiannually in arrears on each April 15 and October 15 and will accrue at a rate per annum equal to 0.25% for the first 90 days after the occurrence of the event and 0.50% after the first 90 days. In no event will additional amounts exceed 0.50% per annum. At April 30, 2008, the maximum potential additional amounts that could be required to be paid by us is approximately $796,000 for the remaining period in which the shelf registration is required to be effective. At April 30, 2008, in accordance with FASB Statement No. 5, Accounting for Contingencies, we have concluded that it is not probable we will be required to pay additional amounts as a result of an effective failure.

Concurrent with the issuance of the notes, we purchased a call option on our Class A common stock in a private transaction. The purchased call option allows us to receive shares of our Class A common stock and/or cash from counterparties equal to the amounts of Class A common stock and/or cash related to the excess put value that we would pay to the holders of the notes if put to us. These purchased call options will terminate upon the earlier of the maturity dates of the notes or the first day all of the notes are no longer outstanding due to a put or otherwise. The

purchased call options, which cost an aggregate $45,885,000 ($28,155,000 net of the related tax benefit), were recorded net of tax as a reduction of shareholders equity through additional paid-in capital during the year ended January 31, 2007. In a separate transaction, we sold warrants to issue shares of our Class A common stock at an exercise price of $74.35 per share in a private transaction. If the average price of our Class A common stock during a defined period ending on or about the respective settlement dates exceeds the exercise price of the warrants, the warrants will be settled in shares of our Class A common stock. Proceeds received from the issuance of the warrants totaled approximately $28,923,000 and were recorded as an addition to shareholders equity through additional paid-in capital during the year ended January 31, 2007.

Other 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, such securities would represent the sole net assets of the trusts.

Table of Contents

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. 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.

On January 25, 2005, we issued $150,000,000 of 6.500% senior notes due February 1, 2017 in a public offering under our shelf registration statement. Accrued interest is payable semi-annually on February 1 and August 1. 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.

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. 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.

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

Subordinated Debt

In 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 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 Security Industry and Financial Markets Association (SIFMA) rate 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.

In May 2003, we purchased $29,000,000 of subordinate tax revenue bonds that were contemporaneously transferred to a custodian, which in turn issued custodial receipts that represent ownership in the bonds to unrelated third parties. The bonds bear a fixed interest rate of 7.875%. We evaluated the transfer pursuant to the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140), and determined that the transfer did not qualify for sale accounting treatment principally because we guaranteed the payment of principal and interest in the unlikely event that there is insufficient tax revenue to support the bonds when the custodial receipts are subject to mandatory tender on December 1, 2013. As such, we are the primary beneficiary of this VIE and the book value (which approximated amortized costs) of the bonds was recorded as a collateralized borrowing reported as senior and subordinated debt and as held-to-maturity securities reported as other assets in the Consolidated Balance Sheets.

Financing Arrangements

Collateralized Borrowings

On July 13, 2005, the Park Creek Metropolitan District (the District) issued $65,000,000 Senior Subordinate Limited Property Tax Supported Revenue Refunding and Improvement Bonds (Senior Subordinate Bonds), Series 2005.

On July 13, 2005, Stapleton Land II, LLC, a consolidated subsidiary, entered into an agreement whereby it will receive a 1% fee on the Senior Subordinate Bonds in exchange for providing certain credit enhancement. In connection with this transaction, Stapleton Land II, LLC provided a combination of cash and notes receivable aggregating approximately $10,000,000 as collateral. During the year ended January 31, 2008, the cash component was replaced as collateral by certain notes receivable owned by us. For the three months ended April 30, 2008 and 2007, we recorded $160,000 and $231,000 of interest income related to this arrangement in the Consolidated Statements of Operations, respectively. 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 Senior Subordinate Bonds. We do not have any rights or obligations to acquire the $65,000,000 Senior Subordinate Bonds under this agreement. At April 30, 2008, 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, a consolidated subsidiary, entered into a Forward Delivery Placement Agreement (FDA) 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, 2008, the District had withdrawn a total of $58,000,000 of funds from the trustee for reimbursement of certain Qualifying Expenditures, of which $14,000,000 was withdrawn during the three months ended April 30, 2008. Therefore, a corresponding amount of the Junior Subordinated Bonds became Converted Bonds and were acquired by Stapleton Land, LLC under the terms of the FDA. Stapleton Land, LLC immediately transferred the Converted Bonds to investment banks and we simultaneously entered into TRS with a notional amount of $58,000,000. We receive a fixed rate of 8.5% and pay SIFMA plus a spread on the TRS related to the Converted Bonds. We determined the sale of the Converted Bonds to the investment banks and simultaneous execution of the TRS did not surrender control; therefore, the Converted Bonds have been recorded as a secured borrowing in the Consolidated Balance Sheets. We have classified the Converted Bonds as available for sale, with unrealized holding gains and losses recorded in accumulated other comprehensive income (loss) (OCI). The fair value of the Converted Bonds was $58,000,000 and $44,000,000, respectively, at April 30, 2008 and January 31, 2008. For the three months ended April 30, 2008 and 2007, we recorded net interest income of $838,000 and $214,000, respectively, related to the TRS in the Consolidated Statements of Operations.

Other Structured Financing Arrangements

In May 2004, a third party purchased $200,000,000 in tax increment revenue bonds issued by the Denver Urban Renewal Authority (DURA), with a fixed-rate coupon of 8.0% and maturity date of October 1, 2024, which were used to fund the infrastructure costs associated with phase II of the Stapleton development project. The DURA bonds were transferred to a trust that issued floating rate trust certificates. Stapleton Land, LLC entered into an agreement with 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 SIFMA index plus 40 basis points, less all fees and expenses due to the third party (collectively, the Fee). As of April 30, 2008, the DURA bonds have not been repurchased or remarketed.

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

The fair market value of the purchase obligation and the Fee is determined based on the present value of the estimated amount of future cash flows considering possible variations in the amount and/or timing. The fair value of $24,278,000 and $23,108,000 at April 30, 2008 and January 31, 2008, respectively, is recorded in other assets in the Consolidated Balance Sheets. For the three months ended April 30, 2008 and 2007, we recorded interest income of $1,170,000 and $2,006,000, respectively, related to the Fee in the Consolidated Statements of Operations.

Stapleton Land, LLC has committed to fund $24,500,000 to the District to be used for certain infrastructure projects and has funded $13,788,000 of this commitment as of April 30, 2008.

Mortgage Financings

We use taxable and tax-exempt nonrecourse debt for our real estate projects. For those operating 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 2008 and 2009. During the three months ended April 30, 2008, we completed the following financings:

Purpose of Financing	**Amount**
	(in thousands)
Refinancings	$ 479,960
Development projects [1]	812,125
Loan extensions/additional fundings	209,732
	$ 1,501,817

(1) Represents the full amount available to be drawn on the loans.

44

Table of Contents

Interest Rate Exposure

At April 30, 2008, the composition of nonrecourse mortgage debt was as follows:

	Operating Properties	Development and Land Projects	Total	Total Weighted Average Rate
		(dollars in thousands)		
Fixed	$ 4,135,724	$ 4,645	$ 4,140,369	6.04%
Variable [1]				
Taxable	1,198,898	407,279	1,606,177	5.66%
Tax-Exempt	608,813	310,900	919,713	3.56%
	$ 5,943,435	$ 722,824 [2]	$ 6,666,259	5.61%
Total commitment from lenders		$ 1,931,982		

(1) Taxable variable-rate debt of $1,606,177 and tax-exempt variable-rate debt of $919,713 as of April 30, 2008 is protected with swaps and caps described in the tables below.

(2) $192,317 of fully consolidated outstanding debt described above is listed as restricted cash in our Consolidated Balance Sheet. For bonds issued in conjunction with development, the local

housing authority issued the full amount of the bonds at the beginning of construction and, until costs are incurred, bond funds must remain in escrow held by a financial institution affiliated with the bond issuance.

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

Taxable (Priced off of LIBOR Index)

	Caps		**Swaps**[(1)(3)]	
Period Covered	**Notional Amount**	**Average Base Rate**	**Notional Amount**	**Average Base Rate**
		(dollars in thousands)		
05/01/08-02/01/09 [(2)]	$ 1,308,517	5.15%	$ 929,379	4.99%
02/01/09-02/01/10	1,241,237	4.94	1,028,432	4.98
02/01/10-02/01/11	113,797	5.03	687,081	5.44
02/01/11-02/01/12	-	-	685,656	5.44
02/01/12-02/01/13	476,100	5.50	684,110	5.44
02/01/13-09/01/17	-	-	640,000	5.50

(1) Excludes the forward swaps discussed on page 46.

(2) These LIBOR-based hedges as of May 1, 2008 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, 2009.

(3) Includes $640,000 for *New York Times* at 5.50% which expires in September 2017.

Tax-Exempt (Priced off of SIFMA Index)

	Caps	
Period Covered	**Notional Amount**	**Average Base Rate**
	(dollars in thousands)	
05/01/08-02/01/09	$ 232,025	5.98%
02/01/09-02/01/10	203,625	5.97
02/01/10-02/01/11	114,315	5.89
02/01/11-02/01/12	12,715	6.00

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 3.09% and has never exceeded 7.90%.

The interest rate hedges summarized in the tables on page 45 were purchased to mitigate variable interest rate risk. We entered into various forward swaps to protect ourselves against fluctuations in the swap rate at terms ranging between five to ten years associated with forecasted fixed rate borrowings. At the time we secure and lock an interest rate on an anticipated financing, it is our intention to simultaneously terminate the forward swap associated with that financing. The table below lists the forward swaps outstanding as of April 30, 2008 (dollars in thousands):

Forward Swaps

	Fully Consolidated Properties (1)		Property Accounted for under the Equity Method of Accounting (2)	
Expirations for Years Ending January 31,	**Notional Amount**	**Rate**	**Notional Amount**	**Rate**
2009	$ -	-	$ -	-
2010	$ 91,625	5.72%	$ 120,000	5.93%
Thereafter	$ -	-	$ -	-

(1) As these forward swaps have been designated and qualify as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), our portion of unrealized gains and losses on the effective portion of the hedges has been recorded in accumulated OCI. To the extent effective, the receipt or payment of cash at termination on these forward swaps

will be recorded in accumulated OCI and will be amortized as either an increase or decrease to interest expense in the same periods as the interest payments on the financing.

(2) This forward swap does not qualify as a cash flow hedge under the provisions of SFAS No. 133 because it relates to an unconsolidated property. Therefore, the change in the fair value of this swap is marked to market through earnings on a quarterly basis.

For the three months ended April 30, 2008 and 2007, we recorded $12,000 and $(1,447,000), respectively, of interest income (expense) related to our forward swap in our Consolidated Statements of Operations, which represents the change in fair value of the swap that did not qualify for hedge accounting.

Including the effect of the protection provided by the interest rate swaps, caps and long-term contracts in place as of April 30, 2008, a 100 basis point increase in taxable interest rates (including properties accounted for under the equity method and corporate debt) would increase the annual pre-tax interest cost for the next 12 months of our variable-rate debt by approximately $7,692,000 at April 30, 2008. 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 $10,512,000 at April 30, 2008. 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 we and/or certain of our joint ventures (the Joint Ventures) enter into TRS on various tax-exempt fixed-rate borrowings generally held by us and/or within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require that we and/or the Joint Ventures pay a variable rate, generally equivalent to the SIFMA rate. Additionally, we and/or 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 us or the Joint Ventures. At April 30, 2008, the aggregate notional amount of TRS in which we and the Joint Ventures have an interest is approximately $479,120,000. We believe the economic return and related risk associated with a TRS is generally comparable to that of nonrecourse variable-rate mortgage debt. While the bonds that have TRS have bond maturities that are generally greater than 20 years in duration, our TRS structures are generally no more than 5 years in duration.

Table of Contents

Cash Flows

Operating Activities

Net cash used in operating activities was $2,603,000 for the three months ended April 30, 2008. Net cash used in operating activities was $9,198,000 for the three months ended April 30, 2007. The net decrease in cash used in operating activities in the three months ended April 30, 2008 compared to the three months ended April 30, 2007 of $6,595,000 is the result of the following (in thousands):

Increase in rents and other revenues received	**$ 51,158**
Decrease in interest and other income received	**(5,216)**
Increase in cash distributions from unconsolidated entities	**5,261**
Increase in proceeds from land sales - Land Development Group	**4,362**
Increase in proceeds from land sales - Commercial Group	**935**
Increase in land development expenditures	**(1,893)**
Increase in operating expenditures	**(35,082)**
Increase in interest paid	**(12,930)**
Net decrease in cash used in operating activities	**$ 6,595**

47

Investing Activities

Net cash used in investing activities was $381,776,000 and $314,492,000 for the three months ended April 30, 2008 and 2007, respectively.

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

	Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Capital expenditures, including real estate acquisitions*	**$ (236,535)**	$ (306,906)
Payment of lease procurement costs and other assets	**(40,730)**	(12,047)
Decrease (increase) in restricted cash used for capital expenditures:		
Beekman, a mixed-use residential development project located in Manhattan, New York	**(143,129)**	-
Sterling Glen of Rye Brook, a supported-living community in Rye Brook, New York	**(12,500)**	-
Promenade Bolingbrook, a regional mall in Bolingbrook, Illinois	**(5,040)**	-
Victoria Gardens, a retail center in Rancho Cucamonga, California	**-**	13,112
Atlantic Yards, a commercial development project in Brooklyn, New York	**(1,992)**	3,329
Illinois Science and Technology Park - Building P, an office building in Skokie, Illinois	**-**	(5,062)
Tobacco Row - Cameron Kinney, an apartment complex in Richmond, Virginia	**-**	(2,000)
Sale proceeds released from escrow for current acquisitions:		
Battery Park City, a specialty retail center in Manhattan, New York	**-**	25,125
Other	**1,345**	(2,395)
Subtotal	**(161,316)**	32,109
Proceeds from disposition of other investments	**150**	-
Change in investments in and advances to affiliates - (Investment in) or return of investment:		
Dispositions:		
One International Place, an unconsolidated office building in Cleveland, Ohio	**1,589**	-
Land Development:		
Mesa del Sol, an unconsolidated project in Covington, New Mexico	**2,130**	(2,342)
Residential Projects:		
1100 Wilshire, an unconsolidated condominium development project in Los Angeles, California	**2,710**	-
Mercury, an unconsolidated condominium development project in Los Angeles, California	**-**	(1,644)
	-	(1,865)

Met Lofts, an unconsolidated apartment complex in Los Angeles, California		
Uptown Apartments, an unconsolidated development project in Oakland, California	**-**	2,007
New York City Projects:		
East River Plaza, an unconsolidated retail development project in Manhattan, New York	**(2,053)**	667
Sports arena complex and related development projects in Brooklyn, New York currently in pre-development; excess funds to be reinvested during the future construction phase	**30,098**	(7,554)
The Nets, a National Basketball Association franchise	**(6,431)**	(5,495)
Commercial Projects:		
Unconsolidated development activity in Las Vegas, Nevada	**(4,727)**	-
Liberty Center, primarily refinancing proceeds from an unconsolidated office building in Pittsburgh, Pennsylvania	**9,961**	-
350 Massachusetts Avenue, primarily refinancing proceeds from an unconsolidated office building in Cambridge, Massachusetts	**24,427**	-
Bulletin Building, primarily refinancing proceeds from an unconsolidated office building in San Francisco, California	**-**	8,648
San Francisco Centre-Emporium, primarily refinancing proceeds from an unconsolidated regional mall in San Francisco, California	**-**	15,804
Village at Gulfstream, an unconsolidated development project in Hallendale, Florida	**6,306**	(2,393)
Waterfront, an unconsolidated development project in Washington, D.C.	**-**	(25,200)
Other net (advances) returns of investment of equity method investments and other advances to affiliates	**(7,355)**	(8,281)
Subtotal	**56,655**	(27,648)
Net cash used in investing activities	**$ (381,776)**	$ (314,492)
*Capital expenditures were financed as follows:		
New nonrecourse mortgage indebtedness	**$ 198,555**	$ 155,695
Release of investing escrows from sale proceeds (see above)	**-**	25,125
Portion of cash on hand at the beginning of the year	**37,980**	126,086
Total Capital Expenditures	**$ 236,535**	$ 306,906

Table of Contents

Financing Activities

Net cash provided by financing activities was $309,795,000 and $230,399,000 for the three months ended April 30, 2008 and 2007, respectively.

Net cash provided by financing activities consisted of the following:

	Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Borrowings on bank revolving credit facility	**$ 80,000**	$ 193,000
Payments on bank revolving credit facility	**(87,000)**	(53,000)
Proceeds from nonrecourse mortgage debt	**683,815**	215,418
Principal payments on nonrecourse mortgage debt	**(404,259)**	(100,435)
Net increase (decrease) in notes payable	**30,046**	(18,270)
(Increase) decrease in restricted cash:		
Galleria at Sunset, a regional mall in Henderson, Nevada	**(7,178)**	-
Sky55, an apartment complex in Chicago, Illinois	**(1,644)**	2,750
Promenade in Temecula, a regional mall in Temecula, California	**(1,525)**	-
Easthaven at the Village (formerly *Village Green),* an apartment community in Beachwood, Ohio	**(1,200)**	-
Legacy Lakes, a land development project in Aberdeen, North Carolina	**(1,000)**	-
Lucky Strike, an apartment complex in Richmond, Virginia	**7,665**	(1,537)
101 San Fernando, an apartment community in San Jose, California	**2,509**	-
Promenade Bolingbrook, a regional mall in Bolingbrook, Illinois	**2,300**	-
Edgeworth Building, an office building in Richmond, Virginia	**-**	(3,985)
Sterling Glen of Roslyn, a development project in Roslyn, New York, sold in July 2007	**-**	2,273
Other	**(442)**	(196)
Subtotal	**(515)**	(695)
Increase (decrease) in book overdrafts, representing checks issued but not yet paid	**6,212**	(6,224)
Payment of deferred financing costs	**(22,694)**	(4,148)
Purchase of other treasury stock	**(642)**	(3,138)
Exercise of stock options	**124**	3,418
Distribution of accumulated equity to minority partners	**(3,710)**	(9,558)
Dividends paid to shareholders	**(8,234)**	(7,160)
Increase in minority interest	**36,652**	21,191
Net cash provided by financing activities	**$ 309,795**	$ 230,399

LEGAL PROCEEDINGS

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

DIVIDENDS

We pay quarterly cash dividends on shares of Class A and Class B common stock. The quarterly dividend of $.08 per share on both Class A and Class B common stock was declared on March 26, 2008 and will be paid on June 17, 2008 to shareholders of record at the close of business on June 2, 2008. The second quarterly dividend will be reviewed at the quarterly Board Meeting on June 19, 2008.

VARIABLE INTEREST ENTITIES

As of April 30, 2008, we determined that we are the primary beneficiary under FIN No. 46 (R) of 32 VIEs representing 20 properties (19 VIEs representing 9 properties in Residential Group, 11 VIEs representing 9 properties in Commercial Group, and 2 VIEs/properties in Land Development Group). As of April 30, 2008, we held variable interests in 43 VIEs for which we are not the primary beneficiary. As of April 30, 2008, 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 $89,000,000. Our VIEs consist of joint ventures that are engaged, directly or indirectly, in the ownership, development and management of office buildings, regional malls, specialty retail centers, apartment communities, military housing, supported-living communities, land development and the Nets.

In addition to the VIEs described above, we have also determined that we are the primary beneficiary of a VIE which holds collateralized borrowings of $29,000,000 (See Senior and Subordinated Debt section of MD&A) as of April 30, 2008.

NEW ACCOUNTING STANDARDS

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1), which requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. FSP APB 14-1 requires the initial debt proceeds from the sale of a company s convertible debt instrument to be allocated between a liability component and an equity component. The resulting debt discount will be amortized over the debt instrument s expected life as additional interest expense. As a result, a lower net income could be reflected as interest expense would include both the current period s amortization of the debt discount and the instrument s coupon interest. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years, with retrospective application required. This statement will change the accounting treatment for our 3.625% Puttable Equity-Linked Senior Notes due October 2011, which were issued in October 2006. The impact of this new accounting treatment could be significant to our results of operations and result in an increase to non-cash interest expense beginning in fiscal year 2009 for financial statements covering past and future periods. We are currently assessing the impact FSP APB 14-1 will have on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162), which is intended to improve financing reporting by identifying a consistent framework or hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendment to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We do not expect adoption of SFAS No. 162 to have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets . This FSP allows us to use our historical experience in renewing or extending the useful life of intangible assets. This FSP is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and shall be applied prospectively to intangible assets acquired after the effective date. We do not expect the application of this

FSP to have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of how derivative instruments and hedging activities affect an entity s financial position, financial performance and cash flows. These disclosure requirements include a tabular summary of the fair values of derivative instruments and their gains and losses, disclosure of derivative features that are credit risk related to provide more information regarding an entity s liquidity and cross-referencing within footnotes to make it easier for financial statement users to

locate important information about derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. We are currently assessing the impact SFAS No. 161 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) provides greater consistency in the accounting and financial reporting of business combinations. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed and requires the acquirer to disclose the nature and financial effect of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. We are currently assessing the impact SFAS No. 141(R) will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51 (SFAS No. 160). A non-controlling interest, sometimes called minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require: (i) the ownership interest in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent s equity; (ii) the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of operations; (iii) changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently and requires that they be accounted for similarly, as equity transactions; (iv) when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value, the gain or loss on the deconsolidation of the subsidiary is measured using fair value of any non-controlling equity investments rather than the carrying amount of that retained investment; and (v) entities provide sufficient disclosures that clearly identify and distinguish between the interest of the parent and the interest of the non-controlling owners. This statement is effective for fiscal years, and interim reporting periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently assessing the impact SFAS No. 160 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about the use of fair value measurements. SFAS No. 157 does not require new fair value measurements, but applies to accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued two Staff Positions on SFAS No. 157: (1) FSP No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP FAS 157-1) and (2) FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP FAS 157-1 excludes SFAS No. 13, Accounting for Leases (SFAS No. 13), and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13 from SFAS No. 157 s scope. FSP FAS 157-2 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. We partially adopted this statement for our financial assets and liabilities on February 1, 2008.

SUBSEQUENT EVENTS

We, along with certain of our affiliates (the FCE Entities) entered into a Master Contribution and Sale Agreement (the Master Contribution Agreement) with Bruce C. Ratner (Mr. Ratner) and certain entities and individuals affiliated with Mr. Ratner (the BCR Entities) on August 14, 2006. Pursuant to the Master Contribution Agreement, along with Mr. Ratner, we agreed that certain projects under development would remain owned jointly until such time as each individual project was completed and achieved stabilization. As each of the development projects achieves

stabilization, it is valued and we, in our discretion, choose among various options for the ownership of the project following stabilization. The development projects were not covered by the Tax Protection Agreement that the parties entered into in connection with the Master Contribution Agreement. The Tax Protection Agreement indemnified the BCR Entities against taxes payable by reason of any subsequent sale of certain operating properties.
Two of the development projects, *New York Times*, an office building located in Manhattan, New York and *Twelve MetroTech Center*, an office building located in Brooklyn, New York, recently achieved stabilization. Along with Mr. Ratner, we have agreed to a valuation, and we have elected to cause certain affiliates of ours to acquire for cash the BCR Entities interests in the two projects in agreements dated May 6, 2008 and May 12, 2008, respectively. Pursuant to the agreements, the applicable BCR Entities assigned and transferred their interests in the two projects to affiliates of ours and will receive approximately $121,000,000, over a 15 year period, as consideration for those interests. An affiliate of ours has also agreed to indemnify the applicable BCR Entity against taxes payable by it by reason of a subsequent sale or other disposition of one of the projects. The tax indemnity provided by the affiliate of ours expires on December 31, 2014 and is similar to the indemnities provided for the operating properties under the Tax Protection Agreement. As was provided in the Master Contribution Agreement, the agreement also includes customary representations and

Table of Contents

warranties from the applicable BCR Entities regarding the operation of the projects. The applicable BCR Entities will indemnify the applicable FCE Entities for breaches of the representations and warranties subject to certain time limits and limitations on liability. Consistent with the Master Contribution Agreement, the applicable FCE Entities agreed to indemnify the applicable BCR Entities for losses resulting from claims made after the transfer of Mr. Ratner s interests. The total amount of consideration paid will be accounted for in accordance with SFAS No. 141, Business Combinations, and allocated according to the fair value of the underlying assets and liabilities of the stabilized properties during the quarter ended July 31, 2008.

INFORMATION RELATED TO FORWARD-LOOKING STATEMENTS

This Form 10-Q, together with other statements and information publicly disseminated by us, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements reflect management s current views with respect to financial results related to future events and are based on assumptions and expectations that may not be realized and are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial or otherwise, may differ from the results discussed in the forward-looking statements. Risk factors discussed in Item 1A of our Form 10-K for the year ended January 31, 2008 and other factors that might cause differences, some of which could be material, include, but are not limited to, general real estate development and investment risks including lack of satisfactory financing, construction and lease-up delays and cost overruns, dependence on rental income from real property, reliance on major tenants, the effect of economic and market conditions on a nationwide basis as well as in our primary markets, vacancies in our properties, downturns in the housing market, competition, illiquidity of real estate investments, bankruptcy or defaults of tenants, department store consolidations, international activities, the impact of terrorist acts, risks associated with an investment in and operation of a professional sports team, conflicts of interests, our substantial debt leverage and the ability to obtain and service debt, the impact of restrictions imposed by our credit facility, the level and volatility of interest rates, the continued availability of tax-exempt government financing, effects of uninsured or underinsured losses, environmental liabilities, risks associated with developing and managing properties in partnership with others, the ability to maintain effective internal controls, compliance with governmental regulations, changes in market conditions, litigation risks, as well as other risks listed from time to time in our reports filed with the Securities and Exchange Commission. We have no obligation to revise or update any forward-looking statements, other than imposed by law, as a result of future events or new information. Readers are cautioned not to place undue reliance on such forward-looking statements.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is interest rate risk. At April 30, 2008, our outstanding variable-rate debt portfolio consisted of $1,638,177,000 of taxable debt (which includes $32,000,000 related to the bank revolving credit facility) and $919,713,000 of tax-exempt variable-rate debt. Upon opening and achieving stabilized operations, we generally pursue long-term fixed-rate nonrecourse financing for our rental properties. Additionally, when the properties fixed-rate debt matures, the maturing amounts are subject to interest rate risk.

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

Taxable (Priced off of LIBOR Index)

	Caps		Swaps(1)(3)	
Period Covered	**Notional Amount**	**Average Base Rate**	**Notional Amount**	**Average Base Rate**
	(dollars in thousands)			
05/01/08-02/01/09 (2)	$ 1,308,517	5.15%	$ 929,379	4.99%
02/01/09-02/01/10	1,241,237	4.94	1,028,432	4.98
02/01/10-02/01/11	113,797	5.03	687,081	5.44
02/01/11-02/01/12	-	-	685,656	5.44
02/01/12-02/01/13	476,100	5.50	684,110	5.44
02/01/13-09/01/17	-	-	640,000	5.50

(1) Excludes the forward swaps discussed on page 54.

(2) These LIBOR-based hedges as of May 1, 2008 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, 2009.

(3) Includes $640,000 for *New York Times* at 5.50%, which expires in September 2017.

Tax-Exempt (Priced off of SIFMA Index)

	Caps	
Period Covered	**Notional Amount**	**Average Base Rate**
	(dollars in thousands)	
05/01/08-02/01/09	$ 232,025	5.98%
02/01/09-02/01/10	203,625	5.97
02/01/10-02/01/11	114,315	5.89
02/01/11-02/01/12	12,715	6.00

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 3.09% and has never exceeded 7.90%.

Table of Contents

The interest rate hedges summarized in the tables on page 53 were purchased to mitigate variable interest rate risk. We entered into various forward swaps to protect ourselves against fluctuations in the swap rate at terms ranging between five and ten years associated with forecasted fixed rate borrowings. At the time we secure and lock an interest rate on an anticipated financing, it is our intention to simultaneously terminate the forward swap associated with that financing. The table below lists the forward swaps outstanding as of April 30, 2008 (dollars in thousands):

Forward Swaps

	Fully Consolidated Properties (1)		Property Accounted for under the Equity Method of Accounting (2)	
Expirations for Years Ending January 31,	**Notional Amount**	**Rate**	**Notional Amount**	**Rate**
2009	$ -	-	$ -	-
2010	$ 91,625	5.72%	$ 120,000	5.93%
Thereafter	$ -	-	$ -	-

(1) As these forward swaps have been designated and qualify as cash flow hedges under SFAS No. 133, our portion of unrealized gains and losses on the effective portion of the hedges has been recorded in accumulated OCI. To the extent effective, the receipt or payment of cash at termination on these forward swaps will be recorded in accumulated OCI and will be amortized as either an increase or

decrease to interest expense in the same periods as the interest payments on the financing.

(2) This forward swap does not qualify as a cash flow hedge under the provisions of SFAS No. 133 because it relates to an unconsolidated property. Therefore, the change in the fair value of this swap is marked to market through earnings on a quarterly basis.

For the three months ended April 30, 2008 and 2007, we recorded $12,000 and $(1,447,000), respectively, of interest income (expense) related to our forward swaps in our Consolidated Statements of Operations, which represents the change in fair value of the swap that did not qualify for hedge accounting.

Including the effect of the protection provided by the interest rate swaps, caps and long-term contracts in place as of April 30, 2008, a 100 basis point increase in taxable interest rates (including properties accounted for under the equity method and corporate debt) would increase the annual pre-tax interest cost for the next 12 months of our variable-rate debt by approximately $7,692,000 at April 30, 2008. 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 $10,512,000 at April 30, 2008. 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.

We estimate the fair value of our hedging instruments based on interest rate market pricing models. At April 30 and January 31, 2008, interest rate caps and swaptions were reported at fair value of approximately $4,515,000 and $209,000, respectively, in other assets in the Consolidated Balance Sheets. At April 30 and January 31, 2008, interest rate swap agreements, which had a negative fair value of approximately $98,813,000 and $109,232,000, respectively, (which includes the forward swaps) were included in accounts payable and accrued expenses in the Consolidated Balance Sheets. At April 30 and January 31, 2008, interest rate swap agreements, which had a positive fair value of approximately $3,027,000 and $3,019,000, respectively, were included in other assets in the Consolidated Balance Sheets.

We estimate the fair value of our long-term debt by market rates, if available, or by discounting future cash payments at interest rates that approximate the current market. Based on these parameters, the table listed below contains our assessment of the fair value of our long-term debt at April 30, 2008.

	Carrying Value	Fair Value	Fair Value with 100 bp Decrease in Market Rates
		(in thousands)	
Fixed	$ 5,027,269	$ 4,819,414	$ 5,088,262
Variable			
Taxable	1,638,177	1,557,354	1,619,949
Tax-Exempt	919,713	868,395	899,404

The following tables on pages 55 and 56 provide information about our financial instruments that are sensitive to changes in interest rates.

Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)
April 30, 2008

	Expected Maturity Date Year Ending January 31,							
Long-Term Debt	2009	2010	2011	2012	2013	Period Thereafter	Total Outstanding 4/30/08	Fair Market Value 4/30/08
				(dollars in thousand)				
ixed:								
ixed-rate debt	$ 54,409	$ 247,798	$ 167,475	$ 377,825	$ 322,869	$ 2,969,993	$ 4,140,369	$ 4,013,59
Veighted average nterest rate	6.39%	6.77%	7.11%	7.01%	5.96%	5.80%	6.04%	
enior & ubordinated debt)	-	-	20,400	287,500	-	579,000	886,900	805,81
Veighted average nterest rate	-	-	8.25%	3.63%	-	7.30%	6.13%	
otal Fixed-Rate Debt	54,409	247,798	187,875	665,325	322,869	3,548,993	5,027,269	4,819,41
ariable:								
ariable-rate debt	196,944	470,878	215,990	23,172	45,366	653,827	1,606,177	1,525,35
Veighted average nterest rate	4.96%	5.12%	5.43%	4.29%	6.32%	6.35%	5.66%	
ax-exempt	5,743	1,160	1,516	2,475	206,559	702,260	919,713	868,39
Veighted average nterest rate	5.27%	3.28%	3.17%	3.17%	4.49%	3.27%	3.56%	
ank revolving redit facility [1]	-	-	32,000	-	-	-	32,000	32,00
Veighted average nterest rate	-	-	4.39%	-	-	-	4.39%	
otal ariable-Rate Debt	202,687	472,038	249,506	25,647	251,925	1,356,087	2,557,890	2,425,74
otal Long-Term Debt	$ 257,096	$ 719,836	$ 437,381	$ 690,972	$ 574,794	$ 4,905,080	$ 7,585,159	$ 7,245,16

Weighted average interest rate	5.27%	5.68%	6.12%	5.50%	5.46%	5.69%	5.66%

(1) Represents recourse debt.

Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)
January 31, 2008

	Expected Maturity Date Year Ending January 31,						Total	
Long-Term Debt	**2009**	**2010**	**2011**	**2012**	**2013**	**Period Thereafter**	**Outstanding 1/31/08**	**Fair Market Value 1/31/08**
				(dollars in thousands)				
ixed:								
ixed-rate debt	$ 84,220	$ 327,885	$ 174,421	$ 375,489	$ 319,644	$ 2,650,047	$ 3,931,706	$ 4,062,237
Veighted average nterest rate	6.53%	6.92%	6.78%	7.03%	5.98%	5.79%	6.08%	
enior & ubordinated debt)	-	-	20,400	287,500	-	579,000	886,900	812,040
Veighted average nterest rate	-	-	8.25%	3.63%	-	7.30%	6.13%	
otal Fixed-Rate Debt	84,220	327,885	194,821	662,989	319,644	3,229,047	4,818,606	4,874,277
ariable:								
ariable-rate debt	672,218	152,872	170,753	10,056	45,366	653,826	1,705,091	1,705,091
Veighted average nterest rate	6.68%	6.78%	6.28%	5.61%	6.37%	6.39%	6.52%	
ax-exempt	85,413	1,160	1,140	505	540	613,055	701,813	701,813
Veighted average nterest rate	3.12%	2.81%	3.00%	3.36%	3.36%	3.11%	3.11%	
ank revolving redit facility (1)	-	-	39,000	-	-	-	39,000	39,000
Veighted average nterest rate	-	-	4.89%	-	-	-	4.89%	
otal ariable-Rate ebt	757,631	154,032	210,893	10,561	45,906	1,266,881	2,445,904	2,445,904
otal Long-Term ebt	$ 841,851	$ 481,917	$ 405,714	$ 673,550	$ 365,550	$ 4,495,928	$ 7,264,510	$ 7,320,181

Weighted average interest rate	6.30%	6.86%	6.45%	5.55%	6.02%	5.71%	5.89%

(1) Represents recourse debt.

Table of Contents

Item 4. Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or furnishes under the Securities Exchange Act of 1934 (Securities Exchange Act) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to the Company s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this quarterly report, an evaluation of the effectiveness of the Company s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, was carried out under the supervision and with the participation of the Company s management, which includes the CEO and CFO. Based on that evaluation, the CEO and CFO have concluded that the Company s disclosure controls and procedures were effective as of April 30, 2008.

There have been no changes in the Company s internal control over financial reporting that occurred during the fiscal quarter ended April 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

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

(a) and (b) Not applicable.

(c) Repurchase of equity securities during the quarter.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	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 29, 2008	-	$ -	-	-
March 1 through March 31, 2008	-	$ -	-	-
April 1 through April 30, 2008 [1]	16,893	$ 37.98	-	-
Total	16,893	$ 37.98	-	-

(1) During April 2008, the Company

repurchased into treasury 16,893 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.

Table of Contents

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	-	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).
3.3	-	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).
3.4	-	Certificate of Amendment by Shareholders to the Articles of Incorporation of Forest City Enterprises, Inc., effective as of June 20, 2006, incorporated by reference to Exhibit 3.6 to the Company s Form 10-Q for the quarter ended July 31, 2006 (File No. 1-4372).
3.5	-	Code of Regulations as amended June 15, 2006, incorporated by reference to Exhibit 3.5 to the Company s Form 10-Q for the quarter ended July 31, 2006 (File No. 1-4372).
4.1	-	Senior Note Indenture, dated as of May 19, 2003, between Forest City Enterprises, Inc., as issuer, and The Bank of New York, as trustee, incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed on May 20, 2003 (File No. 1-4372).
4.2	-	Form of 7.625% Senior Note due 2015, incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form 8-K filed on May 20, 2003 (File No. 1-4372).
4.3	-	Form of 7.375% Senior Note due 2034, incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form 8-K filed on February 10, 2004 (File No. 1-4372).
4.4	-	Form of 6.5% Senior Note due 2017, incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form 8-K filed on January 26, 2005 (File No. 1-4372).
4.5	-	Indenture, dated as of October 10, 2006, between Forest City Enterprises, Inc., as issuer, and The Bank of New York Trust Company, N.A., as trustee, including, as Exhibit A thereto, the Form of 3.625% Puttable Equity-Linked Senior Note due 2011, incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed on October 16, 2006 (File No. 1-4372).
9.1	-	Voting Agreement, dated November 8, 2006, by and among Forest City Enterprises, Inc., RMS Limited Partnership, Powell Partners, Limited, Joseph M. Shafran and Bruce C. Ratner, incorporated by reference to Exhibit 9.1 to the Company s Form 10-K for the year ended January 31, 2007 (File No. 1-4372).
+10.1	-	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).

Table of Contents

Exhibit Number		Description of Document
+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).
+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	-	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).
+10.16	-	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).
+10.17	-	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).

Exhibit Number		Description of Document
+10.18	-	First Amendment to the Deferred Compensation Plan for Executives, effective as of October 1, 1999, incorporated by reference to Exhibit 10.45 to the Company s Form 10-Q for the quarter ended April 30, 2005 (File No. 1-4372).
+10.19	-	Second Amendment to the Deferred Compensation Plan for Executives, effective as of December 31, 2004, incorporated by reference to Exhibit 10.46 to the Company s Form 10-Q for the quarter ended April 30, 2005 (File No. 1-4372).
+10.20	-	Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Executives (As Amended and Restated Effective January 1, 2008), incorporated by reference to Exhibit 10.21 to the Company s Form 10-K for the year ended January 31, 2008 (File No. 1-4372).
+10.21	-	Deferred Compensation Plan for Nonemployee Directors, effective as of January 1, 1999, incorporated by reference to Exhibit 10.44 to the Company s Form 10-K for the year ended January 31, 1999 (File No. 1-4372).
+10.22	-	First Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective October 1, 1999, incorporated by reference to Exhibit 4.6 to the Company s Registration Statement on Form S-8 (Registration No. 333-38912).
+10.23	-	Second Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective March 10, 2000, incorporated by reference to Exhibit 4.7 to the Company s Registration Statement on Form S-8 (Registration No. 333-38912).
+10.24	-	Third Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective March 12, 2004, incorporated by reference to Exhibit 10.39 to the Company s Form 10-Q for the quarter ended July 31, 2004 (File No. 1-4372).
+10.25	-	Fourth Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective as of December 31, 2004, incorporated by reference to Exhibit 10.47 to the Company s Form 10-Q for the quarter ended April 30, 2005 (File No. 1-4372).
+10.26	-	Fifth Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective as of March 26, 2008, incorporated by reference to Exhibit 10.60 to the Company s Form 10-K for the year ended January 31, 2008 (File No. 1-4372).
+10.27	-	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) (Replaced by Exhibit 10.60).
+10.28	-	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).

+10.29	-	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).
+10.30	-	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).
+10.31	-	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).
+10.32	-	Forest City Enterprises, Inc. Amended Board of Directors Compensation Policy, effective February 1, 2008, incorporated by reference to Exhibit 10.33 to the Company s Form 10-K for the year ended January 31, 2008 (File No. 1-4372).
+10.33	-	Forest City Enterprises, Inc. Unfunded Nonqualified Supplemental Retirement Plan for Executives (As Amended and Restated Effective January 1, 2008), incorporated by reference to Exhibit 10.59 to the Company s Form 10-K for the year ended January 31, 2008 (File No. 1-4372).
+10.34	-	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).

Table of Contents

Exhibit Number		Description of Document
+10.35	-	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).
+10.36	-	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).
+10.37	-	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).
+10.38	-	Amendment No. 2 to Forest City Enterprises, Inc. 1994 Stock Plan (As Amended and Restated as of June 21, 2005), incorporated by reference to Exhibit 4.8 to the Company s Registration Statement on Form S-8 filed on May 3, 2007 (Registration No. 333-122172).
+10.39	-	Employment Agreement entered into on May 31, 1999, effective January 1, 1999, between Forest City Enterprises, Inc. and Albert B. Ratner, incorporated by reference to Exhibit 10.47 to the Company s Form 10-Q for the quarter ended July 31, 1999 (File No. 1-4372).
+10.40	-	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).
+10.41	-	Employment Agreement entered into on May 31, 1999, effective January 1, 1999, between Forest City Enterprises, Inc. and Samuel H. Miller, incorporated by reference to Exhibit 10.48 to the Company s Form 10-Q for the quarter ended July 31, 1999 (File No. 1-4372).
+10.42	-	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).
+10.43	-	Employment Agreement (re: death benefits) entered into on May 31, 1999, between Forest City Enterprises, Inc. 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).
+10.44	-	Employment Agreement entered into on July 20, 2005, effective February 1, 2005, between Forest City Enterprises, Inc. and Charles A. Ratner, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372).
+10.45	-	First Amendment to Employment Agreement, dated as of November 9, 2006, by and among Charles A. Ratner and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372).

+10.46	-	Employment Agreement entered into on July 20, 2005, effective February 1, 2005, between Forest City Enterprises, Inc. and James A. Ratner, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372).
+10.47	-	First Amendment to Employment Agreement, dated as of November 9, 2006, by and among James A. Ratner and Forest City Enterprises, Inc, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372).
+10.48	-	Employment Agreement entered into on July 20, 2005, effective February 1, 2005, between Forest City Enterprises, Inc. and Ronald A. Ratner, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372).
+10.49	-	First Amendment to Employment Agreement, dated as of November 9, 2006, by and among Ronald A. Ratner and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.4 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372).
+10.50	-	Employment Agreement, effective November 9, 2006, by and among Bruce C. Ratner and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372).

Exhibit Number		Description of Document
10.51	-	Master Contribution and Sale Agreement, dated as of August 10, 2006, by and among Forest City Enterprises, Inc., certain entities affiliated with Forest City Enterprises, Inc., Forest City Master Associates III, LLC, certain entities affiliated with Forest City Master Associates III, LLC, certain entities affiliated with Bruce C. Ratner and certain individuals affiliated with Bruce C. Ratner, incorporated by reference to Exhibit 10.54 to the Company s Form 10-Q for the quarter ended July 31, 2006 (File No. 1-4372).
10.52	-	Amended and Restated Credit Agreement by and among Forest City Rental Properties Corporation, KeyBank National Association, as Administrative Agent, National City Bank, as Syndication Agent, Bank of America, N.A. and LaSalle Bank National Association, as Co-Documentation Agents, and the banks named therein, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on June 12, 2007 (File No. 1-4372).
10.53	-	Additional Bank Assumption Agreement by and among The Bank of New York, Forest City Rental Properties Corporation, and KeyBank in its capacity as administrative agent under the Credit Agreement, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on December 20, 2007 (File No. 1-4372).
10.54	-	Additional Bank Assumption Agreement by and among Wachovia Bank, N.A., Forest City Rental Properties Corporation, and KeyBank in its capacity as administrative agent under the Credit Agreement, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on December 20, 2007 (File No. 1-4372).
10.55	-	Exhibit A to the Amended and Restated Credit Agreement by and among Forest City Rental Properties Corporation, KeyBank National Association, as Administrative Agent, National City Bank, as Syndication Agent, Bank of America, N.A. and LaSalle Bank National Association, as Co-Documentation Agents, and the banks named therein, revised as of December 20, 2007, further revised as of February 4, 2008 and further revised as of February 19, 2008, incorporated by reference to Exhibit 10.56 to the Company s Form 10-K for the year ended January 31, 2008 (File No. 1-4372).
10.56	-	Amended and Restated Guaranty of Payment of Debt by Forest City Enterprises, Inc. for the benefit of KeyBank National Association, as Administrative Agent, National City Bank, as Syndication Agent, Bank of America, N.A. and LaSalle Bank National Association, as Co-Documentation Agents, and the banks named therein, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on June 12, 2007 (File No. 1-4372).
10.57	-	Registration Rights Agreement by and among Forest City Enterprises, Inc. and the holders of BCR Units listed on Schedule A thereto dated November 8, 2006, incorporated by reference to Exhibit 10.1 to the Company s Registration Statement on Form S-3 filed on November 7, 2007 (Registration No. 333-147201).
+10.58	-	Separation Agreement, dated April 1, 2008, by and between Forest City Enterprises, Inc. and Thomas G. Smith, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on April 7, 2008 (File No. 1-4372).

+10.59	-	Consultant Agreement, dated May 12, 2008, by and between Forest City Enterprises, Inc. and Thomas G. Smith, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on May 19, 2008 (File No. 1-4372).
*+10.60	-	Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Nonemployee Directors (As Amended and Restated effective January 1, 2008) (Replaces Exhibit 10.27).
*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.

Table of Contents

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 5, 2008

/S/ ROBERT G. O BRIEN
Name: Robert G. O Brien
Title: Executive Vice President and Chief Financial Officer

Date: June 5, 2008

/S/ LINDA M. KANE
Name: Linda M. Kane
Title: Senior Vice President, Chief Accounting and Administrative Officer

Table of Contents

Exhibit Index

Exhibit Number		Description of Document
10.60	-	Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Nonemployee Directors (As Amended and Restated effective January 1, 2008).
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.